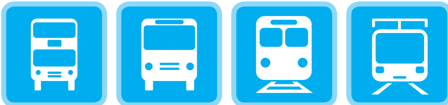
STAGECOACH GROUP

greener smarter travel

Investing for growth

Driving new markets, harnessing technology and enhancing our customers' experience



Stagecoach Group Annual Report and Financial Statements 2015

Stagecoach Group overview

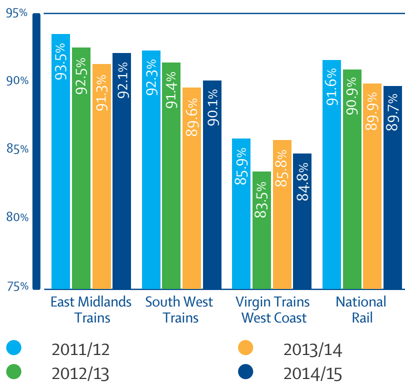
Stagecoach Group is a leading international public transport company with bus and rail operations in the UK, mainland Europe and North America. We employ around 39,000 people and run around 13,000 buses and trains.

UK Bus (Regions)	UK Bus (London)	UK Rail	North America
20,000 employees	**4,000** employees	**10,000** employees	**5,000** employees
7,200 buses and coaches	**1,300** buses and coaches	**2,300** train services a day	**2,400** buses and coaches
699m journeys a year	**326m** journeys a year	**287m** journeys a year	**146m** vehicle miles a year

Note: All figures are approximate.

Operational performance

UK Rail punctuality

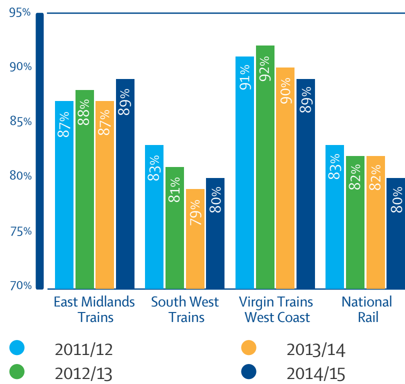


Source: Network Rail, Public Performance Measure, Moving Annual Average.

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

Customer service

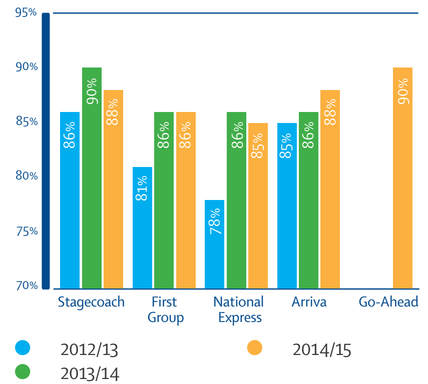
UK Rail customer satisfaction



Source: National Passenger Survey, Spring Wave, 2012, 2013, 2014, 2015.

Note: Data extracted from National passenger Survey, Spring Wave, 2012, 2013, 2014, 2015. Percentages are for overall satisfaction. The National Passenger Survey (NPS) is conducted twice a year from a representative sample of passenger journeys across the UK. It surveys passengers' overall satisfaction and satisfaction with 30 individual aspects of service for each individual train operating company (TOC). Passenger ratings are totalled for all TOCs across the country to provide a National Rail average.

UK Bus customer satisfaction



Source: Bus Passenger Survey, Autumn 2012, Autumn 2013, Autumn 2014.

Note: Extracted from the Bus Passenger Survey, Autumn 2012, Autumn 2013, Autumn 2014. 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.

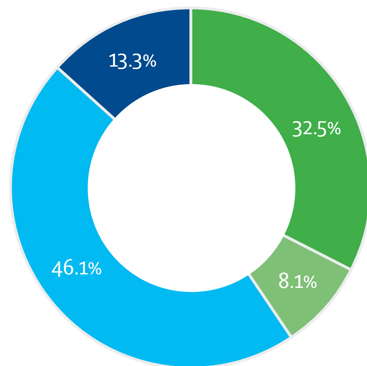
Highlights

- Adjusted earnings per share* in line with expectations, up 2.7% to 26.7 pence (2014: 26.0 pence)
- Dividend per share up 10.5% to 10.5 pence (2014: 9.5 pence)
- New Virgin Trains East Coast rail franchise to 2023
- Bid submitted for TransPennine Express rail franchise
- Joint venture shortlisted to bid for East Anglia rail franchise
- Continued organic growth in UK Bus
- Significant investment in new vehicles, digital technology and customer service across bus and rail
- Growing network of inter-city coach services in Europe and North America

*** See definition in Note 35 to the consolidated financial statements.**

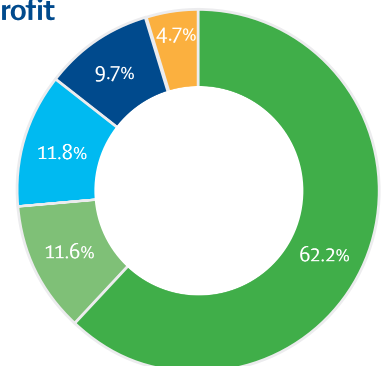
Group revenue
(by division)

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

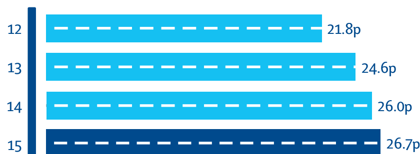


Group operating profit
(by division)

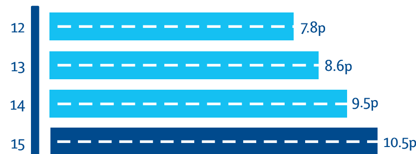
- UK Bus regions
- UK Bus London
- UK Rail
- North America
- Other



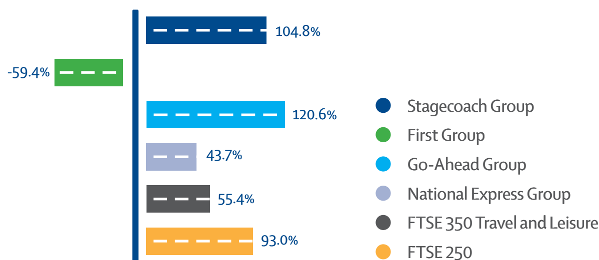
Adjusted earnings per share
(Year ended 30 April)



Dividend per ordinary share
(Year ended 30 April)



Total shareholder return
(Five year comparative performance to 30 April 2015)



Notes

1. **Group revenue:**
Revenue is for the year ended 30 April 2015, excluding joint ventures. See Note 2 to the consolidated financial statements.
2. **Operating profit:**
The chart shows the breakdown of total operating profit for the year ended 30 April 2015, excluding intangible asset expenses and exceptional items. See Note 2 to the consolidated financial statements.
3. **Adjusted earnings per share:**
See Note 9 to the consolidated financial statements.
4. **Dividend per ordinary share:**
See Note 8 to the consolidated financial statements.
5. **Total shareholder return:**
The graph compares the performance of the Stagecoach Group Total Shareholder Return ('TSR')(share value movement plus reinvested dividends) over the 5 years to 30 April 2015 compared with that of First Group, Go-Ahead Group, National Express Group, the FTSE 350 Travel and Leisure All-Share Index, and the FTSE 250 Index.

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Financial summary

	Results excluding intangible asset expenses and exceptional items+		Reported results	
Year ended 30 April	**2015**	2014	**2015**	2014
Revenue (£m)	**3,204.4**	2,930.0	**3,204.4**	2,930.0
Total operating profit (£m)	**227.1**	223.3	**217.9**	200.9
Non-operating exceptional items (£m)	**–**	–	**(10.6)**	(0.3)
Net finance charges (£m)	**(42.1)**	(42.6)	**(42.1)**	(42.6)
Profit before taxation (£m)	**185.0**	180.7	**165.2**	158.0
Earnings per share (pence)	**26.7p**	26.0p	**24.3p**	23.1p
Proposed final dividend per share (pence)	**7.3p**	6.6p	**7.3p**	6.6p
Full year dividend per share (pence)	**10.5p**	9.5p	**10.5p**	9.5p

+ see definitions in note 35 to the consolidated financial statements

1. Strategic report

1.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2015.

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

1.2 Cautionary statement

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

1.3 Overview of the year ended 30 April 2015

We are pleased to report a solid set of results for the year ended 30 April 2015. Revenue was up 9.4% at £3,204.4m (2014: £2,930.0m). Operating profit (before intangible asset expenses and exceptional items) was up 1.7% at £227.1m (2014: £223.3m). Earnings per share before intangible asset expenses and exceptional items were 2.7% higher at 26.7p (2014: 26.0p), in line with expectations.

The Directors are proposing a final dividend for the year of 7.3p per share (2014: 6.6p) which, if approved, would give a total dividend for the year up 10.5% to 10.5p per share (2014: 9.5p). The proposed final dividend would be payable on 30 September 2015 to shareholders on the register at 28 August 2015.

The operating profit of our wholly-owned bus operations fell a little short of the targets we set ourselves at the start of the year but this was offset by a strong performance in UK Rail and particularly from our Virgin Rail Group joint venture. As a result, we achieved our overall earnings per share target for the year.

The sharp reduction in oil prices during the year resulted in a fall in car operating costs. The increased competitive advantage this gave to cars affected the profitability of some of our businesses, most notably our megabus.com inter-city coach operations in North America.

We are seeing strong growth in the UK Rail market and are pleased to have strengthened our participation in the rail sector. This follows our Virgin Rail Group joint venture securing a new West Coast rail franchise to at least 2017 and the Group winning the new East Coast rail franchise due to run to at least 2023. We are actively involved in seeking to secure several other UK rail franchises.

The strengthening of our rail business has helped to further diversify the Group's portfolio of activities, enabling our participation in the fast-growing rail market whilst building on and growing our historically robust bus businesses. We are also expanding geographically through the growth of our megabus.com inter-city coach operations in continental Europe.

The Group's ongoing investment in new vehicles, technology and other assets is a key part of sustaining our success. In the year ended 30 April 2015, net capital expenditure was £140.9m (2014: £118.9m). Across all of its divisions, the Group is investing in initiatives designed to improve our service to customers and deliver future growth.

Public transport is central to local communities and their aspirations for economic growth. In the UK, we support the devolution of more powers to local level to allow for tailored local investment and solutions. By working more effectively together, transport operators and regional authorities can achieve even stronger, more integrated transport systems at better value for taxpayers. In an era of continued limited public spending, commercial operators' access to capital, operational expertise and customer understanding is critical to delivering affordable and accessible public transport.

We have led our sector in pursuing a low fares strategy to drive modal shift and give communities affordable access to work, education, health and leisure. It is important that there is visibility of government spending plans for transport. Policy commitments, such as concessionary fares schemes, must be properly funded for the long-term to avoid increasing the cost and undermining the reach of public transport.

Every day, our people are key to the delivery of our services. The Board extends its thanks to all employees across the Group for their contribution throughout the year.

Stagecoach has made a satisfactory start to the new 2015/16 financial year and we are in good financial shape. We face a number of challenges but believe that there are opportunities ahead as we continue to invest for growth.

Revenue by division is summarised below:

REVENUE

Year to 30 April	2015 £m	2014 £m	Functional currency	2015 Functional currency (m)	2014 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	**1,045.5**	1,012.8	£	**1,045.5**	1,012.8	3.2%
UK Bus (London)	**260.6**	244.9	£	**260.6**	244.9	6.4%
North America	**425.4**	428.2	US$	**680.1**	685.7	(0.8)%
UK Rail	**1,478.4**	1,252.0	£	**1,478.4**	1,252.0	18.1%
Intra-Group revenue	**(5.5)**	(7.9)	£	**(5.5)**	(7.9)	
Group revenue	**3,204.4**	2,930.0				

1.3 Overview of the year ended 30 April 2015 (continued)

Operating profit by division is summarised below:

OPERATING PROFIT

Year to 30 April	**2015 £m**	% margin	2014 £m	% margin	Functional currency	**2015** Functional currency (m)	2014 Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	**141.1**	13.5%	147.4	14.6%	£	**141.1**	147.4
UK Bus (London)	**26.3**	10.1%	23.9	9.8%	£	**26.3**	23.9
North America	**22.1**	5.2%	23.7	5.5%	US$	**35.3**	38.0
UK Rail	**26.9**	1.8%	34.3	2.7%	£	**26.9**	34.3
Group overheads	**(13.9)**		(13.9)				
Restructuring costs	**(0.8)**		(0.9)				
	201.7		214.5				
Joint ventures – share of profit after tax							
Virgin Rail Group	**22.3**		2.0				
Citylink	**1.1**		1.3				
Twin America	**2.0**		5.5				
Total operating profit before intangible asset expenses and exceptional items	**227.1**		223.3				
Intangible asset expenses	**(11.9)**		(14.0)				
Exceptional items	**2.7**		(8.4)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**217.9**		200.9				

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

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, continental Europe, the United States and Canada. The Group employs around 39,000 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 1.4, we:

	Section
Summarise the Group's business objectives and long-term strategy	1.4.2
Describe each of the Group's business segments, their regulatory environments, their strategy, the market opportunities, the competitive position and likely future market developments	1.4.3
Summarise how we aim to create value, by providing an overview of the Group's business model	1.4.4
Discuss the key resources and relationships, including contractual relationships, that underpin the Group's business and strategy	1.4.5
Set out the principal risks to the achievement of the Group's objectives and strategy	1.4.6
Describe how we measure and monitor progress against our objectives and strategy, and how we are performing	1.4.7

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

Group strategy

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

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

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

UK Bus (regional operations)	
Description	The UK Bus (regional operations) Division connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. These include major city bus operations in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield, Cambridge and Exeter. The UK Bus (regional operations) Division operates a fleet of around 7,200 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates 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. 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.
Regulatory environment	The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality. The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. 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.
Strategy	The strategy of the UK Bus (regional operations) is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 23% of the UK Bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel in Great Britain. The NTS found that in 2013, there was an average of 923 trips per person per year. Trips by car or van accounted for 77% of distance travelled, bus trips accounted for 5%, rail trips accounted for 10% and walking, cycling and other modes accounted for 8%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to research by independent consultants, TAS, around 25% of UK bus journeys are for shopping, 21% for leisure, 21% for education and 19% for commuting and business.
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 investment in the UK Bus Industry has come under pressure in recent years with reductions in Bus Service Operators' Grant (a rebate of fuel tax) and constraints on the payments made by Government to bus operators for carrying 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 1.4.6. Technological developments present both opportunities and threats to growing passenger volumes. There are positive long-term conditions for further growth in demand for UK Bus services created by rising road congestion, supportive government policy and public concerns for the environment, which augur well for the future of the Division.

UK Bus (London)	
Description	The Group is the fourth largest operator in the London bus market, with an estimated 15% share of that market. The business operates from 9 depots and has a fleet of around 1,300 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years. The UK Bus (London) Division currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the Division's risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is now on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 15% 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. Transport for London has plans to increase the level of contracted bus services in coming years, which may present some growth opportunities for the business.

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

UK Bus (London) (continued)	
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 the short-term, revenue growth could come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. There are longer term opportunities to benefit from Transport for London's plans to expand the network over the next five years. Continuing population growth in London and positive government policy on public transport contribute to a positive long-term outlook for the business.

North America	
Description	The North America Division provides bus and coach transport services in the United States and Canada. Our businesses include commuter/transit services, inter-city services, tour, charter and sightseeing operations. The Division also operates megabus.com, a low cost inter-city coach operator. 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. 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 bus services in New York. 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.
Regulatory environment	The North America business operates on a commercial basis in a largely deregulated market. It also operates some tendered services for local authorities and services contracted by corporations.
Strategy	The strategy of the North America Division is to deliver organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused services at a reasonable price to customers. This may be supplemented by winning new contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group estimates it has less than 4% of the bus and coach market in North America and is growing this through innovative 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, has grown rapidly and we expect that to continue to present significant opportunities to the Group.

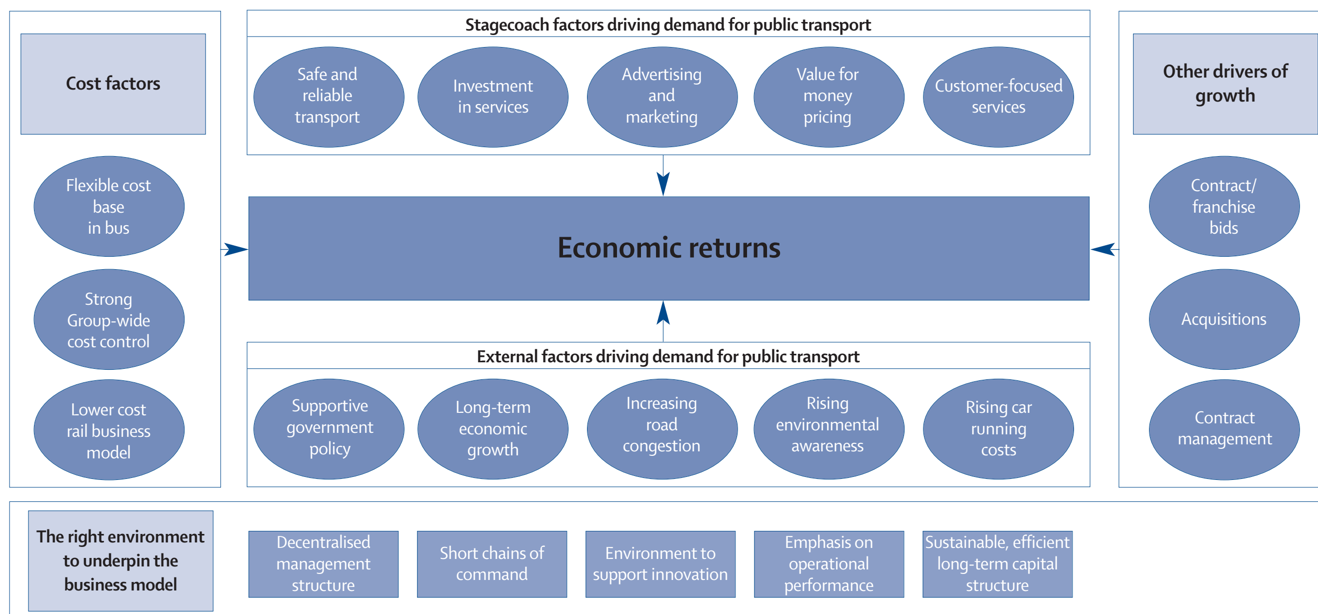
UK Rail	
Description	Stagecoach Group has major rail operations in the UK. Our principal rail subsidiaries are South West Trains, East Midlands Trains and Virgin Trains East Coast. South West Trains runs train services in south west England out of London Waterloo railway station, and operates Island Line services on the Isle of Wight. The South West franchise is contracted to run until February 2017. From 11 November 2007, we have operated the East Midlands Trains franchise. The franchise comprises main line train services running to London St Pancras, regional rail services in the East Midlands area and inter-regional services between Norwich and Liverpool. The East Midlands Trains franchise is contracted to run until October 2015. Stagecoach has a 90% share in the Virgin Trains East Coast business with the Virgin Group of Companies holding the other 10%. The Virgin Trains East Coast franchise began in March 2015 and is planned to run until 31 March 2023, with the option for a one-year extension at the discretion of the UK Department for Transport. It provides inter-city train services between London and a number of locations including Edinburgh, Newcastle, Leeds and York. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. Stagecoach Group has a 49% shareholding in a joint venture, Virgin Rail Group, which operates the West Coast Trains rail franchise. The current West Coast Trains rail franchise runs until March 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, Virgin Trains East Coast 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 managing director, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.

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

UK Rail (continued)	
Regulatory environment	The UK rail operating market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the Department for Transport on the basis of competitive bids. Train operating companies operate passenger trains on the UK rail network. The UK railway infrastructure is owned and operated by Network Rail, a "not for dividend" company that invests any profits into improving the railway. Network Rail runs, maintains and develops tracks, signalling systems, bridges, tunnels, level crossings and key stations.
Strategy	In rail, we seek to deliver organic growth across all of our existing operations and to maintain and grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.
Market opportunity	The market opportunity in rail arises from the potential to retain existing and/or win new franchises, and also, from the potential to attract increased use of the Group's rail services. With a number of franchises expected to be tendered within the next few years, there is scope to win new franchises.
Macroeconomic factors	The Rail operations are exposed to macroeconomic factors with passenger revenue correlated to Gross Domestic Product 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 Department for Transport 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. The Virgin Trains East Coast franchises has a similar GDP sharing arrangement. 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 Department for Transport has a clear schedule in place for re-tendering rail franchises. The Group will assess each opportunity to bid for a new rail franchise on a case-by-case basis. The UK continues to see strong growth in demand for rail services presenting opportunities for the Group's existing rail interests and also in its bids for new franchises.

1.4.4 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.

1.4.5 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 quality, delivery and accessibility of our services. We are passionate about providing good customer service and our businesses have regular and ongoing discussions with bus and rail user groups. This includes presentations from managers on aspects of our service as well as consultation and information sharing on particular issues.

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

Employees

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

The financial community

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

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

Government and regulatory bodies

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

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

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

Suppliers

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

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

Information technology is increasingly important to effectively operate our services and to meet our customers' expectations. Significant investment, internal management resource and external supplier input 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 efficiently and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches, trains and trams, which are produced to detailed specifications relevant to the individual markets in which they are required.

Licences

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

Transport and industry representation groups

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

1.4.6 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 2015	Section in Annual Report
Catastrophic events			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action. A series of less severe incidents could have similar consequences.	While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.	• No significant matters to report.	
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that whilst not directly targeting public transport have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.	• No significant matters to report.	
Economy			
The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. In particular, the revenue of the Group's UK rail operations is historically correlated with factors such as UK Gross Domestic Product and Central London Employment. In North America, a greater proportion of the revenue from bus operations is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. Other factors, such as movements in fuel prices, can also affect revenue, costs and profit. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.	Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk. In bidding for new rail franchises, the evaluation of macroeconomic risks is a key element of the bid process. Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.	• During the year ended 30 April 2015, the Group's wholly owned rail franchises had significant protection from macroeconomic changes, with both South West Trains and East Midlands Trains having received revenue support from the Department for Transport, such that the Department was and is at risk for the majority of any difference between actual and expected revenue. • From June 2014, the West Coast Trains franchise, operated by the Group's Virgin Rail Group joint venture, has a "GDP sharing" agreement that is intended to ensure that the Department for Transport 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. Up to June 2014, the franchise operated under a management contract meaning that the Department for Transport bore virtually all of the risk of revenue and costs being significantly different from those expected. • The Virgin Trains East Coast franchise, which commenced in March 2015, also operates with a "GDP sharing" agreement similar to the West Coast Trains franchise.	

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

Description of risk	Management of risk	Developments in year ended 30 April 2015	Section in Annual Report
Rail cost base			
A substantial element of the cost base in the Group's UK Rail Division is essentially fixed because under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is therefore unable to flex supply in response to short-term changes in demand. In addition, a significant part of the cost base is comprised of payments to the infrastructure provider, Network Rail, and payments under train operating leases which are committed and do not vary with revenue. Accordingly, a significant proportion of any change in revenue (for example, arising as a result of the risks described above in respect of terrorism and the economy) will impact profit from the UK Rail Division.	The Group looks to achieve sensible risk sharing arrangements in its rail franchise agreements. The Group's franchise bids are designed to deliver an acceptable risk-reward trade-off. As described above, economic and terrorism risks are closely managed. In addition, the Group remains focused on controlling costs in the UK Rail Division.	• No significant matters to report.	
Sustainability of rail profit			
A significant element of the Group's revenue and profit is generated by UK rail franchises, which have a finite duration. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises.	In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid.	• The Group commenced operating the Virgin Trains East Coast franchise in March 2015. The franchise is planned to run until at least March 2023, with the option for a one-year extension at the Department for Transport's discretion. • The Group is discussing with the Department for Transport planned, new "Direct Award" franchises at both East Midlands Trains and South West Trains. • New commercial terms were agreed and applied 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 as one of three bidders for the TransPennine Express rail franchise. The Group submitted its bid in May 2015. • The Group's joint venture with Abellio was shortlisted in June 2015 as one of three bidders for a new East Anglia rail franchise. • Further rail franchises are expected to be tendered over the next few years.	• 1.5.4 • 1.5.4 • 1.5.5.1 • 1.5.4 • 1.5.4 • 1.5.4
Breach of franchise			
The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues and cash flows. The Group may also lose some or all of the amounts set aside as security for the shareholder loan facilities, the performance bonds and the season ticket bonds. The Group can do more to prevent breaches of franchise where it has control than where it has joint control. As the holder of a 49% joint venture interest in Virgin Rail Group, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the Virgin Rail Group franchise agreement.	Our UK Rail businesses are subject to complex contractual arrangements. Contractual management is an important part of our rail activities because the way in which contracts are managed can be a significant determinant of financial performance. Compliance with franchise conditions is closely managed and monitored and procedures are in place to minimise the risk of non-compliance. The Group maintains an overview of Virgin Rail Group's business risk management process through representation on its board and audit committee.	• No significant matters to report.	

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

Description of risk	Management of risk	Developments in year ended 30 April 2015	Section in Annual Report
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. A Pensions Oversight Committee 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.	• Pension scheme liabilities have moved during the year due to market changes. • The Pensions Regulator has an ongoing review of the valuation basis applied by the Group's main defined benefits pension scheme. This is consistent with reviews the Regulator has undertaken of other pension schemes as part of its remit.	• 1.6.10
Insurance and claims environment			
The Group receives claims in respect of traffic incidents and employee claims. The Group protects itself against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" on insurance policies. There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. In the US, in particular, there is a risk that given the size of the "excess", that a small number of large-value claims could have a material impact on the Group's financial performance and/or financial position.	The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. 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.	• Adjustments were required as at 30 April 2015 to the provisions held in respect of historic claims relating to the UK Bus (London) Division and the North America Division. The net effect of these adjustments on the Group's overall profit for the year ended 30 April 2015 was not material and the effect on each division is explained in section 1.5 of this report.	• 1.5.2 and 1.5.3
Regulatory changes and availability of public funding			
Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects. Similarly, many of the Group's businesses benefit from government investment in bus and train services, including tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to regulatory or other reasons.	Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in various industry and national trade bodies along with domestic and international government forums. The Group seeks to maintain good, co-operative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it.	• Growth in concessionary revenue in the UK Bus (regional operations) is expected to be low in the short-term. • The local government in the North East of England continues to promote proposals to replace the current commercialised market for bus services with a contracting system. • The current UK Government's plans for greater devolution of powers within the UK could see the introduction of franchised bus networks in areas which vote to introduce metro mayors, which could affect our commercialised bus operations.	• 1.5.1 • 1.5.1 • 1.5.1
Management and Board succession			
The Group values the continued services of its senior employees, including its directors and management who have skills that are important to the operation of the Group's business. The success of the Group could be adversely affected if effective succession planning is not in place.	Succession planning for the Directors and senior management is an important issue and as such is considered by the Nomination Committee (as described in section 6.5) and the Board. The appropriate level of management deals with recruitment and retention of other staff.	• During the year ended 30 April 2015, we have initiated a North American graduate recruitment programme, based on our successful UK graduate programme.	

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

Description of risk	Management of risk	Developments in year ended 30 April 2015	Section in Annual Report
Disease			
There have been concerns in recent years about the risk of a swine flu pandemic, which follows previous concerns over bird flu and SARS. More recently, there has been a heightened risk of an outbreak of Ebola. There is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. Such a fall in demand would have a negative impact on the Group's revenue and financial performance.	The Group has plans in place to respond to any significant outbreak of disease.	• No significant matters to report.	
Information technology			
The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group. An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue at a time when the Group is investing in megabus.com coach operations, 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. 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.	The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new digital platforms and continues to look to ensure that it secures reliable service provision. An Information Security Board oversees the management of cyber risks, and takes appropriate advice from suitably experienced third party consultants.	• No significant matters to report.	
Litigation			
The Group is exposed to the risk of commercial and consumer litigation arising from the legal environment in some markets, particularly the United States.	The Group has compliance programmes in order to reduce the risk of material litigation against the Group.	• A settlement has been agreed in principle with the US Department of Justice and the New York Attorney General's office in respect of the previously reported Twin America joint venture anti-trust litigation.	• 1.5.5.2
Competition			
Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business. We face competition for customers not only from other operators of trains, trams, coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Developments in new technology and/or new business models could affect the competitive environment in which the Group operates. Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key divisions.	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. Our bus businesses are built on a successful commercial formula of low fares, investment and high customer service which, in the UK Bus (regional operations) Division, has delivered continued passenger volume growth nearly every year for more than ten years.	• Revenue growth has slowed in our North America Division, reflecting the effect of the significant fall in fuel prices on demand for our services, particularly inter-city coach services on our megabus.com network. • We have experienced continued strong competition in a number of markets.	

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.

1.4.7 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

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

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

Profitability

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

Adjusted EPS was as follows:

		Year ended 30 April		
	Target	**2015 pence**	2014 pence	2013 pence
Adjusted EPS	To increase in excess of inflation	**26.7p**	26.0p	24.6p

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 2015 Growth %**	Year ended 30 April 2014 Growth %	Year ended 30 April 2013 Growth %
UK Bus (regional operations) passenger journeys	Positive growth each year	**0.1%**	1.3%	(0.4)%
UK Bus (London) revenue		**6.4%**	5.2%	1.0%
UK Rail passenger miles				
– South West Trains		**3.9%**	3.4%	1.8%
– East Midlands Trains		**6.3%**	(0.8)%	2.7%
– Virgin Rail Group – West Coast Trains		**10.2%**	4.5%	0.9%
North America revenue		**0.9%**	3.9%	8.9%

The increase in passenger journeys at UK Bus (regional operations) in the year ended 30 April 2014 is partly 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 that year), 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 engineering works on the rail network, which reversed in the year ended 30 April 2015.

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

Safety

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

Six of the more important safety KPIs are reported below:

	Target	Year ended 30 April 2015	Year ended 30 April 2014	Year ended 30 April 2013
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**19.7**	19.1	19.3
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		**28.5**	26.2	27.9
US – number of blameworthy accidents per 1 million miles travelled		**4.4**	4.9	4.8
South West Trains – workforce lost time injuries per 1,000 staff		**1.5**	1.4	1.5
East Midlands Trains – workforce lost time injuries per 1,000 staff		**1.1**	1.3	1.4
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		**1.8**	1.3	1.4

An increased proportion of newer, less experienced bus drivers has contributed to the increased rate of blameworthy accidents in the two UK Bus Divisions during the year ended 30 April 2015. While the increase tends to be mostly low speed manoeuvring incidents, each incident is investigated and health and safety remains our top priority. We continue to review our accident prevention and management processes including our training, mentoring and management of new drivers in order to minimise accident rates.

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 Department for Transport's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their final destination within 5 minutes (or 10 minutes for inter-city services) of their scheduled arrival time having called at all scheduled stations. References to rail punctuality throughout this Annual Report refer to punctuality calculated on this basis.

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

The service delivery KPIs were as follows:

		Year ended 30 April		
	Target	**2015 %**	2014 %	2013 %
UK Bus (regional operations) reliability	>99.0%	**99.5%**	99.5%	99.3%
UK Bus (London) reliability	>99.0%	**97.2%**	98.0%	97.8%
UK Rail punctuality				
– South West Trains	>90.0%	**90.1%**	89.5%	91.5%
– East Midlands Trains	>85.0%	**92.3%**	91.2%	92.3%
– Virgin Rail Group – West Coast Trains	>85.0%	**84.4%**	86.1%	83.5%

The deterioration in UK Bus (London) reliability in the year ended 30 April 2015 reflects services not being operated during two days of strike action by bus drivers and to a lesser extent, increased traffic disruption in London.

1.5 Divisional Performance

1.5.1 UK Bus (regional operations)

Financial performance

The financial performance of the UK Bus (regional operations) Division for the year ended 30 April 2015 is summarised below:

Year to 30 April	2015 £m	2014 £m	Change
Revenue	**1,045.5**	1,012.8	3.2%
Like-for-like* revenue	**1,034.4**	1,010.0	2.4%
Operating profit*	**141.1**	147.4	(4.3)%
Operating margin	**13.5%**	14.6%	(110)bp

Our regional UK Bus operations have grown both like-for-like passenger volumes and revenue year-on-year. This has been achieved against a background of tight government spending, a variable economy across the country, and increased competition to public transport from the private car as a consequence of lower fuel prices.

The slight decline in the Division's operating profit includes the effects of our expanding megabus.com inter-city coach services in continental Europe. The operating loss from the European business increased by around £4m year-on-year reflecting the investment in developing this exciting growth opportunity. The profit for the year is also after taking account of a significant reduction in the operating profit of our Manchester bus business (principally as a result of increased competition), and the ongoing legal and other costs related to the proposals to implement a bus contracting system in Tyne and Wear, described further below.

We offer the lowest fares of any major bus operator in Britain. Our fuel costs are forecast to fall in the year ending 30 April 2016 and this has enabled us to keep fare increases for the year ahead to a minimum, consistent with our long-term organic growth strategy.

We have continued to invest in improving the quality of our services, resulting in high levels of customer satisfaction. Our focus remains on building and maintaining sustainable bus networks through constructive partnerships with local authorities. At the same time, we believe action is needed to address the worsening effects of traffic congestion in our towns and cities to deliver more reliable public transport and ensure buses can fully support the growth strategy for our regional economies.

Like-for-like revenue, which excludes the revenue earned from contracts to provide transport for the Commonwealth Games in Glasgow, was built up as follows:

Year to 30 April	2015 £m	2014 £m	Change
Commercial on and off bus revenue	**628.9**	605.9	3.8%
Concessionary revenue	**246.6**	243.1	1.4%
Tendered and school revenue	**113.5**	112.0	1.3%
Contract revenue	**41.4**	45.5	(9.0)%
Hires and excursions	**4.0**	3.5	14.3%
Like-for-like revenue	**1,034.4**	1,010.0	2.4%

The Division's good like-for-like revenue growth continues to come principally from commercial on and off bus revenue, which is revenue that we receive directly from passengers for travel on our bus services. While we have seen a slightly lower rate of growth in commercial revenue in the second half of the financial year, reflecting a slowing in the rate of growth in the number of passenger journeys, commercial revenue is still the main driver of revenue growth for the Division.

Growth in concessionary revenue continues to be modest. Concessionary revenue is received from local authorities and devolved governments to compensate us for fulfilling our legal obligation to provide free travel to pensioners and people with disabilities. The rate of concessionary revenue we receive per passenger journey across the UK has grown by proportionately less than the increase in our cost base. We continue to press the relevant authorities to ensure we are properly reimbursed for the bus services we provide.

Revenue from tendered and school services, provided under contract to local authorities, increased for the year as a whole but fell in the second half of the year. This was a result of local authorities reducing spending on supported services due to budget constraints.

As expected, there was a decrease in revenue from contracts to provide bus services because the previous year's figure included revenue from specific contract work undertaken to provide buses to replace rail services that were affected by major engineering work.

The decrease in operating margin was built up as follows:

Operating margin – 2013/14	**14.6%**
Effect of megabus.com	**(0.7)%**
Change in:	
Staff costs	**(1.1)%**
Other operating income	**0.4%**
Other	**0.3%**
Operating margin – 2014/15	**13.5%**

The main changes in the operating margin shown above are:

- As already explained, the profit for the year reflects the investment in expanding our megabus.com inter-city coach services in continental Europe.
- Staff costs, including pension costs, rose at a faster rate than revenue. Even excluding megabus.com, vehicle miles operated increased year-on-year, partly due to new development mileage. This resulted in staff costs increasing by more than inflation but revenue per mile increased by a lower rate. Pensions costs increased by over £5m year-on-year. We will continue to review the services and mileage we operate and make appropriate adjustments to reflect customer demand and the long-term interests of the Group.
- Other operating income increased in the year due to a reassessment and reduction of the provision held for token redemptions.

Customer experience

We announced in March 2015 that our passengers are to benefit from an investment of more than £80m in around 470 new buses and coaches for services in the UK and mainland Europe during 2015/16. Many of these vehicles will be equipped with free wi-fi as we recognise the added value this provides to customers over travelling by car.

Independent research published by Transport Focus in March 2015 found that bus passengers rated Stagecoach the best value major bus operator in Britain. The Group's overall satisfaction rating of 88% was amongst the highest in the industry. Our own research has confirmed that catching the bus remains significantly cheaper than commuting to work by car despite the fall in fuel prices. "At the pump" fuel prices fell to their lowest level for four years, but a Stagecoach survey of around 40 key commuter corridors in England, Scotland and Wales found that the bus was still cheaper than the combined cost of fuel and car parking.

This summer we are planning to launch a package of new digital tools for our customers, which we believe will provide a strong platform for future growth in bus use. This investment is part of our £11m three-year digital project to transform how we engage with our customers. Passengers will benefit from a range of easy-to-use digital tools to find and buy tickets, search for journeys and stops, access comprehensive real-time information about journeys and receive personalised alerts. A unified experience will be provided across all types of devices offering a more personalised service for customers.

* See definitions in note 35 to the consolidated financial statements

The commitment by Stagecoach and the UK's other biggest bus operators to introduce multi-operator smart ticketing in key city regions in England during 2015 is progressing well. Initial schemes are already live in Tyne and Wear and Merseyside, with planning also well advanced in Greater Manchester and South Yorkshire. This transformational initiative will also benefit West Yorkshire along with the city regions of Birmingham, Nottingham, Leicester and Bristol. We are investigating similar opportunities in city areas across the UK.

Political developments

Buses provide important transport services to many people across the UK. As part of a wider network of public transport, bus services help address challenges such as road congestion and threats to the natural environment. There has always been a range of views on what the balance of public sector and private sector involvement in providing bus services should be and debates on that will undoubtedly continue. We firmly believe that the key to securing the future of Britain's buses is for operators, government and local authorities to work together to deliver properly planned and sustainable networks.

In recent times, there have been renewed calls for the commercialised bus market in parts of the UK other than London to be replaced by a system of bus contracts, whereby bus operators bid to operate contracts for the provision of bus services let by a local authority. We strongly believe that a stronger, more integrated transport system can be achieved best and at lower cost to taxpayers within the current regulatory framework than would result from franchising of bus services. We would tend to agree that the devolution of powers within the UK can enhance local decision-making on transport matters but in doing so, it is unnecessary to introduce bus contracting or franchising to meet local objectives for bus services. We are already developing new proposals that will meet the aspirations of city regions such as Greater Manchester for stronger bus networks, while retaining the clear benefits of the commercial approach to delivering services.

We understand that the recently elected UK Government is generally supportive of the current regulatory framework for UK bus services outside of London. However, local authorities might still seek to introduce bus contracting using existing legislation or by securing greater power over bus services through devolution of powers from central government. The devolved governments in Scotland and Wales already have devolved powers over bus services. We continue to make the case at both national and local level for partnership working within the existing commercialised markets.

Proposals to implement a bus contracting system in Tyne and Wear using existing legislation were referred to a Quality Contracts Review Board by the North East Combined Authority in October 2014. The Review Board will shortly hold hearings as part of its duty to determine whether the proposals meet the five statutory public interest criteria required to support the introduction of the contracting scheme. The Review Board expects to issue its opinion in October 2015. We do not believe the statutory tests have been met and we continue to present robust evidence to the Review Board to demonstrate this. We are clear that a system where bus operators provide the capital and retain the commercial risks would be far more effective at delivering further customer service improvements at lower cost for the public sector while leaving the region's taxpayers free from the huge financial uncertainty of the proposed contracting scheme.

Inter-city coach services

The Group has been pleased with the progress of the megabus.com inter-city coach operations in mainland Europe. megabus.com now has a fleet of more than 130 coaches covering over 100 destinations in the UK, France, Belgium, the Netherlands, Luxembourg, Germany, Italy and Spain. We believe we have a strong brand in a European market with significant opportunities.

The Group has ordered more than £20m of new coaches to support the development of megabus.com services in mainland Europe. We have recently commenced domestic megabus.com coach services within Germany, establishing a network, which now covers 16 destinations. In May 2015, we also started a new Cologne-Lyon-Barcelona service. We launched our first domestic service in France in March 2015, with a link between Paris and Toulouse, and are pleased at plans by the French government to fully deregulate inter-city coach journeys over 200km. Most recently, earlier in June 2015, we launched a domestic megabus.com network in Italy. In the short-term, as we continue the expansion of our promising megabus.com business, we would expect operating losses to increase from around £4m in 2014/15 to around £10m in 2015/16. This is based on our previous experience of megabus.com start-up operations, where we invested in expanding the business in the early years of megabus.com in each of the UK and North America, which are now strong, profitable businesses.

Outlook

The long-term outlook for our commercialised regional bus operations in the UK remains positive. We operate in a competitive market and so we look to continue to differentiate ourselves through low fares and a positive customer experience. By working in partnership with government and others, and supported by our ongoing investment, we believe we are well placed to grow the business in the context of rising population, concern for the natural environment and increased road congestion. In addition to this positive outlook in the UK, we are excited by the opportunities we see to develop a substantial inter-city coach business in continental Europe and we are continuing to invest in growing that business.

Growth in concessionary and tendered revenue is likely to be minimal in the short-term as government bodies seek to manage budget constraints, including minimising the amounts paid to bus operators under concessionary fare schemes for the free travel we provide. We are pleased that the forecast reduction in our fuel costs in the year ending 30 April 2016 has enabled us to keep fare increases for the year ahead to a minimum, consistent with our long-term objective to grow passenger volumes through our value fares strategy and notwithstanding increases to staff and other costs.

1.5.2 UK Bus (London)

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 30 April 2015 is summarised below:

Year to 30 April	**2015 £m**	2014 £m	Change
Revenue and like-for-like revenue	**260.6**	244.9	6.4%
Operating profit	**26.3**	23.9	10.0%
Operating margin	**10.1%**	9.8%	30bp

The Division continues to perform well and we are satisfied with the rates of return that we achieve in London. Our focus is on keeping costs under control and aiming to retain and win contracts on acceptable terms.

The operating profit of £26.3m is higher than our recent expectations. That reflects the outcome of our normal year-end review of our insurance provisions. Although the review did not result in a material change to the overall insurance provision for the Group, a re-assessment of the level of provision held in respect of historic claims for the UK Bus (London) Division resulted in a release from the provision of £3.0m. This was offset by adjustments to the insurance provisions of other divisions, notably North America. These adjustments are not forecast to recur.

Revenue growth has generally been good during the year. As previously reported, from 1 October 2013 the Division has no longer received BSOG. This is offset by a corresponding uplift in the contract prices paid to the business by Transport for London. Excluding the contract prices uplift, revenue increased by 5.1% during the year. Also as previously reported, traffic disruption from road works has adversely affected our quality incentive income, which has moderated overall revenue growth. In light of this, we have implemented service performance measures in conjunction with Transport for London and we are continuing to discuss with Transport for London how service performance can be further improved.

The improvement in operating margin was built up as follows:

Operating margin – 2013/14	**9.8%**
Effect of change in Bus Service Operators' Grant	**(0.2)%**
Change in:	
Staff costs	**(1.5)%**
Fuel costs	**1.3%**
Lease costs	**(0.8)%**
Insurance and claims costs	**1.1%**
Gain on sale of property	**0.6%**
Other	**(0.2)%**
Operating margin – 2014/15	**10.1%**

The reduction in quality incentive income referred to earlier has affected operating margin. Certain costs, such as staff costs, that increase with the vehicle miles operated have increased at a faster rate than revenue as a result of the reduced quality incentive income.

The BSOG change explained above reduced operating margin by 20 basis points year-on-year because although it did not significantly affect reported profit, both revenue and operating costs increased by similar amounts as a result of the change, meaning profit fell as a percentage of revenue.

Fuel costs reduced relative to last year, reflecting market fuel prices and our fuel hedging programme.

Lease costs further increased as a percentage of revenue as we continued our policy in London of obtaining most new vehicles on operating lease rather than purchasing them outright.

The change in insurance and claims costs reflects the re-assessment of the insurance provisions referred to earlier.

Following the restructuring of the London bus business we acquired in 2010, one of the acquired depots was mothballed. This depot was later made available to our UK Bus (regional operations) Division to support the delivery of its contract work for the London 2012 Olympics. In November 2014, we completed the sale of the depot for £5m.

Bus drivers across London took strike action in February 2015 as part of seeking harmonisation of pay rates across London bus operators. Although no further strike action has taken place, the dispute has not been formally resolved, and any further industrial action could affect the financial performance of the UK Bus (London) Division, as well as that of other London bus operators.

Outlook

The outlook for the London Bus operations is positive with continuing good profitability expected from our portfolio of contracts with Transport for London. We continue to expect some decline in operating margins following the particularly strong margins of the last few years but still aim to deliver long-term operating margins in excess of 7%.

The decline in fuel prices is not forecast to significantly affect the Division's profit in the year to 30 April 2016 due to the broadly offsetting effects on fuel costs and contract revenue, with changes in revenue being partly linked contractually to changes in fuel prices. That also means that revenue growth for year to 30 April 2016 is likely to be modest.

Looking further ahead, we believe there may be opportunities from Transport for London's plans to increase London bus mileage by around 5% between now and 2020/21 and we welcome this planned, further development of London bus services.

1.5.3 North America

Financial performance

The financial performance of the North America Division for the year ended 30 April 2015 is summarised below:

Year to 30 April	**2015 US$m**	2014 US$m	Change %
Revenue	**680.1**	685.7	(0.8)%
Like-for-like revenue	**685.6**	679.7	0.9%
Operating profit	**35.3**	38.0	(7.1)%
Operating margin	**5.2%**	5.5%	(30)bp

The operating profit of US$35.3m (£22.1m) is lower than our recent expectations. That reflects the outcome of our normal year-end review of our insurance provisions. Although the review did not result in a material change to the overall insurance provision for the Group, a re-assessment of the level of provision held in respect of historic claims for the North America Division resulted in an adjustment to increase the provision by £3.1m. This was offset by adjustments to the insurance provisions of other divisions, notably UK Bus (London). These adjustments are not forecast to recur.

Even excluding the year-end insurance provision adjustment, revenue growth and operating profit fell short of the target we had at the start of the financial year. The sharp fall in fuel prices adversely affected demand for our megabus.com inter-city coach services. Megabus.com competes with private cars, as well as other public transport operators, for inter-city journeys and the fall in fuel prices made cars more cost-competitive. Nevertheless, megabus.com remains profitable and over the longer term, we see opportunities to further grow that business.

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

Year to 30 April	**2015 US$m**	2014 US$m	Change %
Megabus	**191.4**	177.9	7.6%
Scheduled service and commuter	**246.6**	253.1	(2.6)%
Charter	**129.2**	128.8	0.3%
Sightseeing and tour	**31.8**	33.3	(4.5)%
School bus and contract	**86.6**	86.6	–
Like-for-like revenue	**685.6**	679.7	0.9%

Like-for-like revenue growth for the Division was 0.9%, which includes 7.6% for megabus.com. In April 2015, we completed the successful introduction of our megabus.com seat reservation system, which has delivered an additional revenue stream for the business and offers increased flexibility for passengers, and we will look for other opportunities which will deliver additional value to our customers and the business.

Overall, the financial performance of the non-megabus businesses was satisfactory. We continue to focus on good cost control and in April 2015 we started the roll-out of GreenRoad eco-driving technology across our vehicle fleet in North America, following the success of the system in reducing fuel consumption in our UK operations.

The decrease in operating margin was built up as follows:

Operating margin – 2013/14	**5.5%**
Change in:	
Fuel costs	**0.6%**
Insurance and claim costs	**(1.2)%**
Other	**0.3%**
Operating margin – 2014/15	**5.2%**

The Division has benefited from reduced fuel costs in the year, reflecting market prices and the Group's fuel hedging programme.

The change in insurance and claims costs reflects the re-assessment of the insurance provisions referred to earlier.

Outlook

Revenue growth in North America has slowed in recent months and we remain cautious on the short-term prospects for megabus.com revenue growth as the year-on-year fuel price drop persists. We will, however, also see cost savings in each of the years ending 30 April 2016 and 30 April 2017 from lower fuel prices. We are not planning any significant expansion of our North America megabus.com operations in the coming months but will re-assess the further growth opportunities for the business in the second half of the year ending 30 April 2016.

The performance of the non-megabus business across its various service types remains steady. The non-megabus business does face a number of trading challenges including the impact of the lower fuel prices referred to above on the demand for some services, strong competition in US sightseeing markets, and the effect of the strong US dollar on the number of European visitors to the US and spending by those visitors. However, overall North America operating

profit for May 2015 was satisfactory and so, at this early stage in the financial year, trading is as expected. A continued focus on a positive experience and value for money for customers will be crucial as we seek to mitigate trading challenges over the coming months.

1.5.4 UK Rail

Financial performance

The financial performance of the UK Rail Division for the year ended 30 April 2015 is summarised below:

Year to 30 April	2015 £m	2014 £m	Change
Revenue	**1,478.4**	1,252.0	18.1%
Like-for-like revenue	**1,360.4**	1,252.0	8.7%
Operating profit	**26.9**	34.3	(21.6)%
Operating margin	**1.8%**	2.7%	(90)bp

We were delighted to begin operating the new Virgin Trains East Coast rail franchise from 1 March 2015 and we are pleased with its progress so far. The reported revenue and operating profit above includes 100% of the new Virgin Trains East Coast franchise from 1 March. Virgin's 10% minority interest in the profit after tax of the franchise is separately reported in the consolidated income statement.

The Group's other two major rail franchises, South West Trains and East Midlands Trains, have performed in line with our expectations. This reflects our focus on growing revenue and controlling costs to mitigate the substantial increases in premia payments we have committed to deliver to the Department for Transport.

Revenue growth in UK Rail has been strong with like-for-like revenue up 8.7%. This partly reflects the recovery of revenue foregone at East Midlands Trains in the prior year as a result of major engineering work in the Nottingham area but also reflects good growth in underlying passenger volumes.

As expected, the operating margin fell in the year. This is consistent with comments we have made in previous years that 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. This reflects substantial increases in the like-for-like amounts payable to the Department for Transport.

Customer experience

In March 2015, the Group's South West Trains business agreed a Deed of Amendment to its franchise with the Department for Transport. The Deed of Amendment provides for accelerated investment of around £50m to deliver passenger improvement initiatives between now and February 2017. It means customers do not have to wait for a new franchise to benefit from these initiatives, while taxpayers will gain better value from public investment. Further details of the benefits for customers were set out in our announcement of 25 March 2015.

Our East Midlands Trains business launched a new improved timetable between Lincoln and Nottingham in May 2015 in partnership with the Department for Transport, local authorities, business clubs and two local enterprise partnerships. The new timetable provides faster journey times and more services. We have launched a new complimentary breakfast offer at our five main First Class Lounges at stations and also introduced a new passenger shuttle service linking East Midlands Parkway railway station with East Midlands Airport. A new £60m transport hub has been opened at Nottingham Station, providing an interchange with different forms of transport, connecting trains, a 950-space multi-storey car park and Nottingham's tram network.

Work has started to deliver a transformation of the customer experience at Virgin Trains East Coast as part of a £140m investment programme for the franchise. We have already implemented a 10% cut in Standard Anytime fares on long-distance journeys to and from London and work is underway on a £21m refresh of the existing train fleet. Recently we launched a pilot of paperless mobile ticketing, allowing passengers to travel using a barcode held on a smartphone or tablet, and we have plans to expand the system to more routes if successful. We look forward to delivering further benefits as the franchise develops, including more seats, new connections, new trains and faster journey times.

CMA Review of Virgin Trains East Coast

The Competition and Markets Authority ("CMA") is required to review all awards of new rail franchises in the UK and so, undertook a review of the award of the Virgin Trains East Coast franchise. The CMA has now accepted the undertakings that we offered on the pricing of certain bus and train services to address the limited issues identified by the CMA in respect of the franchise. This brings the review to a close.

East Coast open access applications

Other train operators have applied to the Office of Rail and Road to operate train services on parts of the railway network where the Virgin Trains East Coast franchise operates. If permission for some or all of these services is granted, then Virgin Trains East Coast might not be able to operate all of its planned train services and/or its financial performance could be adversely affected. To the extent that from May 2020 Virgin Trains East Coast is unable to operate the services that the Department for Transport specified as part of the franchise bidding process, then the business would be financially compensated under the terms of its contractual arrangements with the Department. The business would not necessarily be compensated for being unable to operate services prior to May 2020, for being unable to operate services that it planned to provide over and above the minimum specified by the Department and/or for the effects of any increased competition on the services it is able to operate. We do not consider that the proposed open access services meet the criteria for approval and at this stage, while acknowledging the risk, we have not materially changed our forecasts for the business as a result of the progress of the open access applications.

Franchising programme

There is encouraging momentum in the UK rail sector, with a number of UK franchises having been awarded over the last two years and several due to be open for competition over the next few years.

We recently submitted our bid for the new TransPennine Express franchise where we are one of three bidders shortlisted for the contract. An announcement of the successful bidder is expected later in 2015, with the contract expected to start in February 2016.

Earlier this month, June 2015, the Group's joint venture with Abellio was shortlisted by the Department for Transport to bid for the new East Anglia franchise. The current Greater Anglia franchise has been operated by Abellio since February 2012. Abellio East Anglia Limited ("AEAL") is one of three bidders shortlisted for the franchise. Stagecoach holds a 40% share of Anglia Rail Holdings Limited ("ARHL"), the 100% parent company of AEAL, with Abellio holding 60% of ARHL. Shortlisted bidders are expected to be invited to submit detailed proposals later this year and the new operator is expected to take over managing the franchise in October 2016.

The Group has also submitted proposals to the Department for Transport as part of previously announced government plans for direct awards at East Midlands Trains and South West Trains. Our proposals for both franchises seek to build on the improvements delivered to date, providing more benefits for customers, good value for taxpayers and an appropriate return for investors. The East Midlands Trains franchise is due to end in October 2015 and negotiations are continuing in respect of a direct award of a new franchise to at least October 2017. The current South West Trains franchise is due to end in February 2017 and as long ago as March 2013, the Department for Transport announced its plans for the direct award of a new franchise to April 2019. Progress in agreeing that direct award has been disappointingly slow. We are still not close to concluding an agreement and indeed, there is no certainty that an agreement will be reached.

We will continue to evaluate opportunities to bid for UK rail franchises on a case-by-case basis. We seek new opportunities that offer the right balance of risk and reward, provide scope for us to improve services to customers, and which are compatible with maintaining an acceptable balance of the Group's portfolio between bus and rail businesses.

Alliance with Network Rail

South West Trains and Network Rail have pioneered over the past three years the first deep alliance on the UK rail network, which has sought to deliver greater integration between train operations and infrastructure management. The close working relationship between the two parties has enabled an improved, more customer-focused railway as well as some efficiency savings.

Based on what both parties have learned over this period, South West Trains and Network Rail are now re-shaping their relationship. The objective is to continue to work closely and collaboratively in the areas that most benefit the railway and its customers, while discontinuing aspects of the current Alliance where the benefits are less clear. The existing formal Alliance governance structures, including the Alliance Governance Board and the single joint management team, will shortly be replaced with new arrangements in the specific areas which we and Network Rail believe will continue to deliver the most benefits. Under the previous financial arrangements, variances relative to agreed financial baselines were shared between the parties. Moving forward, new appropriate commercial arrangements will be put in place to reflect the re-shaped relationship. The new arrangements reflect the current regulatory framework that applies to UK railways and the different operating models of the two parties. We are confident that these changes will prioritise the right areas, reduce unnecessary bureaucracy and allow South West Trains and Network Rail to focus on working together on the matters that are most likely to offer the greatest benefits to customers.

Outlook

We have participated in the UK Rail market and reported a profit every year since the market was privatised in the 1990s. We expect to continue to play a major part in UK rail over the long-term notwithstanding the potential for individual rail franchises to be won and lost. Following the agreement of the new Virgin Trains East Coast franchise, we now have a substantial rail business in place for at least the next eight years. The new franchise is expected to make a significant operating profit contribution in the year ending 30 April 2016, reflecting our programme of investment to grow the business by transforming the customer experience.

As explained earlier, we are negotiating with the Department for Transport to finalise a new East Midlands Trains franchise for the period through to at least October 2017.

We have previously reported that as we approach the end of the existing period of our South West Trains franchise, the financial performance of the business becomes more challenging. We remain focused on growing revenue and controlling costs to offset increased premia payments, to the extent possible.

The new Virgin Trains East Coast franchise, as well as the potential direct award of new East Midlands Trains and South West Trains franchises, present profitable opportunities to further enhance the customer experience and deliver value for money to Government. We will, in addition, assess the opportunity to bid for other franchises as these are tendered over the coming years.

1.5.5 Joint Ventures

1.5.5.1 Virgin Rail Group

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture (excluding exceptional items) for the year ended 30 April 2015 is summarised below:

Year to 30 April 49% share	**2015** **£m**	2014 £m	Change
Revenue	**510.3**	465.6	9.6%
Operating profit	**28.0**	2.6	976.9%
Net finance income	**–**	0.3	(100.0)%
Taxation	**(5.7)**	(0.9)	533.3%
Profit after tax	**22.3**	2.0	1,015.0%
Operating margin	**5.5%**	0.6%	490bp

Virgin Rail Group is seeing a continuing strong performance from its West Coast rail franchise. The new commercial franchise commenced in June 2014 and is planned to run until at least 31 March 2017. Furthermore, we continue to believe there is a compelling case for the Department for Transport to exercise the discretion that it has to extend the contract, on pre-agreed terms, by an additional year to 31 March 2018. The commercial franchise replaced a management contract, which was in place from December 2012 to June 2014. Under the commercial franchise, Virgin Rail Group takes the majority of revenue and cost risk. The business has achieved good passenger revenue growth and taxpayers benefit through profit share payments to the Department for Transport. Under the temporary management contract arrangement, Virgin Rail Group contractually earned a management fee equivalent to 1% of revenue from the West Coast rail franchise. As a result, prior year profitability was unusually low. Profit in the current year is more consistent with other commercial rail franchises.

The Group's share of the results of Virgin Rail Group is based on the management accounts of Virgin Rail Group to the period end that falls closest to the Group's balance sheet date of 30 April. The Group's results for the year ended 30 April 2015 incorporate its share of Virgin Rail Group's results for the period from 27 April 2014 to 2 May 2015. The impact on the Group's share of Virgin Rail Group's profit and net assets of using this period rather than the year ended 30 April 2015 is not material. However, the revenue figure reported above includes the benefit of an extra week in Virgin Rail Group's results for 2014/15 versus 2013/14. Excluding this, the estimated revenue growth was 7.7%.

Business developments

During the year, Virgin Rail Group has delivered further improvements for passengers. This has included the launch of two new direct Virgin Trains services between London and Blackpool, and London and Shrewsbury. Work is also well underway on a programme to convert one first class carriage in each of 21 nine-carriage Pendolino trains to Standard Class. The project, which is expected to be completed in September 2015 and includes a major interior refresh and deep clean of the trains, will create significant additional standard class seating capacity for customers.

The upgrade to onboard wi-fi is almost complete and is already providing a significantly improved service to passengers. In addition, Virgin Rail Group continues to pursue the possibility of trackside wi-fi infrastructure which would provide free and fast wi-fi to all customers.

Passengers booking via the Virgin Trains website or mobile app now earn Nectar points on their purchases, and more than £20m is being spent on station improvements such as refreshed waiting rooms, more passenger information help points and an improved website.

Outlook

We expect Virgin Rail Group to continue to perform strongly and we will see the full-year effect of the new franchise in the year ending 30 April 2016.

1.5.5.2 Twin America

Financial performance

The financial performance of the Group's Twin America joint venture (excluding exceptional items) for the year ended 30 April 2015 is summarised below:

Year to 30 April 60% share	**2015** **US$m**	2014 US$m	Change
Revenue	**74.7**	81.6	(8.5)%
Operating profit	**3.4**	9.1	(62.6)%
Finance costs (net)	**(0.2)**	–	–%
Taxation	**–**	(0.3)	(100.0)%
Profit after tax	**3.2**	8.8	(63.6)%
Operating margin	**4.6%**	11.2%	(660)bp

Twin America has faced tough trading conditions as a result of a competitive New York sightseeing market, among other factors, and that is reflected in the decline in profit reported above.

Litigation

In December 2012, the United States Department of Justice and the Attorney General of the State of New York initiated legal proceedings against Twin America and others alleging that the formation of Twin in 2009 was anticompetitive. Several private actions were also filed in relation to this matter.

In March 2014, Twin America and lawyers for the private plaintiffs reached agreement on a settlement of US$19m (without any admission of liability by Twin America). The court has approved this settlement. The settlement binds all claimants except those that expressly opted out of the class of plaintiffs.

The deadline for opt-outs and for objections to the settlement has passed. Four individuals opted out, and there were no objections.

We are pleased that a settlement has now also been agreed in principle with the US Department of Justice and the New York Attorney General's office. That settlement is subject to court approval. The settlement envisages cash payments by the defendants of US$7.5m and the relinquishment of certain bus stop rights. We have previously recognised costs associated with the litigation as exceptional items. We have recognised an exceptional pre-tax charge of £2.5m in the second half of the year ended 30 April 2015 in respect of the Group's share of the additional costs associated with this litigation. For the year as a whole, the Group has recorded exceptional pre-tax charges of £5.8m in respect of litigation related to Twin America. Related to the Twin America litigation involving the Group's North America Division, the Department of Justice is continuing to investigate the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Department of Justice has not taken any enforcement action related to these issues, and the Group is co-operating with the investigation.

Trading remains challenging in the highly competitive New York tourism and sightseeing market and Twin America's management will now focus on seeking to re-build the business.

1.6 Other financial matters

1.6.1 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 £353.3m (2014: £340.2m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

Year to 30 April	2015 £m	2014 £m
Total operating profit before intangible asset expenses and exceptional items	**227.1**	223.3
Depreciation	**120.1**	115.7
Add back joint venture finance income & tax	**6.1**	1.2
Pre-exceptional EBITDA	**353.3**	340.2

The income statement charge for intangible assets decreased from £14.0m to £11.9m, principally due to certain intangible assets becoming fully amortised during the year, partly offset by the amortisation of intangible assets in respect of the new Virgin Trains East Coast franchise.

1.6.2 Exceptional items

The following exceptional items were recognised in the year ended 30 April 2015:

- One of our US businesses failed to retain certain contracts to operate bus services on behalf of a local authority when those contracts were re-tendered. As a result, it ceased operations at one of its depots, which is leased. A provision of £2.1m has been recorded in respect of the leased depot as, following the cessation of operations at the depot, the lease was determined to be onerous because the forecast, unavoidable costs of meeting the Group's obligations under the lease exceeded the forecast economic benefits forecast to be received as a result of the lease.
- We expensed amounts in previous years as exceptional items in respect of the anticipated legal costs and settlement amounts related to the Twin America litigation explained in section 1.5.5.2. As a result of the prolonged nature of the litigation process, we incurred or expect to incur further legal costs in excess of those previously expensed. In addition, as explained in section 1.5.5.2, we have now reached a settlement agreement in principle with the US Department of Justice and the New York Attorney General's office. Additional pre-tax expenses of £5.8m have therefore been recognised in the Group's consolidated income statement for the year ended 30 April 2015.

1.6.3 Net finance costs

Net finance costs for the year ended 30 April 2015 were £42.1m (2014: £42.6m) and can be further analysed as follows:

Year to 30 April	2015 £m	2014 £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**7.9**	7.2
Hire purchase and finance lease interest payable	**2.5**	3.5
Interest payable and other finance costs on bonds	**27.3**	28.0
Unwinding of discount on provisions	**3.8**	3.9
Interest charge on defined benefit pension schemes	**3.3**	4.6
	44.8	47.2
Finance income		
Interest receivable on cash	**(1.5)**	(3.2)
Effect of interest rate swaps	**(1.2)**	(1.4)
	(2.7)	(4.6)
Net finance costs	**42.1**	42.6

1.6.4 Taxation

The effective tax rate for the year ended 30 April 2015, excluding exceptional items, was 19.0% (2014: 16.8%).

The prior year effective tax rate was depressed by adjustments in respect of the utilisation of previously unrecognised tax losses and the impact of the reduction in the rate at which deferred tax is calculated. As a result, the effective tax rate increases in the year to closer to the new standard rate of UK corporation tax of 20.0%.

The tax charge can be analysed as follows:

Year to 30 April 2015	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	191.0	(37.1)	19.4%
Intangible asset expenses	(11.9)	3.1	26.1%
	179.1	**(34.0)**	**19.0%**
Exceptional items	(7.9)	2.3	29.1%
	171.2	**(31.7)**	**18.5%**
Reclassify joint venture taxation for reporting purposes	(6.0)	6.0	
Reported in income statement	**165.2**	**(25.7)**	**15.6%**

1.6.5 Fuel costs

The Group's operations as at 30 April 2015 consume approximately 406.0m 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.

Following the sharp fall in fuel prices, the Group has hedged a greater proportion of its projected fuel usage beyond the next twelve months than it would ordinarily do. The proportion of the Group's projected fuel usage that is now hedged using fuel swaps is as follows:

Year ending 30 April	2016	2017	2018	2019	2020
Total Group	88%	82%	43%	2%	<1%

The Group has no fuel hedges in place for periods beyond 30 April 2020.

1.6.6 Cash flows and net debt

Net debt (as analysed in note 30(c) to the consolidated financial statements) decreased from £461.6m at 30 April 2014 to £381.3m at 30 April 2015, due to the Group's continued strong cash generation and the timing of rail cash flows.

The cash held by the train operating companies at any point in time is affected by the timing of rail industry cash flows, which can be individually

substantial. As a result of that, the consolidated net debt as at 30 April 2015 is lower than a "normalised" level of net debt. In the first few days of May 2015, the train operating companies made cash payments of approximately £100m.

Net cash from operating activities before tax for the year ended 30 April 2015 was £346.4m (2014: £268.5m) and can be further analysed as follows:

Year to 30 April	2015 £m	2014 £m
EBITDA of Group companies before exceptional items	**321.8**	330.2
(Gain)/loss on disposal of property, plant and equipment	**(2.3)**	2.1
Equity-settled share based payment expense	**2.2**	2.2
Working capital movements	**46.0**	(40.7)
Net interest paid	**(35.8)**	(33.5)
Dividends from joint ventures	**14.5**	8.2
Net cash flows from operating activities before taxation	**346.4**	268.5

Net cash from operating activities before tax was £346.4m (2014: £268.5m) and after tax was £315.5m (2014: £248.3m). Net cash outflows from investing activities were £151.5m (2014: £121.8m), which included £Nil (2014: £5.5m) in relation to the acquisition of businesses. Net cash used in financing activities was £11.5m (2014: £146.3m).

The net impact of purchases of property, plant and equipment for the year on net debt was £188.8m (2014: £160.9m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £182.4m (2014: £154.2m) and new hire purchase and finance lease debt of £6.4m (2014: £6.7m). In addition, £47.9m (2014: £42.0m) cash was received from disposals of property, plant and equipment.

The net impact of purchases and disposals of property, plant and equipment on net debt, split by division, was:

Year to 30 April	2015 £m	2014 £m
UK Bus (regional operations)	**119.1**	85.5
UK Bus (London)	**(2.1)**	3.0
North America	**27.3**	30.4
UK Rail	**(3.4)**	–
	140.9	118.9

The purchases in the UK Bus (regional operations) Division includes £14.4m spent on vehicles for the expanding megabus.com inter-city operations in continental Europe.

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

Year to 30 April 2015	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	49.4	272.4	321.8
(Gain)/loss on disposal of property, plant and equipment	–	(2.3)	(2.3)
Equity-settled share based payment expense	0.4	1.8	2.2
Working capital movements	68.8	(22.8)	46.0
Net interest paid	0.6	(36.4)	(35.8)
Dividends from joint ventures	–	14.5	14.5
Net cash flows from operating activities before taxation	119.2	227.2	346.4
Inter-company movements	1.1	(1.1)	–
Tax paid	(10.8)	(20.1)	(30.9)
Investing activities	0.7	(158.6)	(157.9)
Financing activities	–	(63.0)	(63.0)
Foreign exchange/other	–	(14.3)	(14.3)
Movement in net debt	110.2	(29.9)	80.3
Opening net debt	170.8	(632.4)	(461.6)
Closing net debt	281.0	(662.3)	(381.3)

The Group's net debt at 30 April 2015 is further analysed below:

	Fixed rate £m	Floating rate £m	Total £m
Unrestricted cash	–	95.8	95.8
Cash held within train operating companies	–	281.0	281.0
Restricted cash	–	18.8	18.8
Total cash and cash equivalents	**–**	**395.6**	**395.6**
US Notes	–	(97.3)	(97.3)
Sterling bond	(400.0)	–	(400.0)
Sterling hire purchase and finance leases	(3.6)	(50.4)	(54.0)
US dollar hire purchase and finance leases	(34.0)	–	(34.0)
Loan notes	–	(19.5)	(19.5)
Bank loans	–	(172.1)	(172.1)
Net debt	**(437.6)**	**56.3**	**(381.3)**

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 2015.

1.6.7 Liquidity

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

- The ratio of net debt at 30 April 2015 to pre-exceptional EBITDA for the year ended 30 April 2015 was 1.1 times (2014: 1.4 times).
- Pre-exceptional EBITDA for the year ended 30 April 2015 was 8.4 times (2014: 8.0 times) net finance charges (including joint venture finance income and finance costs).
- Undrawn, committed bank facilities of £298.8m at 30 April 2015 (2014: £342.1m) 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.

1.6.8 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 Group entered into £535m of new bank facilities in October 2014. The new facilities have been committed for a period of five years to October 2019 with the potential for them to be extended by up to a further two years. These facilities replace previous bank facilities that were due to expire in February 2016.

The Group's is already progressing plans to re-finance its £400m bonds due to mature in December 2016.

The following other new financing arrangements were put in place during the year ended 30 April 2015 and subsequently:

- In November 2014, a new c.£20m three-year rail performance bond arrangement and a new c.£83m bank guarantee of a "parent company support" inter-company loan commitment were entered into in connection with the new Virgin Trains East Coast franchise.
- In February 2015, two new one-year rail bonding arrangements of c.£74m and c.£6m were entered into to replace two arrangements that were due to expire in March 2015.
- In May 2015, a US$85m bank facility, used for issuing US$ letters of credit, was increased in size to US$90m.
- The Group entered into new operating lease commitments totalling £382.9m in the year ended 30 April 2015 in respect of rolling stock and new vehicles.

1.6.9 Net assets

Net assets at 30 April 2015 were £95.0m (2014: £79.3m).

1.6.10 Retirement benefits

The reported net assets of £95.0m (2014: £79.3m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £160.5m (2014: £115.8m), and associated deferred tax assets of £35.3m (2014: £23.1m).

The Group recognised net pre-tax actuarial losses of £65.5m in the year ended 30 April 2015 (2014: £Nil) on Group defined benefit schemes.

The actuarial losses and the increase in net pre-tax retirement benefit liabilities principally reflects the fall in corporate bond yields in the year, which in turn affect the discount rate used to discount pension scheme liabilities. The return on pension scheme assets for the year was good but not sufficient to fully offset the impact of the reduced discount rate.

1.6.11 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2015, the Group's capital comprised:

As at 30 April	**2015 £m**	2014 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	**2,086.8**	2,134.6
Cash	**395.6**	240.3
Gross debt	**(776.9)**	(701.9)
Net debt (see section 1.6.6)	**(381.3)**	(461.6)

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.

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

The Group has no current plan to return additional funds to shareholders. It keeps its capital structure under review and has increased the proposed dividend for the year by over 10%.

1.6.12 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.

1.6.13 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, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

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 generally of greater risk in (a) "younger" operations with a shorter claims history from which to make informed estimates of provisions and (b) operations, notably the United States, where the deductible levels are generally higher than for the UK operations.

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. Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate 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.

Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate 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.

The estimates currently applied in respect of the useful lives and residual values of property, plant and equipment at the Group's two wholly-owned train operating companies would result in a residual net book value of the assets at the end of the applicable, current rail franchises. To the extent that the planned awards of further two-year franchises to each of the train operating companies occur then the assets will be further depreciated during the period of those new franchises. The net book values of the assets might be recovered through a sale of the assets to a new train operator appointed by the Department for Transport to operate the train services covered by the relevant franchise. Such a sale of assets could occur either at the end of the current franchises or at the end of the planned additional two-year franchises. The estimates regarding useful lives and residual values involve making assumptions on the likelihood of the new franchises and on the likely sales values negotiated for assets with successor train operators and so involve an increased level of judgement.

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 UK Department for Transport, 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.

1.7 Current trading and outlook

The Group has had a satisfactory good start to its financial year ending 30 April 2016, and while it is still early in the financial year, overall trading for the financial year to date is consistent with our expectations. We have commented on the outlook for each of our key divisions in sections 1.5.1 to 1.5.5.

The long-term outlook for public transport remains positive. Increasing public transport use can help address challenges such as rising road congestion and the impact of transport on the natural environment. That is all consistent with our strategy of seeking to deliver further organic growth in our passenger volumes, including through offering high quality, value for money, bus and rail services as alternatives to travelling by car.

1.8 Corporate Social Responsibility

Our business and our people make a significant contribution to society. On average, more than three million journeys a day are made on our transport services and in enabling those journeys, we:

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

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

We have published separate documents setting out our approach to corporate social responsibility. These documents 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.

1.8.1 Living our values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. Stagecoach promotes a culture of openness across all its businesses and our objective is to ensure the highest standards of probity and accountability. The Code, which was updated in 2015, sets out key principles and provides practical examples and guidance to help shape employees' corporate behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review by the Group Compliance Committee and the Audit Committee. A copy of our Code of Conduct can be found at the following link:
http://www.stagecoach.com/code-of-conduct.pdf.
In addition, we have a Speaking Up policy, also updated in 2015, which is designed to ensure that employees can raise serious concerns without fear of victimisation, discrimination or disadvantage. A copy of the document is available at http://www.stagecoach.com/speakingup.pdf.

1.8.2 Supporting and recognising our people

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

We have initiatives in place designed to nurture the next generation of talent to support the business and help our people achieve their potential. We have strong vocational training programmes in our bus and rail businesses and we continue to invest in developing our people. This year, our UK Bus business was named Large Employer of the Year at the People 1st Apprenticeship Awards. Our Group-wide graduate development initiative continues to produce directors, senior managers and experts in operations and engineering. We also have programmes in place to promote the health and well-being of our people. Our annual Stagecoach Champions Awards, which are open to all employees, recognise excellence in the areas of safety, community, health, customer service, environment and innovation. Further information is available here: http://www.stagecoach.com/sustainability/our-people.aspx.

1.8.3 Employment policies

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

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

1.8.4 Diversity

The Group recognises and values the individuality and diversity that each employee brings to the business. We value diversity in its wider sense. This year, for example, we partnered with Transport for London to introduce the Rainbow Bus to support and promote diversity in the city. We are particularly focused on promoting gender diversity. The table below shows the gender split at different levels within the organisation, as at 30 April 2015. The Group's workforce is around 83.5% male and that high proportion is common in the ground transportation industry. However, the composition of our teams is becoming more diverse. The figures as at 30 April 2015 include the employees of the Virgin Trains East Coast rail franchise – the Group began operating the franchise on 1 March 2015 and so its employees were not included in the prior year figures as at 30 April 2014.

Population	Male	Female	Total	% Male	% Female
Board	8	2	10	80.0%	20.0%
Senior management *	95	19	114	83.3%	16.7%
Whole workforce	32,860	6,501	39,361	83.5%	16.5%

* 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 2015 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The equivalent figures as at 30 April 2014 were:

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%

1.8.5 Promoting safety

Safety is at the heart of our business and our overall approach is given direction through the Group's Strategic Safety Framework. 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.

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

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

1.8.6 Accessible and affordable travel

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

Stagecoach is the only UK bus operator to operate a long-term nationwide discounted travel scheme for jobseekers and we have a range of discounted ticketing options for young people. Our inter-city coach business, megabus.com, has improved social inclusion and connectivity in the UK, mainland Europe and North America by offering low fares and good quality services.

We are committed to improving accessibility of our buses, trains and stations. In the past eight years, we have invested £630m in new accessible buses and coaches for the UK and Europe. We are also investing in automated vehicle location systems to provide a technology platform to deliver audio visual next stop information via smartphones. On our rail networks, we are working with government to introduce easier disabled access at stations. For further information, please go to http://www.stagecoach.com/sustainability/accessibility-affordability.aspx.

1.8.7 Environmental stewardship

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

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

The data below shows our greenhouse gas emissions for the year ended 30 April 2015 (excluding Virgin Trains East Coast) with comparative data for the year ended 30 April 2014.

	2014/15	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	962,997	0.31
Operation of facilities (refrigerants)	32,704	0.01
Total Scope 1	**995,701**	**0.32**
Scope 2		
Purchased electricity	270,825	0.09
Statutory total (Scope 1 & 2)*	**1,266,526**	**0.41**

	2013/14	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ 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 2014.

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

All of these sources fall within businesses that are included in our consolidated financial statements. The Group is the majority shareholder of the Virgin Trains East Coast franchise, which it has operated since 1 March 2015. Since this franchise has not been operated for the full financial year, it has not been included in the Group's greenhouse gas emissions shown above for the year ended 30 April 2015.

Group Metrics	**2014/15**	**2013/14**
Revenue (£m)	3,086.4	2,930.0
Total Scope 1 & 2 emissions tonnes (tCO_2e)	1,266,526	1,264,913
Intensity ratio		
Scope 1 & 2 emissions per £ of revenue (Kg CO_2e/£)	0.41	0.43

1.8.8 Supporting our communities and the economy

Stagecoach Group is a major employer, supporting direct employment for around 39,000 people. Our investment in improving our transport services also supports thousands of other jobs through the supply chain. Further information is available at:
http://www.stagecoach.com/sustainability/economic-contribution.aspx

We also share our success with local people and communities by investing part of our profits in good causes. During the year ended 30 April 2015, £0.9m (2014: £0.7m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services. Significant additional in-kind support, such as complimentary bus and rail travel, is provided by the Group to good causes. We have a number of initiatives in place to help young people, including mentoring and internship programmes to help students gain a better understanding of the skills and routes to enter work, further and higher education and training. More information on our community support and programmes is available at:
http://www.stagecoach.com/sustainability/community.aspx

1.8.9 Human rights

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

1.8.10 Conclusion

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

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

Mike Vaux
Company Secretary
24 June 2015

2. Board of Directors

Details of corporate governance, including the operation of the Board of Directors, are given in section 4 of this Annual Report. A brief biography of each director is given below.

Executive Directors

Non-Executive Directors

	Martin Griffiths	Ross Paterson	Sir Brian Souter	Garry Watts MBE	Gregor Alexander
	Chief Executive	**Finance Director**	**Chairman**	**Deputy Chairman and Senior Independent Non-Executive Director**	**Non-Executive Director**
Appointment to the Board:	2000	2013	n/a (co-founder)	2007	2013
Age:	49	43	61	58	52
Committee membership:	Health, Safety and Environmental.	Pensions Oversight.	None.	Nomination (Chair) and Remuneration.	Audit (Chair) and Remuneration.
External appointments:	Virgin Rail Group Holdings Limited (Co-Chairman), AG Barr plc (Non-Executive Director), Rail Delivery Group Limited (Chairman).	Director and Chairman of Audit Committee, Virgin Rail Group Holdings Limited. Member of the Business Policy Committee of the Institute of Chartered Accountants of Scotland.	Chairman, Souter Investments. Vice-President of the Institute of Chartered Accountants of Scotland.	Spire Healthcare Group plc (Non-Executive Chairman), BTG plc (Chairman), Foxtons Group plc (Chairman), Coca-Cola Enterprises, Inc (Non-Executive Director).	Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 50% owned by SSE plc.
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.	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.			
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.	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. He is a former Deputy Convenor of the Audit and Assurance Committee of the Institute of Chartered Accountants of Scotland.	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.	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 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	Ann Gloag OBE	Helen Mahy CBE	Phil White CBE	Will Whitehorn
Non-Executive Director	**Non-Executive Director**	**Non-Executive Director**	**Non-Executive Director**	**Non-Executive Director**
Appointment to the Board: 1988	**Appointment to the Board:** n/a (co-founder)	**Appointment to the Board:** 2010	**Appointment to the Board:** 2010	**Appointment to the Board:** 2011
Age: 73	**Age:** 72	**Age:** 54	**Age:** 65	**Age:** 55
Pensions Oversight (Chair) and Nomination.	Health, Safety and Environmental.	Health, Safety and Environmental (Chair), Audit and Nomination.	Remuneration (Chair), Audit and Health, Safety and Environmental.	Remuneration, Nomination and Health, Safety and Environmental.
Scottish Financial Enterprise (Chair). Noble Grossart Holdings Ltd (Non-Executive Director) and Senior Governor of St Andrews University.	Mercy Ships (International Board Member).	Chair of The Renewables Infrastructure Group Limited, Non-Executive Director of Bonheur ASA and Ganger Rolf ASA, Non-Executive Director of SVG Capital plc.	Lookers plc (Non-Executive Chairman), Kier Group plc (Non-Executive Chairman), Unite Group plc (Non-Executive Chairman), Vp plc (Non-Executive Director).	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'), 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.
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.	Ann Gloag co-founded Stagecoach and served as an executive director until 2000.	Former Group Company Secretary and General Counsel, and member of Executive Committee, of National Grid plc. Former Chair of Obelisk Legal Support Solutions Limited. Former Non-Executive Director of Aga Rangemaster Group plc and Advisory Board Member of Opportunity Now.	A Chartered Accountant, Phil White served as Chief Executive of National Express Group plc from 1997 to 2006.	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.

3. Directors' report

3.1 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 requirements as part of the Strategic report in section 1.

3.2 Group results and dividends

The results for the year are set out in the consolidated income statement on page 58.

An interim dividend of 3.2p per ordinary share was paid on 4 March 2015. The Directors recommend a final dividend of 7.3p per share, making a total dividend of 10.5p per share in respect of the year ended 30 April 2015. Subject to approval by shareholders, the final dividend will be paid on 30 September 2015 to those shareholders on the register on 28 August 2015.

3.3 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear in section 2 of this Annual Report. Table A shows the Directors' interests in the Company's shares. The interests of each director shown includes those of their "connected persons".

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 2015 Annual General Meeting.

TABLE A	Number of ordinary shares (including those held under BAYE scheme)			
	23 June 2015	**30 April 2015**	24 June 2014	30 April 2014
Sir Brian Souter	**86,900,445**	**86,900,445**	86,900,445	86,900,445
Martin Griffiths	**437,316**	**437,229**	397,164	397,091
Ross Paterson	**213,726**	**213,639**	198,808	198,735
Gregor Alexander	**10,406**	**10,406**	10,406	10,406
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	**8,971**	**8,971**	8,834	8,834
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% (2014: 18%) 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 23 June 2015 (2014: 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. The voting rights of Sir Brian Souter and Ann Gloag determined in accordance with the Disclosure and Transparency Rules as at 30 April 2015 were 86,952,175 ordinary shares (2014: 87,055,636) and 62,501,721 ordinary shares (2014: 62,501,721) respectively, of which 86,896,009 are held via HGT Finance B Limited and 62,501,721 are held via HGT Finance A Limited.

Full details of share based awards held by the Directors at 30 April 2015 are contained in the Directors' remuneration report in section 8 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 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 2014, 24 June 2014, 30 April 2015 and 23 June 2015.

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 891,396 ordinary shares as at 30 April 2015 (2014: 725,821). Martin Griffiths and Ross Paterson are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 300,634 ordinary shares as at 30 April 2015 (2014: 300,634).

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

3.4 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.

3.5 Substantial shareholdings

As at 30 April 2015 and 23 June 2015 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings details of which are set out in section 3.3 of this report):

	23 June 2015	30 April 2015
Ameriprise Financial, Inc.	**5.0%**	**5.0%**
Massachusetts Financial Services Company	**5.1%**	**5.1%**
Standard Life Investments (Holdings) Ltd	**4.9%**	**4.9%**

3.6 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 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 the relevant period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether 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 approach taken in reaching this conclusion is explained in the Audit Committee report in section 5.4.7 of this Annual Report.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company

and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

- the consolidated financial statements, which have been prepared in accordance with 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 1 and 3 of this Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

3.7 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 a director of the Company.

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

From the period from 1 May 2014 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

3.8 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.

3.9 Political donations

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

3.10 Authority for company to purchase its own shares

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. Between 25 June 2014 and 9 July 2014, the Company acquired 654,536 of its own ordinary shares and held these in treasury. The aggregate amount paid for the repurchased shares was £2.5m (excluding fees). This represented 0.1% of the Company's called up share capital (excluding treasury shares) on 9 July 2014. The shares were purchased to satisfy awards made under the Group's employee shares schemes. During the year ended 30 April 2015, the Company transferred 7,590 of the shares held in treasury for nil consideration to an employee to satisfy an award made under the Group's 2013 Executive Participation Plan. This represented less than 0.1% of the Company's called up share capital (excluding treasury shares) on the date of transfer.

At the 2014 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,537,526 of its ordinary shares. Under the existing authority, the Company may therefore repurchase up to a further 57,537,526 ordinary shares. This authority will expire at the conclusion of the 2015 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 2014 Annual General Meeting and will lapse at the conclusion of the 2016 Annual General Meeting.

3.11 Shareholder and control structure

As at 30 April 2015, there were 576,099,960 ordinary shares (2014: 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 2015, 1,371,639 (2014: 724,693) ordinary shares representing 0.2% (2014: 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 3.5 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 3.3 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 2015, excluding shares held by the Company in treasury (2014: 26.0%). The other directors of the Company held 0.1% of the ordinary shares in issue as at 30 April 2015 (2014: 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 2015 (2014: 0.2%). The shares held by the trusts are for the benefit of employees of the Group. The voting rights are exercised by the trustees.

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

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

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

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

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

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

- The Group operates the Virgin Trains East Coast, South West Trains and East Midlands Trains rail franchises. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these four franchises each contain provisions that would enable the Department for Transport to terminate the franchises on a change of control of the franchise.
- Each of the four rail franchises referred to above 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 could 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 determined by the Directors' remuneration policy.

3.12 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. Liquidity is a key component of the Directors' assessment of going concern and information on liquidity is provided in section 1.6.7 of this Annual Report.

3.13 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 Audit Committee be authorised to fix the remuneration of the auditors.

3.14 Material included in the Strategic report

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

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

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

Listing Rule 9.8.4	Required disclosure	Location in Annual Report
(1)	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any tax relief.	Not applicable
(2)	Any information required by Listing Rule 9.2.18R relating to any unaudited financial information in a class 1 circular or a prospectus; or any profit forecast or profit estimate.	Not applicable
(3)	Listing Rule deleted.	Not applicable
(4)	Details of long-term incentive schemes as required by Listing Rule 9.4.3R, being any arrangement where the only participant is a director of the Company (or an individual whose appointment as a director of the Company is being contemplated) and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual.	Not applicable
(5)	Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.	Section 8.5.9 of this Annual Report explains arrangements under which Sir Brian Souter, Chairman, waived emoluments in prior financial years.
(6)	Details of any agreements by a director to waive future emoluments.	Not applicable
(7)	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders.	Not applicable
(8)	The information required in item (7) above for any unlisted major subsidiary undertaking of the Company.	Not applicable
(9)	Details of any share placing where the Company is a subsidiary undertaking of another Company.	Not applicable
(10)	Details of any contract of significance subsisting during the period under review: (a) to which the Company, or one of its subsidiary undertakings, is a party and in which a director of the Company is or was materially interested; and (b) between the Company or one of its subsidiary undertakings, and a controlling shareholder;	Details of related party transactions, including those where a director is materially interested, are provided in note 33 to the consolidated financial statements. The Company has no controlling shareholders.
(11)	Details of any contract for the provision of services to the Company or any of its subsidiary undertakings by a controlling shareholder.	Not applicable
(12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Note 27 to the consolidated financial statements provides information on employee benefit trusts that have waived and agreed to waive dividends. Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Note 27 to the consolidated financial statements provides information on employee benefit trusts that have agreed to waive future dividends.
(14)	A statement made by the Board in respect of matters relating to a controlling shareholder.	Not applicable

By order of the Board

Mike Vaux
Company Secretary

24 June 2015

4. Corporate governance report

4.1 Introduction from Garry Watts, Deputy Chairman

The Stagecoach Group is committed to ensuring that it operates with the high standards of corporate governance that are expected of a group with shares traded on the London Stock Exchange. This introduction to the Group's corporate governance report is an opportunity to look back at the year 2014/15, 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 current board structure has been in place since May 2013. During the year, Martin Griffiths and Ross Paterson have driven the Group in the strategic direction agreed by the Board. In particular, the Group has extended the reach of its inter-city megabus.com business into mainland Europe, consolidated the recent expansion in North America and has successfully bid for the East Coast rail franchise.

A formal division of responsibilities is in place, which requires me, as the Deputy Chairman, to promote the highest standards of corporate governance throughout the Group and particularly at Board level.

Sir Brian Souter continues as the Group's Chairman and is responsible for the conduct of the Board as a whole. I believe that the Board remains balanced and effective. In his position as Chairman, the Board is able to draw on the depth of experience of Sir Brian 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.

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

In the past year, the Board has discussed the franchise opportunities available in the rail sector and the balance of the Group between its rail and bus businesses. The Board recognises and has discussed in some detail the risks to the business in the changing political landscape. In this more uncertain political environment, the executive members of the Board have been challenged to anticipate and plan for potential changes. I am confident that the corporate governance structure of the Board provides a sound platform for this kind of robust discussion.

Garry Watts
Deputy Chairman
24 June 2015

4.2 Corporate governance and compliance with the Code

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

The Code issued in September 2012 applied to the Company's financial year from 1 May 2014 to 30 April 2015. The Directors believe that throughout the year ended 30 April 2015 the Group complied with all of the provisions of the Code. A copy of the Code is available at

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

The FRC issued a new edition of the Code in September 2014 (the "September 2014 Code"), which applies to accounting periods beginning on or after 1 October 2014. The Group will report on its compliance with the provisions of the September 2014 Code in its Annual Report for the year ending 30 April 2016. In applying the September 2014 Code, we expect to:

- Provide a "viability statement" that states, with qualifications if appropriate, that the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over a specified period. We expect to explain in the annual report how we have assessed the prospects of the Group, over what period we have done so and why we consider that period appropriate.
- Explain any actions that have been or are being taken to remedy any significant failings or weaknesses identified in reviewing risk management and internal control.
- Review our assessment and description of principal risks facing the Group to ensure consistency with the recommendations of the September 2014 Code.

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

4.3 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*			✓

4.4 Division of responsibilities

Sir Brian Souter was the Chief Executive of the Group until 1 May 2013. When Sir Brian became the Chairman of the Group the Board 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. The Deputy Chairman's role includes ensuring that the Board's consideration of matters is in the best interests of the Group and unaffected by conflicts of interest. No executives report directly to the Deputy Chairman.

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

Garry 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.

4.5 Board independence and balance

The Directors' biographies appear in section 2 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Board delegates the operational management of the Group to the Chief Executive and Finance Director ("Executive Directors"). The Non-Executive Directors bring an independent viewpoint and create an overall balance. The 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 2014 to 30 April 2015, 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 were Sir Ewan Brown not treated as independent, the balance of the Executive and Non-Executive Directors complies with the recommendations of the Code.

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

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

4.6 Operation of the Board

The Board generally meets six times each year. Additional meetings of the Board are held 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 six. The full Board typically meets once a year at an operational location. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. The Board met at the Group's Northampton bus depot in October 2014, giving the Board the opportunity to meet the local management team and to receive briefings on recent operational changes in the area. The April 2015 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 December 2014, the Health, Safety and Environmental Committee of the Board visited the Group's bus operations in West Scotland, where they were able to see the UK Bus division training and safety processes in operation. The visit also included a briefing on the bio fuel project at Kilmarnock bus depot and gave the members of the Committee the opportunity to discuss alternative fuel technologies in development across the Group and the wider bus industry with the management team.

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 2015 included:

- The outcome of the Group's bids for the operation of the Docklands Light Railway, and Thameslink, Southern and Great Northern franchises and the submission of the bid to operate the East Coast Main Line franchise
- Planning for provision of transport services to the 2014 Commonwealth Games
- Development of megabus.com services in mainland Europe
- Group strategy and development opportunities
- Political and regulatory developments and potential developments, including the Quality Contract proposals in North East England and proposed devolution of transport regulatory powers to regional authorities

- Impact of reduction in global oil prices
- Amendment to the terms for the operation of the South West Trains franchise

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

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

4.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-board senior management. There are four principal operating divisions:

- UK Bus (London): headed by a managing director
- UK Bus (regional operations): headed by 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 executive or managing director. 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.

4.8 Performance evaluation

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

The Directors have reviewed the effectiveness of the Board as a whole and its committees. The Code recommends board performance evaluation should be externally facilitated at least every three years. The Board appointed Margaret Exley of SCT Consultants to facilitate its evaluation in the year ended 30 April 2014 and details of the review were included in the 2014 Annual Report. The 2015 evaluation was not externally facilitated but 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.

4.9 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

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

Will Whitehorn

Remuneration Committee

Number of members of Committee: 4

All members are independent non-executive directors.

Chairman

Phil White

Other members

Gregor Alexander

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

4.10 Reports from the Committees

Reports from each of the Committees of the Board are set out in sections 5 to 8 of this Annual Report.

4.11 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 2015:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	6	6	n/a	n/a	n/a	n/a
Martin Griffiths	6	6	n/a	n/a	n/a	n/a
Gregor Alexander	6	6	3	3	3	3
Sir Ewan Brown	6	6	n/a	n/a	n/a	n/a
Ann Gloag	6	6	n/a	n/a	n/a	n/a
Helen Mahy	6	6	3	3	n/a	n/a
Ross Paterson	6	6	n/a	n/a	n/a	n/a
Garry Watts	6	6	n/a	n/a	3	3
Phil White	6	6	3	3	3	3
Will Whitehorn	6	6	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	1	1	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	3	4	n/a	n/a	1	1
Will Whitehorn	4	4	1	1	1	1

4.12 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.

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. Details of all proxy votes lodged for and against, or withheld, in respect of each resolution of the 2014 Annual General Meeting were published on the Group's website at http://www.stagecoach.com/investors/shareholder-services/agm.aspx

The Group intends to undertake a poll (as opposed to a show of hands) on each resolution put to the 2015 Annual General Meeting. All votes cast for or against each resolution, whether by proxy or in person at the meeting, will be aggregated and the results will be reported on the Group's website.

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

4.13 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 1.4.6 of this Annual Report.

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

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

For those businesses that have been part of the Group for the whole of the financial year ended 30 April 2015, the Group's risk management process was embedded throughout the businesses for that year and up to the date of the approval of this report. The Group begun operating the Virgin Trains East Coast rail franchise on 1 March 2015 and acquired the train operating company, East Coast Main Line Company Limited, at that time. The Group is continuing its review of the risk management and internal control environment at East Coast Main Line Company Limited and is embedding the Group's own risk management process within that business.

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.

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

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. None of the weaknesses identified in the year to 30 April 2015 have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

4.15 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 appraised 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.

4.16 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 two are employee representatives nominated by the members on a regional basis and three are pensioner trustees. The chairman of the trustees of the principal UK scheme is a professional trustee who served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council. He also sits independently as an elected representative of all railway employers on the Board of the Railways Pension Scheme and is a past Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

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

Mike Vaux
Company Secretary
24 June 2015

5. Audit Committee report

5.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

As Chair of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 30 April 2015 in accordance with the UK Corporate Governance Code. The report describes how we have discharged our responsibilities under the Code and monitored the effectiveness of the Group's financial reporting, internal control systems and risk management.

The revised UK Corporate Governance Code was issued in September 2014 and will apply to next year's Audit Committee report. In the year ahead, the Committee will consider the changes relevant to risk management and internal control arising from the revised Code, in particular reviewing the processes in place to support the new viability statement. Other areas of focus will include overseeing the tenders of the external audit and Risk Assurance function, which we intend to complete by April 2016.

Gregor Alexander
Chairman of the Audit Committee
24 June 2015

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report. 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 qualified as a Barrister, was an Associate of the Chartered Insurance Institute and was the Company Secretary and General Counsel of a FTSE 100 company.

5.3 Operation of the Audit Committee

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

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

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

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

5.4 Activities of the Audit Committee

The Committee receives reports from major business functions including the 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/Terms-of-reference-of-the-Audit-Committee.pdf

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 30 April 2015.

5.4.1 Financial Reporting

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

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 30 April 2015, of which it considered the most significant to be set out in the table on the following page.

In addition to the significant accounting judgements set out in the table, the Committee also considered other accounting and reporting matters in respect of the year ended 30 April 2015, 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 2015, the Committee considered the Financial Reporting Council's recommendations to companies around the consistency of reporting exceptional items, and is satisfied that the Group's approach is appropriate in this area.
- East Coast Main Line - The Group begun operating the Virgin Trains East Coast rail franchise on 1 March 2015 and acquired the train operating company, East Coast Main Line Company Limited, at that time. The Committee considered the accounting for the franchise commencement and the purchase of the train operating company. The Committee considered whether a business combination (in an accounting sense) had occurred but concluded that the purchase of the train operating company should be accounted for as an asset purchase, with the cost of the purchase allocated to the assets acquired and liabilities assumed based on their fair values at the date of purchase. The difference between the cost of the purchase and the values recorded for the assets acquired and liabilities assumed was recorded as an intangible asset to be amortised over the expected life of the franchise.
- 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 also considered the accounting for any costs incurred in pursuing rail franchise opportunities. The Committee concluded that the accounting estimates in the consolidated financial statements had been appropriately updated for such franchise changes and that any costs incurred in pursuing rail franchise opportunities had been appropriately accounted for.
- 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 provisions for onerous contracts ought to be recorded in the consolidated financial statements that were not already recorded.
- Other liabilities – The Committee considered the judgments made in respect of certain other liabilities, including the token provision, 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 3.12 of this Annual Report.

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
Pensions			
The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and mortality rates.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, comparing these assumptions to those applied by other companies operating in the same sector as the Group as well as by listed companies more generally, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there was a range of acceptable assumptions but concluded that the assumptions applied were appropriate.	The total pensions expense recognised in the consolidated income statement for the year ended 30 April 2015 was £84.2m (2014: £74.2m) and the net retirement benefit liability as at 30 April 2015 was £160.5m (2014: £115.8m).	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 2015 was £150.7m (2014: £140.9m).	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 2015. The specific judgements considered by the Committee included the accounting for the tax effect of fuel derivatives, transfer pricing 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 2015 was £25.7m (2014: £25.5m). The net consolidated tax liability as at 30 April 2015 was £63.2m (2014: £82.9m).	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 but the Audit Committee is pleased that position is now less uncertain as a result of progress made during the year ended 30 April 2015 towards settling the litigation.	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 Committee also assessed whether the carrying value of the Group's interest in Twin America was impaired, and concluded that no impairment loss had arisen.	The carrying value of the Group's interest in Twin America as at 30 April 2015 was £35.9m (2014: £28.5m), after deducting £2.6m (2014: £11.6m) in respect of the Group's share of liabilities related to the litigation. A further £4.1m was held in accruals in the Group's consolidated balance sheet as at 30 April 2015 in respect of liabilities related to the litigation.	13, 31

5.4.2 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 2015, the most significant risks identified were in relation to provisioning for insurance claims, taxation, pensions accounting and the Twin America 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 than in exceptional circumstances, the individual audit partner responsible for the Group audit may not undertake the role for a period of more than five years. The current lead partner has been in place for four 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 in relation to audit tendering, which were published by the European Union during the year and have been reflected in a final order published by the UK's Competition and Markets Authority, effective on 1 January 2015. Transitional arrangements require a change in the Group's external auditors by 2023. At its April 2015 meeting, the Committee confirmed its intention to conduct a formal tender process prior to 1 May 2016, such that a change of auditors, if any, occurs following the end of the five-year term of the current lead audit partner in 2016. We currently expect that any new auditors would undertake the audit of the Group's financial statements for the year ending 30 April 2017. The Audit Committee does not necessarily intend that there will be a change of auditors as a result of the planned tender.

The Committee intends to issue an initial Request for Information ("RFI") in August 2015 to parties wishing to tender for the Group's external audit and/or internal audit. Further information can be obtained from the Company Secretary,

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, has recommended to the Board that a proposal be put to shareholders at the 2015 Annual General Meeting for the re-appointment of PricewaterhouseCoopers LLP. The Committee considered the audit fee of £0.8m (2014: £0.8m) for PricewaterhouseCoopers LLP appropriate and concluded that an effective audit can be conducted for such a fee.

5.4.3 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 current 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 non-audit services to the Group when the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest that could not be effectively safeguarded.

In addition to the audit fee, PricewaterhouseCoopers LLP received non-audit related fees of £0.1m (2014: £0.1m), which equate to 12.5% (2014: 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.

In May 2014, the European Commission published a directive amending the Statutory Audit Directive and a new Audit Regulation. The new Audit Regulation has the direct effect of law and European Union member states, including the UK, are required to adopt provisions to ensure its effective application. The new Audit Regulation stipulates that a statutory auditor of a public-interest entity, which would include the Company, shall not provide certain non-audit services to that entity, its parent undertaking and/or its subsidiary undertakings within the European Union. The Company's auditors will therefore be prohibited from providing certain non-audit services to the Group that are not currently prohibited. The new requirements come into effect on 17 June 2016 and shall first apply to the Group in respect of its financial year ending 30 April 2017. The Financial Reporting Council is consulting on the implementation of the Statutory Audit Directive and the new Audit Regulation in the UK. The Audit Committee will continue to oversee the Group's compliance with laws and regulations in this area and will update its policies to reflect developments in laws and regulations.

5.4.4 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 Committee formally assesses the effectiveness of the risk assurance function on an annual basis. This assessment includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance. Deloitte has managed the Risk Assurance Function since 2002, and as a matter of good corporate governance practice, the Committee intends to formally tender this function in conjunction with the planned external audit tender noted in section 5.4.2.

5.4.5 Code of Conduct and "Speaking Up" Policy

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

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were sufficiently material to merit disclosure in the Annual Report. The Committee also received and considered updates on litigation involving the Group, although other than the Twin America litigation referred to in section 5.4.1 above, there were no such matters that were sufficiently material to merit separate disclosure in the Annual Report.

5.4.6 Other activities

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

- A presentation was received from the Group Tax Director on the Group's tax affairs, significant tax accounting judgements and tax risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- The Committee considered reports on the planned external audit and Risk Assurance Function tenders.
- 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.

5.4.7 Fair, Balanced and Understandable

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

In advising the Board, the Audit Committee noted that:

- The Board considers the key risks facing the Group and the Audit Committee considered how these link to the description of principal risks and uncertainties in the Annual Report;
- The Board considers the strategy of the Group and its short and long-term objectives;
- The Board receives four-weekly updates on the actual financial performance of the Group and significant developments affecting the Group;
- The Board receives summaries of significant media coverage relevant to the Group;
- The Board annually reviews and approves the Group's budget and is updated at least twice a year on an updated forecast of financial performance for the year;
- The Audit Committee receives updates on developments in accounting standards and other relevant laws and regulations;
- The Audit Committee receives updates on key areas such as treasury, taxation and audit;
- The Audit Committee and the Board generally have the opportunity to consider, comment and request changes to the Annual Report and other price-sensitive documents prior to publication;
- The preparation of the "front end" of the Annual Report includes the Corporate Communications team, the Company Secretariat, and Group Finance as well as Divisional management validating the appropriateness of the material relating to the relevant division. The involvement of these various groups helps ensure the balance, completeness and accuracy of the "front end";
- The Audit Committee receives reports from the external auditors, the internal auditors and management in respect of various matters including the financial statements;
- The external auditors report on whether the "fair, balanced and understandable" statement is materially consistent with their knowledge of the Group acquired in the course of performing their audit.

The Audit Committee's assessment considered whether:

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

The Audit Committee also noted the established internal control and risk management systems in relation to the process for preparing consolidated financial statements.

5.5 Committee evaluation

The Committee's activities formed part of the internal review of Board effectiveness performed in the year. Details of this review are provided in section 4.8. Overall, the Committee considers that it has continued to operate effectively during the year.

6. Nomination Committee report

6.1 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.

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 2015 Annual General Meeting.

Garry Watts
Chairman of the Nomination Committee
24 June 2015

6.2 Composition of the Nomination Committee

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

6.3 Operation of the Nomination Committee

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

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

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

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

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

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

6.4 Board diversity

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

The Company was co-founded by Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and since May 2001, at least two. There are currently ten directors of the Company.

The percentage of women on the Board is 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 1.8.4 of the Strategic report.

6.5 Succession planning arrangements

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

The Nomination Committee 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.

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

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

7. Health, Safety and Environmental Committee report

7.1 Introduction from 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.

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

24 June 2015

7.2 Composition of the Health, Safety and Environmental Committee

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

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

http://www.stagecoach.com/Terms-of-reference-of-the-HSE-Committee.pdf

7.3 Operation of the Health, Safety and Environmental Committee

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

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. 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 UK Bus operations in Northampton and Bedford, seeing the benefits of the recent re-development of the Northampton bus station and relocation of the depot, and were briefed on proposed re-development work in Bedford. The Committee Chairman visited the Group's operations in Aberdeen to see the preparations being made for the roll-out of the new hydrogen powered bus fleet and to discuss the expected challenges of operating vehicles on hydrogen fuel.

The UK Bus management team in West Scotland hosted a site visit and Committee meeting in December 2014. The visit focused in particular on the environmental initiatives being undertaken in West Scotland, including the challenges of operating vehicles on 100% bio fuel and the alternative fuel technologies being tested by the Group and elsewhere. The Committee was briefed on route planning and technology initiatives to help to ensure the safe operation of new long distance inter-city coach services in Europe under the megabus.com brand.

The Committee Chairman spent time with the North America management team, viewing the new vehicle maintenance facility in Chester, New York, visiting Megabus operations in Washington and Atlanta, and seeing the facilities and operations of Dillons, Baltimore and American Coach Lines of Atlanta.

In the Committee's 2014 evaluation of its performance, Committee members agreed that it would assist the Committee to bring an external view point in to the meeting from time to time. We invited one of our external legal advisers who had advised on a recent incident to use it as a case study on the operation of the Committee. The presentation gave an opportunity to examine in detail the way in which the Group management team had responded to the incident and to discuss the ways in which the Group as a whole learns from incidents arising from its operations.

In their 2015 evaluation of the performance of the Committee, Committee members indicated that they would like to explore further the potential for emerging road safety technology to enhance the safety of the Group's road vehicles and would like to receive a briefing on the new Virgin Trains East Coast franchise. These briefings and suggestions made by Committee members for improvements to the agenda and reports to the Committee will form part of the work of the Committee and executive management team over the new financial year.

Committee members attend meetings of the Safety Committees of individual business units from time to time. The Committee allocates time in its agendas to receive detailed briefings on areas of specific interest or concern to it. During the year, presentations were received on a range of topics, including how safety risk analysis is applied by the UK Rail Division, the development of rail safety plans, alternative fuel technologies for road vehicles and megabus.com route safety planning. The Committee was briefed on road safety technology solutions being introduced on new Group vehicles and technologies that are in development. In order to gain a greater understanding of the challenges of driving a rail vehicle on the South Western area rail infrastructure, members of the Committee were given the opportunity to drive a train simulator at the South West Trains driver training facility.

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.

8. Directors’ remuneration report

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

On behalf of the Remuneration Committee, I am pleased to present the Directors’ remuneration report for the year ended 30 April 2015, prepared in compliance with UK reporting regulations. The report includes a summary of the Directors’ remuneration policy, which was approved at the 2014 Annual General Meeting on 29 August 2014, and the Annual Report on Remuneration. A complete copy of the approved remuneration policy is available on our website at:
http://www.stagecoach.com/Remunerationpolicy29August-2014.pdf

In line with UK legislation, we do not intend to seek further approval of the policy at the 2015 Annual General Meeting because no changes are proposed to the approved policy.

Our approach to remuneration is to ensure that the key components are consistent and easily understood, that 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. The Group has delivered a strong financial performance over a sustained period 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 2014/15 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.

As explained in section 4.2 of this Annual Report, the UK’s Financial Reporting Council issued a new version of the UK Corporate Governance Code (“the Code”) in September 2014. The new version of the Code will first apply to our year ending 30 April 2016. It recommends that performance-related remuneration schemes for executive directors should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. The Group had already updated its Executive Participation Plan (“EPP”) and Long Term Incentive Plan (“LTIP”) to enable the Company to withhold the payment of any sum under these schemes – these provisions may be referred to as “malus” provisions. The current arrangements do not include provisions which enable the Company to recover sums already paid under the EPP or LTIP - such provisions may be referred to as “clawback” provisions. As a Committee, we will monitor developments in corporate remuneration practice and consider what, if any, changes to malus and clawback provisions should be introduced when the Directors’ remuneration policy is next due for consideration by shareholders. The malus provisions referred to above, the deferral of 50% of annual bonus in shares under the EPP and the interests in shares that the Executive Directors are expected to maintain (see section 8.5.8 of this Annual Report) are intended to ensure that the Executive Directors have a meaningful interest in the shares of the Company and take a longer term perspective on the success of the Company.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 30 April 2015 were:

- Reviewed the performance and approved the Executive Directors’ bonuses for the year ended 30 April 2014.
- Set annual performance targets for the Executive Directors’ bonuses.
- Reviewed performance and approved the vesting of the 2011 awards under the LTIP, in June and December 2014.
- Reviewed and approved targets for LTIP awards made in the year ended 30 April 2015.
- Reviewed and approved the vesting of the 2011 awards under the EPP.
- Decided on levels of pay and benefit increases in the annual salary review for the Executive Directors and made recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman.
- Reviewed the remuneration for senior non-Board managers.
- Consulted with major shareholders on matters of remuneration policy, including proposals to introduce a second performance condition for the Long Term Incentive Plan based on targets for growth in earnings per share.
- Obtained approval from shareholders in a binding vote at the 2014 Annual General Meeting for the Directors’ remuneration policy, including the introduction of a second performance condition for the Long Term Incentive Plan based on targets for growth in earnings per share.

Remuneration for 2014/15

As regards the results for the year and payouts under the annual bonus plan, I am pleased to say that the Group has delivered another set of good financial results and has made progress against its financial and strategic objectives. Both the Executive Directors, together with the senior management team, provided strong leadership throughout the year. We continue to be well positioned to take advantage of rail franchise opportunities, noting the successful start to the new Virgin Trains East Coast rail franchise. Both of the Executive Directors were able to meet all of their personal objectives accounting for 30% potential bonus award. The Committee set three challenging financial targets for the year ended 30 April 2015 for the purposes of determining bonus payments. Of the three targets, the consolidated profit before interest and taxation (“PBIT”) from Group companies was not achieved, principally because the operating profit from the UK Bus (regional operations) Division and the North America Division did not reach the target levels as explained in section 1.3 of this Annual Report. However, a strong performance from the Group’s rail interests and in particular its Virgin Rail Group joint venture meant that consolidated adjusted earnings per share (“EPS”) were better than target. Consolidated net debt (“Net Debt”) was also better than target. The performance against the financial targets is consistent with the trading updates published by the Company during the year. This has meant that annual bonus levels of 35% out of a maximum of the 70% available for financial performance has been achieved, resulting in total bonus awards of 65% of basic salary for both directors.

The Committee 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. We continue to value shareholders’ views on our remuneration arrangements and I can be contacted via the Company Secretary.

At the Group’s Annual General Meeting on 28 August 2015 shareholders will be invited to approve this statement and the Annual Report on Remuneration together in an advisory vote.

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

Phil White
Chairman of the Remuneration Committee

24 June 2015

8.2 Compliance statement

This Directors' remuneration report covers the period from 1 May 2014 to 30 April 2015 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration.

This report has been prepared in accordance with the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. 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 will be proposed at the 2015 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.

8.3 Remuneration Committee

The Committee's principal function is to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages and service contracts for the Group's Executive Directors and such senior members of the executive management as it is asked by the Board to consider. The Committee also has responsibility for making 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/Terms-of-reference-of-the-Remuneration-Committee.pdf

8.4 Directors' remuneration policy

This section sets out the remuneration policy for executive directors and non-executive directors. The policy was approved by a binding vote of shareholders on 29 August 2014 and took effect from that date.

A complete copy of the approved remuneration policy is available on the Group's website at: http://www.stagecoach.com/Remunerationpolicy29August-2014.pdf

8.4.1 Key principles of the remuneration policy

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

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

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

We also consult our major shareholders in developing policy.

8.4.2 Summary of remuneration policy for the Executive Directors

This section of our report sets out in tabular form a summary of each of the components of the remuneration package for the Executive Directors. The components reflect the policy that applied in the year ended 30 April 2015.

8.4.2.1 Fixed elements of pay

BASIC SALARY

Purpose and link to strategy objectives

To attract, retain and motivate executives ensuring basic salaries are competitive in the market.

Operation

Basic salaries are generally reviewed as at 1 May each year but the Remuneration Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. The Committee also considers the published salary data for FTSE 250 companies. Account is also taken of pay conditions throughout the Group.

Maximum value

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.

Performance metrics

Basic salary levels are predicated on continued good performance by the director.

Salary levels set effective from 1 May 2015 are set out in section 8.5.3.1.1 of this Annual Report.

PENSIONS AND LIFE ASSURANCE ARRANGEMENTS

Purpose and link to strategy objectives

To provide relevant life assurance and pension benefits that are competitive in the market.

Operation

Pension obligations for the Executive Directors are met through a combination of approved defined benefit schemes, 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.

Maximum value

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.

Performance metrics

Pensions and life assurance arrangements are predicated on continued good performance by the director.

8.4.2.1 Fixed Pay (continued)

BENEFITS IN KIND AND OTHER ALLOWANCES

Purpose and link to strategy objectives

Designed to be competitive in the market.

Operation

Benefits in kind and other allowances can include:

- Health-care benefits, life assurance cover, company car allowance, and telephone costs.
- Opportunities to join the Buy As You Earn ("BAYE") scheme.
- Relocation assistance upon appointment if/when applicable.

Business related travel and subsistence costs will be met or reimbursed including directors' partners attending corporate events or management conferences. Where the Committee considers it appropriate other benefits may be provided, including on recruitment or relocation.

Maximum value

Benefits vary by role, and are reviewed periodically to ensure they are reasonable relative to market. There is no maximum value of a core benefit package as this is dependent on the cost to the employing company and the individual's circumstances.

Participation in the BAYE scheme is subject to HMRC limits.

Performance metrics

Benefits in kind and other allowances are predicated on continued good performance by the director.

BAYE limits were increased in line with increases in HMRC limits from 6 April 2014.

8.4.2.2 Variable Pay

PERFORMANCE-RELATED ANNUAL CASH BONUSES

Purpose and link to strategy objectives

Aims to focus the Executive Directors on achieving demanding annual targets relating to Group performance.

Operation

At the start of each financial year, the Committee agrees specific objectives for each executive director. At the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each executive director for the year just ended. This is based on each director's performance in achieving the set objectives, and affordability for the Group.

No payment is made if none of the specific objectives are met.

Maximum value

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.

Performance metrics

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.

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.

Further details of the performance measures used for the 2015 bonus are set out in the Annual Report on Remuneration in section 8.5.3.

EXECUTIVE PARTICIPATION PLAN ("EPP")

Purpose and link to strategy objectives

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

It is also designed to provide an incentive for managers to remain with the Group and forms a core part of the Group's succession and management development plans.

Operation

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.

Unvested awards granted after 30 August 2013 are subject to malus.

Maximum value

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

Additional shares are allocated in respect of dividends payable during the relevant period. By agreement with the Remuneration Committee, more than 50% may be deferred.

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

Performance metrics

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

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

8.4.2.2 Variable Pay (continued)

LONG TERM INCENTIVE PLAN ("LTIP")

Purpose and link to strategy objectives

Aims to align the interests of shareholders and management in growing the return to shareholders and the value of the business over the long-term.

Operation

Participants are awarded Incentive Units, which have a nominal value equal to one of the Group's ordinary shares. Incentive Units can be in the form of a conditional award, a cash award or a nil-cost option.

Unvested awards granted after 30 August 2013 are subject to malus.

The Committee may adjust and amend awards only in accordance with the rules of the LTIP.

Maximum value

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

The actual value of the awards at vesting will reflect the face value of the Incentive Units at the time of award but also subsequent movements in the Company's share price, dividends paid by the Company and actual performance relative to the performance metrics.

Performance metrics

Awards made prior to 1 May 2014 are 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.

Such awards will vest as follows:

- If the TSR does not exceed the median of the comparator group, then none of the relevant available Incentive Units awarded will vest and they will lapse;
- If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-sixth (16.67%) of the available Incentive Units awarded 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 awarded 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 awarded depending on the actual ranking against the comparator group.

For awards under the LTIP from 1 May 2014, a second performance condition applies, 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:

- 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 must be positive and exceed inflation.

For the Incentive Units awarded that are subject to the TSR condition, vesting will be as follows:

- If the TSR does not exceed the median of the comparator group, then none of the relevant Incentive Units awarded will vest and they will lapse;
- If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse;
- If the TSR is in the top quartile of the comparator group, then all of the available Incentive Units will vest;
- If the TSR is higher than the median but less than the top quartile of the comparator group, then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units depending on the actual ranking against the comparator group.

For the Incentive Units awarded that are subject to the EPS condition, vesting will be as follows:

- 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 line basis depending on the EPS achieved.

For awards under the LTIP from 1 May 2014, the performance conditions will be tested over a three-year period, being the three years commencing on or around the 1 May or 1 November immediately preceding the date of the relevant award.

The Committee is satisfied that the 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.

8.4.3 Summary of remuneration policy for the Non-Executive Directors

The table below summarises our policy on the remuneration paid to our Non-Executive Directors.

BASIC SALARY

Purpose and link to strategy objectives

To attract and retain non-executive directors with an appropriate degree of skills, experience, independence and knowledge of the Company and its business.

To attract and retain a Chairman and Deputy Chairman to provide effective leadership for the Board.

Operation

Fee levels for non-executive directors are generally reviewed by the Board annually, with any adjustments effective 1 May in the year following review. Remuneration comprises an annual fee for acting as a non-executive director.

Remuneration for the Chairman comprises an annual fee.

Account is taken of fees for similar roles in comparable companies. The Board also considers the published data for FTSE 250 companies.

Non-executive directors do not participate in pensions or incentive schemes, 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.

Maximum value

Any fee increases are applied in line with the outcome of the annual review.

Non-executive directors' fees are subject to an aggregate maximum cap which is stated in the Company's Articles of Association as £800,000 or such larger amount as the Company may decide by ordinary resolution.

Performance metrics

Continued good performance.

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 30 April 2015.

8.5.1 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 4.11. No director was involved in decisions as to their own remuneration.

The members of the Committee during the year ended 30 April 2015 and at the date of this report were:

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

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

8.5.2 Advisers

The Committee retained Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. Addleshaw Goddard LLP has no other connection to the Group. Addleshaw Goddard LLP received £9,826 (2014: £28,250) in respect of work it carried out in the year ended 30 April 2015. 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.

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

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

Directors' remuneration and the single figure total for the year ended 30 April 2015 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION (amounts in £000)	Basic Salary/Fees		Benefits in kind		Short Term Incentives (performance related bonus)		Long Term Incentives vested (LTIP)		Pension related benefits		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014 (restated)	**2015**	2014	**2015**	2014 (restated)
Executive directors												
Martin Griffiths	**614**	600	**23**	24	**399**	600	**99**	582	**316**	406	**1,451**	2,212
Ross Paterson	**410**	400	**23**	23	**267**	400	**49**	283	**196**	233	**945**	1,339
Non-executive directors												
Gregor Alexander	**58**	51	**–**	–	**–**	–	**–**	–	**–**	–	**58**	51
Sir Ewan Brown	**53**	51	**–**	–	**–**	–	**–**	–	**–**	–	**53**	51
Ann Gloag	**53**	51	**–**	–	**–**	–	**–**	–	**–**	–	**53**	51
Helen Mahy	**58**	51	**–**	–	**–**	–	**–**	–	**–**	–	**58**	51
Sir Brian Souter	**205**	200	**–**	1	**–**	–	**–**	–	**–**	–	**205**	201
Garry Watts	**128**	125	**–**	–	**–**	–	**–**	–	**–**	–	**128**	125
Phil White	**58**	51	**–**	–	**–**	–	**–**	–	**–**	–	**58**	51
Will Whitehorn	**53**	51	**–**	–	**–**	–	**–**	–	**–**	–	**53**	51
Total	**1,690**	1,631	**46**	48	**666**	1,000	**148**	865	**512**	639	**3,062**	4,183

Notes to Table 1:

i. Basic Salary/fees

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

ii. Benefits in kind and other allowances

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

TABLE 2 – BENEFITS IN KIND	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
	2015 £	2014 £	**2015 £**	2014 £	**2015 £**	2014 £	**2015 £**	2014 £	**2015 £**	2014 £
Martin Griffiths	**22,000**	22,000	**866**	982	**405**	445	**177**	197	**23,448**	23,624
Ross Paterson	**22,000**	22,000	**866**	982	**–**	–	**177**	197	**23,043**	23,179
Sir Brian Souter	**–**	–	**–**	–	**25**	577	**–**	–	**25**	577

During the year, both of the 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. 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 each director's performance in achieving the set objectives. The objectives comprise both financial objectives for the Group and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 30 April 2015 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 2015, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of financial objectives and 30% for meeting individual business related objectives. Details of the financial objectives applicable for 2014/15 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	£218.6m	£201.7m	35.0%	–
Consolidated adjusted earnings per share ("EPS")	26.6p	26.7p	17.5%	17.5%
Consolidated net debt ("Net Debt")	£509.2m	£381.3m	17.5%	17.5%
Element of bonus related to Group financial objectives			70.0%	35.0%

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 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 may be disclosed when they are no longer considered commercially sensitive.

For the year ended 30 April 2015, the Chief Executive had personal objectives relating to:

- Health and safety performance across all business units;
- Strategy and value creation from rail activities;
- The development of inter-city coach operations in North America and Europe and;
- Management succession and development.

For the year ended 30 April 2015, the Finance Director had personal objectives relating to:

- The Group's investment grade credit ratings;
- The re-financing of debt;
- The financial structure of rail franchise bids and rail "direct awards";
- Key commercial, technology projects.

The Committee intends to provide information on the Executive Directors' personal objectives for the year ending 30 April 2016 when it considers such disclosure to be no longer commercially sensitive.

Directors' remuneration report

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 2015 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	
Director	Cash	Deferred Shares under EPP	Cash	Deferred Shares under EPP
Martin Griffiths	32.5%	32.5%	50%	50%
Ross Paterson	32.5%	32.5%	50%	50%

iv. LTIP

The amounts shown in Table 1 in respect of the LTIP vestings for the year ended 30 April 2015 represents the actual market value of the vesting of the December 2011 award in December 2014. No amount is included for the June 2012 amount as it is not expected to deliver a payment.

The December 2011 award vested achieving a ranking of 113 out of the 237 companies in the comparator group throughout the performance period, resulting in a pay-out percentage of 21.1% of the relevant Incentive Units.

Details of LTIP awards that are treated in Table 1 as having vested during the year ended 30 April 2015 are shown below:

TABLE 5 – LTIP AWARDS treated as vested for inclusion in Table 1 Grant date	As at 30 April 2014 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	Vested during year (Incentive Units)	As at 30 April 2015 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Pure per incentive unit achieved on vesting £	Vesting Date	Vesting %
Martin Griffiths									
08 Dec 11	121,273	2,180	(97,405)	(26,048)	–	£98,774	3.7920	11 Dec 14	21.10%
27 Jun 12	135,939	3,755	–	–	139,694	–	–	27 Jun 15	Nil
						£98,774			
Ross Paterson									
08 Dec 11	60,018	1,079	(48,206)	(12,891)	–	£48,883	3.7920	11 Dec 14	21.10%
27 Jun 12	63,437	1,752	–	–	65,189	–	–	27 Jun 15	Nil
						£48,883			

LTIP awards vested in June 2014

A forecast of the vesting value of the June 2011 LTIP awards which vested in June 2014 was shown in the 2014 Annual Report. The forecast amounts used were £290,474 for Martin Griffiths and £143,756 for Ross Paterson. The actual amounts paid out on vesting were £275,465 for Martin Griffiths and £136,330 for Ross Paterson based on the actual ranking of 75 out of the FTSE250 comparator group delivering a vesting percentage of 58.34% on a share price on 30 June 2014 of £3.76. The 2014 amounts shown in Table 1 have been restated accordingly.

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 relevant director.

vi. External Appointments

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £52,777 fees received from this position in the year ended 30 April 2015 (2014: £46,500). In the year ended 30 April 2014 he also received fees of £15,600 from a directorship of Robert Walters plc, having stepped down from that position in July 2013.

8.5.4 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 either under the HMRC approved pension scheme or the Group's unfunded 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 2015 under the Group unfunded pension arrangements. Other than adjustments for inflation, no further benefits accrued under the HMRC approved Group defined benefit pension scheme during the year.

Ross Paterson accrued benefits in the year ended 30 April 2015 under a combination of a HMRC approved Group defined benefit pension scheme and the Group unfunded pension arrangements until 31 March 2015 and thereafter accrued benefits only under the Group unfunded 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 2015 £'000	Accrued cash entitlement at 30 April 2014 £'000	Accrued annual pension entitlement at 30 April 2014 £'000	Accrued cash entitlement at 30 April 2015 £'000	Accrued annual pension entitlement at 30 April 2015 £'000
Martin Griffiths	31 March 2026	54	166	92	168	112
Ross Paterson	29 July 2031	35	127	52	137	64

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

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

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

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

Tables 7 and 8 set out the awards to the Executive Directors under the Company's share schemes during the year ended 30 April 2015.

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								
26 Jun 14	Incentive Units	3.8000	75% of basic salary	121,263	315,271	460,799	26 Jun 17	1 May 2014 - 30 April 2017
11 Dec 14	Incentive Units	3.7920	75% of basic salary	121,518	315,269	460,796	11 Dec 17	1 Nov 2014 - 31 Oct 2017
Ross Paterson								
26 Jun 14	Incentive Units	3.8000	75% of basic salary	80,842	210,181	307,200	26 Jun 17	1 May 2014 - 30 April 2017
11 Dec 14	Incentive Units	3.7920	75% of basic salary	81,012	210,180	307,198	11 Dec 17	1 Nov 2014 - 31 Oct 2017

Each Incentive Unit shown in Table 7 has a notional face value equal to one of the Company's ordinary shares and was granted as a cash-settled award. The maximum and expected 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.

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							
26 Jun 14	Deferred Shares	3.7825	50% of annual bonus	79,312	299,998	26 Jun 17	n/a
Ross Paterson							
26 Jun 14	Deferred Shares	3.7825	50% of annual bonus	52,875	200,000	26 Jun 17	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 ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. There are no specific performance conditions attaching to the release of these Deferred Shares because the annual bonus is already subject to performance conditions.

8.5.6 Payments to past directors (audited)

There have been no payments in excess of the de minimis threshold to former directors during the year ended 30 April 2015 (2014: £Nil) in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

8.5.7 Payments for loss of office (audited)

There have been no payments for loss of office to directors during the year ended 30 April 2015 (2014: £Nil).

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

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate an effective interest in shares in the Group with a value of at least 200% of basic salary. A target of 100% was first introduced in 2005 and was amended to 200% in June 2014 following feedback from shareholders. The Executive Directors are allowed five years from the date of appointment to accumulate the appropriate level of shares. For these purposes, EPP Deferred Shares will be counted on a post-tax basis only and all interests in shares will be counted at current value as at the 30 April year end. LTIP Incentive Units are not included in this measure. At 30 April 2015, Martin Griffiths had an interest in shares equivalent to 332% (2014: 327%) of his basic salary and Ross Paterson an interest in shares equivalent to 240% (2014: 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 2015 were:

TABLE 9 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 30 APRIL 2015	Interests as at 30 April 2015				Scheme interests vested during year ended 30 April 2015	
	Shares held outright	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)
Executive directors						
Martin Griffiths	435,240	777,337	234,471	1,989	99,310	73,085
Ross Paterson	211,650	467,283	107,210	1,989	49,149	27,081
Non-executive directors						
Gregor Alexander	10,406	–	–	–	–	–
Sir Ewan Brown	*see note below*					
Ann Gloag	62,501,721	–	–	–	–	–
Helen Mahy	8,971	–	–	–	–	–
Sir Brian Souter	86,900,445	–	55,762	–	–	54,758
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% (2014: 18%) 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 2015 (2014: 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.

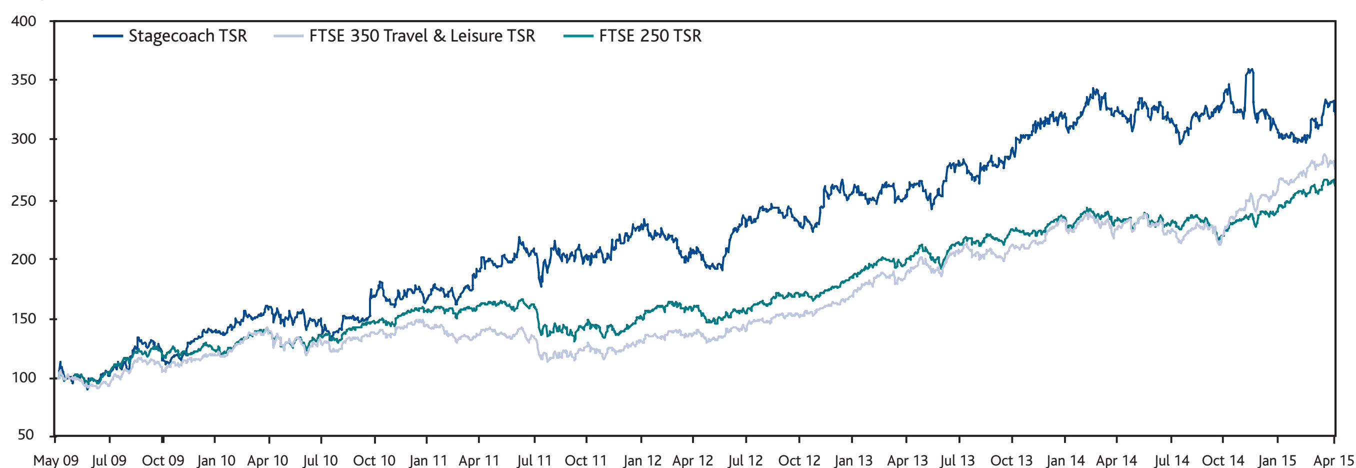
Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 10 below.

TABLE 10 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 30 April 2014	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 30 April 2015	Vesting Date
Long Term Investment Plan							
Martin Griffiths	125,579	–	–	(52,317)	(73,262)	–	30 Jun 14
	121,273	–	2,180	(97,405)	(26,048)	–	11 Dec 14
	135,939	–	3,755	–	–	139,694	27 Jun 15
	111,895	–	3,090	–	–	114,985	06 Dec 15
	146,104	–	4,035	–	–	150,139	27 Jun 16
	121,871	–	3,366	–	–	125,237	12 Dec 16
	–	121,263	3,350	–	–	124,613	26 Jun 17
	–	121,518	1,151	–	–	122,669	11 Dec 17
	762,661	242,781	20,927	(149,722)	(99,310)	777,337	
Ross Paterson	62,150	–	–	(25,892)	(36,258)	–	30 Jun 14
	60,018	–	1,079	(48,206)	(12,891)	–	11 Dec 14
	63,437	–	1,752	–	–	65,189	27 Jun 15
	52,217	–	1,441	–	–	53,658	06 Dec 15
	97,402	–	2,690	–	–	100,092	27 Jun 16
	81,247	–	2,243	–	–	83,490	12 Dec 16
	–	80,842	2,233	–	–	83,075	26 Jun 17
	–	81,012	767	–	–	81,779	11 Dec 17
	416,471	161,854	12,205	(74,098)	(49,149)	467,283	
Executive Participation Plan							
Martin Griffiths	73,085	–	–	–	(73,085)	–	30 Jun 14
	74,424	–	2,059	–	–	76,483	27 Jun 15
	74,423	–	2,059	–	–	76,482	27 Jun 16
	–	79,312	2,194	–	–	81,506	26 Jun 17
	221,932	79,312	6,312	–	(73,085)	234,471	
Ross Paterson	27,081	–	–	–	(27,081)	–	30 Jun 14
	27,140	–	750	–	–	27,890	27 Jun 15
	24,310	–	672	–	–	24,982	27 Jun 16
	–	52,875	1,463	–	–	54,338	26 Jun 17
	78,531	52,875	2,885	–	(27,081)	107,210	
Sir Brian Souter	54,758	–	–	–	(54,758)	–	30 Jun 14
	54,261	–	1,501	–	–	55,762	27 Jun 15
	109,019	–	1,501	–	(54,758)	55,762	
Buy as you Earn Scheme							
Martin Griffiths	1,406	537	46	–	–	1,989	n/a
Ross Paterson	1,406	537	46	–	–	1,989	n/a

8.5.9 Performance graph

The graph below charts the performance of the total shareholder return ("TSR") (share value movement plus reinvested dividends) from the Company's ordinary shares over the six years to 30 April 2015 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 6-Year TSR Comparative Performance to 30 April 2015:



For comparative purposes, the pay for the role of Chief Executive over time is shown in Table 11 below.

TABLE 11 – PAY FOR THE ROLE OF CHIEF EXECUTIVE Year ended 30 April:	Sir Brian Souter 2010	2011	2012	2013	Martin Griffiths 2014	2015
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%	65%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	56%	10%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,212	1,451

* 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%	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 8.5.3.

8.5.10 Percentage change in Chief Executive Remuneration (audited)

The change in the Chief Executive's remuneration from 2013/14 to 2014/15 in comparison to a comparator group of employees is shown in Table 13 below.

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	2.4%	3.7%
Benefits	-0.7%	4.7%
Bonus	-33.4%	-9.7%

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

8.5.11 Relative Importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 30 April 2015 and the year ended 30 April 2014. 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	2015 £m	2014 £m	Percentage change
Profit distributed by way of dividend	56.3	51.0	10.4%
Overall spend on pay for employees	1,203.8	1,133.9	6.2%

Fees are effective from 1 May each year.

8.5.12 Consideration of shareholder views (audited)

The following table shows the results of the votes on remuneration matters at the 2014 Annual General Meeting.

TABLE 15 – SHAREHOLDER VOTE	Directors' Remuneration Policy		Directors' Remuneration Report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For+	442,971,273	95.53%	463,064,227	99.67%
Against	20,747,438	4.47%	1,542,873	0.33%
Total votes cast (excluding withheld votes)	463,718,711	100.00%	464,607,100	100.00%
Votes withheld*	1,370,407		482,018	
Total votes cast (including withheld votes)	465,089,118		465,089,118	

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

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

8.5.13 Implementation of remuneration policy in the financial year ending 30 April 2016

In the year ending 30 April 2016, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

8.5.13.1 Implementation of executive directors' remuneration policy

8.5.13.1.1 Fixed elements – basic salary

The Committee made the following 2015/16 basic salary decisions which are in line with the Directors' remuneration policy.

TABLE 16 – INCREASES IN BASIC SALARY	2015/16 salary £	2014/15 salary £	Percentage change
Martin Griffiths	626,700	614,400	2.0%
Ross Paterson	417,800	409,600	2.0%

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

8.5.13.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the Directors' remuneration policy, 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 Directors' remuneration policy.

Targets are approved by the Remuneration Committee around the beginning of the year. Each executive director has a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of financial objectives and 30% for meeting individual business related objectives.

The Committee has determined that the element of the potential bonus related to financial objectives will be allocated as follows for 2015/16:

TABLE 17 – FINANCIAL OBJECTIVES FOR 2015/16 BONUS	Potential bonus (% of the basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	23.4
Consolidated adjusted earnings per share ("EPS")	23.3
Consolidated net debt ("Net Debt")	23.3
Element of bonus related to Group financial objectives	70.0

The three measures listed in Table 17 will be defined consistently with 2014/15 (see note iii to Table 1).

The Committee is of the view that the values 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 targets and achievements in respect of the year ending 30 April 2016 will be disclosed in the 2016 Annual Report. 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

LTIP awards vest after three years subject to performance conditions. A summary of the intended awards during the year ending 30 April 2016 and the nature of the performance conditions are provided in Table 18 below.

TABLE 18 – INTENDED LTIP AWARDS	Award Type	Performance metric	Face value of award at maximum vesting (% of 2015/16 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 relation to any financial year is limited to Incentive Units with an aggregate face value at the time of award not exceeding 150% of basic salary.

The 2015/16 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.

8.5.13.2 Implementation of non-executive directors' remuneration policy

Annual fees for 2015/16

The implementation of policy in relation to non-executive directors is in line with the Directors' remuneration policy. The fees per annum for the Non-Executive Directors for 2014/15 and the amount set for 2015/16 are set out in Table 19 below.

Each non-executive director's fee is set by the Board, taking account of the views of each director, the specific responsibilities of each director and the fees for equivalent roles in comparable organisations.

TABLE 19 – NON-EXECUTIVE DIRECTOR FEES	2015/16 fees £	2014/15 fees £
Chairman	208,900	204,800
Deputy Chairman	130,600	128,000
Chairmen of Audit, Remuneration and the Health, Safety & Environmental Committees	58,600	57,500
Other non-executive directors	52,500-53,600	52,500

9. Responsibility statement

The Directors confirm that to the best of their knowledge:

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

Signed on 24 June 2015 on behalf of the Board by:

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

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

Report on the Group financial statements

Our opinion

In our opinion, Stagecoach Group plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 April 2015 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.

What we have audited

Stagecoach Group plc's financial statements comprise:

- the consolidated balance sheet (statement of financial position) as at 30 April 2015;
- 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 financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Stagecoach Group Annual Report and Financial Statements 2015 (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. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

- Overall Group materiality: £8.7m which represents 5% of profit before tax of £173.1m prior to exceptional items.

- In expressing our opinion over the Group financial statements, we audited the financial information of all reporting units for UK Rail and North America, and the 15 most significant reporting units by scale of UK Bus. We also instructed and received reporting from component auditors in relation to Virgin Rail Group and Twin America.
- We performed additional procedures at Group level including over the consolidation process, exceptional items, pensions, taxation, financial instruments, share based payments and presentation of the Group financial statements
- We gained an understanding of the key controls and processes that management has in place in relation to material balances and tested those that provided us with appropriate evidence for the purposes of our audit.
- The reporting units where we conducted audit work accounted for 91% of Group profit before tax prior to exceptional items, 92% of Group Revenue and 73% of Group Total Assets.

Our audit focused on the following areas:

- Pension liabilities
- UK Bus and North America insurance provisions
- Provision for uncertain tax positions
- Carrying value of Twin America investment

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table on the next page. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. These areas of focus require significant management judgements and have a range of possible outcomes. This is not a complete list of all risks identified by our audit.

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

Area of focus	How our audit addressed the area of focus
Pension liabilities The Group had a net pension deficit of £160.5m as at 30 April 2015. We focused on the valuation of the pension liabilities because of their significance to the overall financial statements. Relatively small movements in assumptions applied can result in a material impact to the financial statements. Valuation of pension liabilities is dependent upon judgement by management in determining and applying appropriate assumptions used in the actuarial calculation. These assumptions include life expectancies of scheme members, discount rate and inflation rates. Applying an appropriate methodology consistent with the requirements of accounting standards also requires judgement. Refer also to notes 6 and 25 to the consolidated financial statements.	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 compliance of management's approach with the relevant accounting standard. We considered, as further described below and challenged the critical actuarial assumptions used (including the discount rate, life expectancies of scheme members and inflation rates) and the judgements taken by management in applying these assumptions in calculating the pension liabilities. We compared the critical actuarial assumptions used by management to our own benchmark range of companies. The critical assumptions applied by management were within our benchmark range. We also checked that management's methodologies were consistently applied year to year. We checked the consistency of management's critical assumptions with recent triennial valuation reports and did not note any material exceptions. We tested pension scheme membership information as this is a key input used in the overall pension liability calculations. We agreed this data, on a sample basis, to underlying employee records. We did not note any material exceptions in our testing.
UK Bus and North America insurance provisions Total insurance provisions as at 30 April 2015 amount to £150.7m, the majority of which relate to UK Bus and North America. Although the Group uses insurance policies to protect against claims, the excesses under these policies that apply to individual claims are payable by the Group and provided for within the balance sheet. These provisions are both material and judgemental. For the exposures which arise in North America, management calculates the provision in-house using the best available claims and settlement information at a given point in time based on outcomes that are uncertain; and for the UK Bus business, the provision is calculated by reference to an independent actuarial report commissioned by management. Key areas of management judgement in determining these provisions, on which we focus, include the likelihood of defending claims brought against the Group; assessing the value of claims settlements; and assessing the impact of incidents notified by year end but not yet reported. Management has developed its methodology and approach based on past experience and applying actuarial probabilities in its calculations, both of which we consider in addressing this area of focus. Refer also to note 24 to the consolidated financial statements	We gained an understanding of the key controls and processes that management has in place to assess insurance claims and related provisions. In North America we tested certain controls that we determined provided us with appropriate audit evidence. In the UK our audit approach was substantive in nature. We evaluated whether consistent methodology had been applied year on year in determining the level of provisioning, including the methodology applied by the independent actuary for the UK Bus provision. We found the approach to be consistent. We used our team, with relevant actuarial experience, in the USA to independently recalculate North American insurance provisions based on underlying data provided by management. We tested controls over the accuracy of this data with no exceptions noted. We compared the level of provisions against past experience of claims and actual settlements. We tested material adjustments to the actuarial provision ranges to check that the rationale for any changes was appropriate and supported by underlying evidence. For the UK Bus provision, we substantively tested a sample of year-end claims provisions by comparing the provision with recent settlement history for similar cases and obtaining relevant correspondence. We found that the management's assumptions were consistent with the prior year and, based on the evidence obtained, we did not note any material exceptions based on our evaluation of the available claims and settlement information.
Provisions for uncertain tax positions The Group has a net consolidated tax liability of £63.2m as at 30 April 2015 which includes provisions in relation to uncertain tax positions, which were the focus of our audit. We focused on this area because of the judgemental nature of the balances and the inherent complexity of interpreting and implementing taxation rules and the risk of challenge of certain of the Group's tax positions. Refer also to notes 7 and 23 to the consolidated financial statements.	We obtained reports showing the components of the tax provisions and used them to identify the most significant balances for testing. We then applied various selection criteria, including identifying the largest balances, for testing. As appropriate, we tested the provisions as follows: • understood and re-performed the provision calculation; • read relevant correspondence with tax authorities and considered the implications for our audit; • used our tax expertise and our knowledge and experience of developments in the relevant tax jurisdictions to consider the completeness and challenge the basis of the significant provision judgements made by management and in house tax specialists; and • utilised our experience of similar situations elsewhere to independently assess the evidence supporting those tax provisions. Based on our evaluation of the evidence obtained from the procedures described above, we did not note any material exceptions in our audit testing.

Area of focus	How our audit addressed the area of focus
Carrying value of the Twin America investment As described in note 31 to the consolidated financial statements, the Group is subject to anti-trust litigation in relation to its Twin America joint venture. Although uncertainty over the expected settlement has been reduced as a consequence of developments in the litigation and agreements made in the US, the actions required to resolve the litigation have contributed to reduced revenue and profits. There is a risk that the carrying value of the investment may be impaired as a result. Management has concluded that the carrying value is not impaired at the balance sheet date, which is based on judgement and involves modelling and projecting certain assumptions, the most significant of which are future revenue and costs growth. In evaluating management's assessment we focused on these key assumptions.	In considering management's impairment model for the carrying value of Twin America, we tested and challenged key assumptions used in the model particularly in relation to assumed future revenue and costs assumptions and the discount rate applied by management within its impairment model. We did this by comparing recent trading results to evaluate management's trading and cash flow assumptions used in their impairment model. We compared management's growth assumptions to independent economic growth forecasts. We also applied sensitivities to management's forecasts to assess the impact on the carrying value of the investment and considered the extent of change in those assumptions, individually or together, that would cause the investment to be impaired. We considered the methodology used by management within its impairment calculation for consistency with market practice.

How we tailored the audit scope

The scope of our audit reflected the organisational structure of the Group, being 3 business areas: UK Bus, UK Rail and North America. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls and the areas of greatest audit risk.

As a result, we performed an audit of the financial information of all reporting units of UK Rail and North America and the 15 most significant reporting units by scale of UK Bus. The audit work on all in scope reporting units, with the exception of Twin America and Virgin Rail Group, was performed directly by the Group engagement team. For Twin America, the Group engagement team instructed component auditors from PricewaterhouseCoopers US, identifying and explaining areas of focus for their work. We also communicated with a firm from outside the PricewaterhouseCoopers network of firms with respect to the audit of the complete financial information at the Virgin Rail Group joint venture.

The Group engagement team held meetings and calls with those component auditors to clarify and discuss their audit approach, materiality and reporting requirements. In addition, we had meetings and calls with the component auditors as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work.

This scope together with directed scope procedures over certain financial statement line items meant we performed audit work across the Group which accounted for 91% of Group profit before tax prior to exceptional items, 92% of Group Revenue and 73% of Group Total Assets.

In addition, the Group audit team performed audit procedures on the Group consolidation balances of East Coast Main Line Company Limited. 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.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

Overall Group materiality	£8.7m (2014: £8.3m).
How we determined it	5% of profit before tax of £173.1m prior to exceptional items (being the charges related to the Twin America litigation and onerous property leases) (2014: 5% of profit before tax of £166.7m prior to exceptional items).
Rationale for benchmark applied	We based our materiality on this adjusted profit figure as we believe this is a measure used by shareholders in evaluating underlying business performance, and the exclusion of exceptional items provides us with a consistent year-on-year basis for determining materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £435,000 (2014: £415,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out in Section 3.12, 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.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

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 set out in sections 4.13 and 4.14 of the Annual Report with respect to internal control and risk management systems and provided in section 3.11 about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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 – otherwise misleading.	We have no exceptions to report arising from this responsibility
• the statement given by the Directors in Section 3.6, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), 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 is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility
• section 5.4.1 of the Annual Report, as required by provision C.3.8 of the Code, 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

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 Statement relating to the parent company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility statement, 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.

What an audit of financial statements involves

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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2015 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
24 June 2015

11. Consolidated Financial Statements

Consolidated income statement

For the year ended 30 April 2015

	Notes	2015			2014		
		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	**3,204.4**	**–**	**3,204.4**	2,930.0	–	2,930.0
Operating costs and other operating income	3	**(3,002.7)**	**(11.9)**	**(3,014.6)**	(2,715.5)	(14.0)	(2,729.5)
Operating profit of Group companies	2	**201.7**	**(11.9)**	**189.8**	214.5	(14.0)	200.5
Share of profit of joint ventures after finance costs, finance income and taxation	2	**25.4**	**2.7**	**28.1**	8.8	(8.4)	0.4
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2	**227.1**	**(9.2)**	**217.9**	223.3	(22.4)	200.9
Non-operating exceptional items	4	**–**	**(10.6)**	**(10.6)**	–	(0.3)	(0.3)
Profit before interest and taxation		**227.1**	**(19.8)**	**207.3**	223.3	(22.7)	200.6
Finance costs	5	**(44.8)**	**–**	**(44.8)**	(47.2)	–	(47.2)
Finance income	5	**2.7**	**–**	**2.7**	4.6	–	4.6
Profit before taxation		**185.0**	**(19.8)**	**165.2**	180.7	(22.7)	158.0
Taxation	7	**(31.1)**	**5.4**	**(25.7)**	(31.2)	5.7	(25.5)
Profit for the year from continuing operations and profit after taxation for the year		**153.9**	**(14.4)**	**139.5**	149.5	(17.0)	132.5
Attributable to:							
Equity holders of the parent		**153.6**	**(14.3)**	**139.3**	149.5	(17.0)	132.5
Non-controlling interests		**0.3**	**(0.1)**	**0.2**	–	–	–
		153.9	**(14.4)**	**139.5**	149.5	(17.0)	132.5
Earnings per share (all of which relates to continuing operations)							
– Adjusted basic/Basic	9	**26.7p**		**24.3p**	26.0p		23.1p
– Adjusted diluted/Diluted	9	**26.6p**		**24.1p**	25.8p		22.9p

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

Consolidated statement of comprehensive income

For the year ended 30 April 2015

	2015	2014
	£m	£m
Profit for the year	**139.5**	132.5
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value losses on cash flow hedges	**(56.6)**	(2.8)
– Reclassified and reported in profit for the year	**35.1**	2.1
– Share of other comprehensive expense on joint ventures' cash flow hedges	**(2.3)**	–
– Tax effect of cash flow hedges	**4.1**	(0.2)
– Tax effect of share of other comprehensive expense on joint ventures' cash flow hedges	**0.5**	–
Foreign exchange differences on translation of foreign operations (net of hedging)	**8.2**	(14.8)
Share of foreign exchange differences on translation of foreign operations of joint ventures	**(0.2)**	–
Total items that may be reclassified to profit or loss	**(11.2)**	(15.7)
Items that will not be reclassified to profit or loss		
Actuarial losses on Group defined benefit pension schemes	**(65.5)**	–
Tax effect of actuarial losses on Group defined benefit pension schemes	**11.9**	(3.2)
Share of actuarial gains on joint ventures' defined benefit pension schemes	**0.1**	–
Total items that will not be reclassified to profit or loss	**(53.5)**	(3.2)
Other comprehensive expense for the year	**(64.7)**	(18.9)
Total comprehensive income for the year	**74.8**	113.6
Attributable to:		
Equity holders of the parent	**75.0**	113.6
Non-controlling interests	**(0.2)**	–
	74.8	113.6

Consolidated balance sheet (statement of financial position)

As at 30 April 2015

	Notes	2015 £m	2014 £m
ASSETS			
Non-current assets			
Goodwill	10	**132.9**	125.4
Other intangible assets	11	**84.7**	22.6
Property, plant and equipment	12	**1,097.9**	1,040.9
Interests in joint ventures	13	**57.8**	42.8
Available for sale and other investments	14	**–**	0.3
Derivative instruments at fair value	26(g)	**2.3**	0.1
Retirement benefit asset	25	**25.5**	7.8
Other receivables	19	**12.1**	14.2
		1,413.2	1,254.1
Current assets			
Inventories	18	**26.9**	24.6
Trade and other receivables	19	**375.2**	269.2
Derivative instruments at fair value	26(g)	**1.1**	0.5
Foreign tax recoverable		**0.1**	0.8
Cash and cash equivalents	20	**395.6**	240.3
		798.9	535.4
Total assets	2(d)	**2,212.1**	1,789.5
LIABILITIES			
Current liabilities			
Trade and other payables	21	**830.4**	581.2
Current tax liabilities		**38.2**	49.7
Borrowings	22	**51.6**	50.9
Derivative instruments at fair value	26(g)	**35.9**	9.8
Provisions	24	**64.7**	57.5
		1,020.8	749.1
Non-current liabilities			
Other payables	21	**40.0**	28.5
Borrowings	22	**733.7**	660.2
Derivative instruments at fair value	26(g)	**5.4**	3.4
Deferred tax liabilities	23	**25.1**	34.0
Provisions	24	**106.1**	111.4
Retirement benefit obligations	25	**186.0**	123.6
		1,096.3	961.1
Total liabilities	2(d)	**2,117.1**	1,710.2
Net assets	2(d)	**95.0**	79.3
EQUITY			
Ordinary share capital	27	**3.2**	3.2
Share premium account	29	**8.4**	8.4
Retained earnings	29	**(279.6)**	(310.0)
Capital redemption reserve	29	**422.8**	422.8
Own shares	29	**(32.1)**	(25.7)
Translation reserve	29	**(1.8)**	(10.0)
Cash flow hedging reserve	29	**(26.8)**	(9.4)
Total equity attributable to the parent		**94.1**	79.3
Non-controlling interests		**0.9**	–
Total equity		**95.0**	79.3

These financial statements have been approved for issue by the Board of Directors on 24 June 2015. The accompanying notes form an integral part of this consolidated balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity attributable to the parent	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 30 April 2013 and 1 May 2013		3.2	8.4	(391.0)	422.8	(23.4)	4.8	(8.5)	16.3	–	16.3
Profit for the year		–	–	132.5	–	–	–	–	132.5	–	132.5
Other comprehensive expense net of tax		–	–	(3.2)	–	–	(14.8)	(0.9)	(18.9)	–	(18.9)
Total comprehensive income/(expense)		**–**	**–**	**129.3**	**–**	**–**	**(14.8)**	**(0.9)**	**113.6**	**–**	**113.6**
Own ordinary shares purchased		–	–	–	–	(2.3)	–	–	(2.3)	–	(2.3)
Credit in relation to equity-settled share based payments		–	–	2.2	–	–	–	–	2.2	–	2.2
Tax credit in relation to equity-settled share based payments		–	–	0.5	–	–	–	–	0.5		0.5
Dividends paid on ordinary shares	8	–	–	(51.0)	–	–	–	–	(51.0)	–	(51.0)
Balance at 30 April 2014		3.2	8.4	(310.0)	422.8	(25.7)	(10.0)	(9.4)	79.3	–	79.3
Profit for the year		–	–	139.3	–	–	–	–	139.3	0.2	139.5
Other comprehensive income/(expense) net of tax		–	–	(55.1)	–	–	8.2	(17.4)	(64.3)	(0.4)	(64.7)
Total comprehensive income/(expense)		**–**	**–**	**84.2**	**–**	**–**	**8.2**	**(17.4)**	**75.0**	**(0.2)**	**74.8**
Own ordinary shares purchased		–	–	–	–	(6.4)	–	–	(6.4)	–	(6.4)
Credit in relation to equity-settled share based payments		–	–	2.2	–	–	–	–	2.2	–	2.2
Tax credit in relation to equity-settled share based payments		–	–	0.3	–	–	–	–	0.3	–	0.3
Transactions with non-controlling interest		–	–	–	–	–	–	–	–	1.1	1.1
Dividends paid on ordinary shares	8	–	–	(56.3)	–	–	–	–	(56.3)	–	(56.3)
Balance at 30 April 2015		3.2	8.4	(279.6)	422.8	(32.1)	(1.8)	(26.8)	94.1	0.9	95.0

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 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated by operations	30	**367.7**	293.8
Interest paid		**(38.5)**	(38.2)
Interest received		**2.7**	4.7
Dividends received from joint ventures		**14.5**	8.2
Net cash flows from operating activities before tax		**346.4**	268.5
Tax paid		**(30.9)**	(20.2)
Net cash from operating activities after tax		**315.5**	248.3
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	15	**–**	(5.5)
Cash inflow on inception of rail franchise		**1.3**	–
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	16	**–**	2.8
Purchase of property, plant and equipment		**(182.4)**	(154.2)
Disposal of property, plant and equipment		**47.9**	42.0
Purchase of intangible assets		**(12.5)**	(7.9)
Disposal of intangible assets		**–**	1.0
Movements in loans to joint ventures		**(5.8)**	–
Net cash outflow from investing activities		**(151.5)**	(121.8)
Cash flows from financing activities			
Purchase of treasury shares		**(2.5)**	(2.3)
Investment in own ordinary shares by employee share ownership trust		**(3.9)**	–
Repayments of hire purchase and lease finance		**(33.2)**	(56.9)
Drawdown of other borrowings		**205.9**	80.0
Repayment of other borrowings		**(121.2)**	(115.8)
Dividends paid on ordinary shares	8	**(56.3)**	(51.0)
Sale of tokens		**0.5**	0.8
Redemption of tokens		**(0.8)**	(1.1)
Net cash used in financing activities		**(11.5)**	(146.3)
Net increase/(decrease) in cash and cash equivalents		**152.5**	(19.8)
Cash and cash equivalents at the beginning of year		**240.3**	262.2
Exchange rate effects		**2.8**	(2.1)
Cash and cash equivalents at the end of year	20	**395.6**	240.3

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

These consolidated financial statements are presented in 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 2014:

- IFRS 10, Consolidated financial statements
- IFRS 11, Joint arrangements
- IFRS 12, Disclosure of interests in other entities
- Amendments to IFRS 10, 11 and 12 on transitional guidance
- IAS 27, Separate financial statements (revised 2011)
- IAS 28, Associates and joint ventures (revised 2011)
- Amendment to IFRS10, IFRS 12 and IAS 27, Investment entities
- Amendment to IAS 32, Financial instruments: Presentation, on offsetting financial assets and financial liabilities
- Amendment to IAS 36, Impairment of assets: Recoverable amount disclosures for non-financial assets
- Amendment to IAS 39, Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting

None of these have materially impacted the consolidated financial statements of the Group.

- **New standards and interpretations not applied**

The International Accounting Standards Board ("IASB") and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

International Accounting Standards and Interpretations		*Effective for annual periods beginning on or after*
IFRS 9	Financial instruments: Hedge accounting*	1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture*		1 January 2016
Amendments to IFRS 10, 12 and IAS 28 Investment Entities: Applying the consolidation exception*		1 January 2016
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations *	1 January 2016
IFRS 14	Regulatory deferral accounts*	1 January 2016
IFRS 15	Revenue from contracts with customers*	1 January 2017
Annual Improvements to IFRSs 2012		1 July 2014
Annual Improvements to IFRSs 2013		1 July 2014
Annual Improvements to IFRSs 2014*		1 January 2016
Amendments to IAS 1 resulting from disclosure initiative*		1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*		1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants *		1 January 2016
IAS 19	Defined benefit plans: employee contributions	1 July 2014
Amendment to IAS 27	Equity method in separate financial statements *	1 January 2016
IFRIC 21	Levies	17 June 2014

*Not yet adopted for use in the European Union.

With the exception of IFRS 15, 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. The impact of IFRS 15 is being assessed.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued).

- **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 assets.

- **Basis of consolidation**

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

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

Non-controlling interests represents the portion of earnings and equity attributable to third party shareholders of a subsidiary of the Group.

- **Subsidiaries and joint ventures**

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. 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.

The Group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

(ii) Joint ventures

Joint ventures are entities over which the Group has joint control with other investors.

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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 1.6.13 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 from government bodies for tendered services and concessionary fare schemes are included as part of revenue as these represent payments for services provided. 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.

Note 1 IFRS accounting policies (continued)

- **Revenue (continued)**

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 Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The amounts at South West Trains and East Midlands Trains are based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The amounts at West Coast Trains (operated by the Group's Virgin Rail Group joint venture) and Virgin Trains East Coast are based on calculations that involve comparing published UK national Gross Domestic Product ("GDP") with the GDP comparator specified in the relevant franchise agreement. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

The Group's regional UK Bus operations receive Bus Service Operators' Grant ("BSOG") which is essentially a rebate of fuel tax. BSOG is recognised within operating costs as part of the net fuel costs of the Group.

- **Performance incentive payments**

Performance incentive payments received from or made to Network Rail by the Group in respect of rail operational performance are recognised in the same period that the performance relates to and are treated as operating costs or other operating income.

- **Government grants**

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

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

- **Share based payments**

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

Equity-settled transactions

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

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

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

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

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on management's best estimate of the cash that will ultimately be payable taking into consideration the likelihood of non-market based vesting conditions being achieved.

Fair value for cash-settled share based payments relating 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 inclusive of restructuring costs and the share of after-tax results of joint ventures but before finance income, finance costs, non-operating exceptional items and taxation.

Note 1 IFRS accounting policies (continued)

- **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 70.

Foreign currency monetary assets and liabilities are translated into the respective functional currencies of the Group entities at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into the respective functional currencies of Group entities at the rate of exchange ruling on the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

On disposal of a foreign subsidiary, the amount of any exchange differences relating to the subsidiary that has been deferred in the translation reserve is recognised in the income statement within the reported gain or loss on disposal.

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

	2015	2014
US Dollar:		
Year end rate	**1.5368**	1.6886
Average rate	**1.5988**	1.6013
Canadian Dollar:		
Year end rate	**1.8614**	1.8531
Average rate	**1.8323**	1.6994

- **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.

Note 1 IFRS accounting policies (continued)

- **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 expected life of the franchise.

Operating leases on favourable terms	over the life of the lease (up to 4 years for current contracts)
Customer contracts	over the life of the contract (1 to 5 years for current contracts)
Right to operate rail franchises	over the expected life of the franchise (10 years from February 2007 to February 2017 for South West Trains franchise, 7 years and 11 months from November 2007 to October 2015 for East Midland Trains franchise and 8 years and 1 month from March 2015 to March 2023 for Virgin Trains East Coast franchise)
Software costs	2 to 7 years

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

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

- **Property, plant and equipment**

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

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

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

Freehold land is not depreciated.

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

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

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

- **Inventories**

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Pre-contract costs**

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

- **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. 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.

- **Restructuring provisions**

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

- **Insurance**

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

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

- **Retirement benefit obligations**

The Group contributes to a number of pension schemes.

In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities.

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

Past service costs and adjustments are recognised 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. Where the award of a new rail franchise to the Group results in it assuming a net pension liability, a corresponding intangible asset is recognised, reflecting a cost in obtaining the right to operate the franchise. When a pension asset is assumed, a corresponding deferred income balance is recognised. The intangible asset or deferred income balance is amortised to the income statement on a straight-line basis over the expected life of the related franchise.

Note 1 IFRS accounting policies (continued)

- **Retirement benefit obligations (continued)**

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.

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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

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 the 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 four joint ventures: Virgin Rail Group and Anglia Rail that operate 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) where material.

(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:

	2015	2014
	£m	£m
Continuing operations		
UK Bus (regional operations)	**1,045.5**	1,012.8
UK Bus (London)	**260.6**	244.9
North America	**425.4**	428.2
Total bus continuing operations	**1,731.5**	1,685.9
UK Rail	**1,478.4**	1,252.0
Total Group revenue	**3,209.9**	2,937.9
Intra-Group revenue – UK Bus (regional operations)	**(5.5)**	(7.9)
Reported Group revenue	**3,204.4**	2,930.0

(b) Operating profit

Operating profit split by segment was as follows:

	2015			2014		
	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)	**141.1**	**–**	**141.1**	147.4	–	147.4
UK Bus (London)	**26.3**	**–**	**26.3**	23.9	–	23.9
North America	**22.1**	**–**	**22.1**	23.7	–	23.7
Total bus continuing operations	**189.5**	**–**	**189.5**	195.0	–	195.0
UK Rail	**26.9**	**–**	**26.9**	34.3	–	34.3
Total continuing operations	**216.4**	**–**	**216.4**	229.3	–	229.3
Group overheads	**(13.9)**	**–**	**(13.9)**	(13.9)	–	(13.9)
Intangible asset expenses	**–**	**(11.9)**	**(11.9)**	–	(14.0)	(14.0)
Restructuring costs	**(0.8)**	**–**	**(0.8)**	(0.9)	–	(0.9)
Total operating profit of continuing Group companies	**201.7**	**(11.9)**	**189.8**	214.5	(14.0)	200.5
Share of joint ventures' profit after finance costs, finance income and taxation	**25.4**	**2.7**	**28.1**	8.8	(8.4)	0.4
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**227.1**	**(9.2)**	**217.9**	223.3	(22.4)	200.9

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:

	2015			2014		
	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	**28.0**	**–**	**28.0**	2.6	1.0	3.6
Finance income (net)	**–**	**–**	**–**	0.3	–	0.3
Taxation	**(5.7)**	**–**	**(5.7)**	(0.9)	(0.2)	(1.1)
	22.3	**–**	**22.3**	2.0	0.8	2.8
Citylink (UK Bus, regional operations)						
Operating profit	**1.4**	**–**	**1.4**	1.7	–	1.7
Taxation	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
	1.1	**–**	**1.1**	1.3	–	1.3
Twin America LLC (North America)						
Operating profit	**2.1**	**2.7**	**4.8**	5.7	(9.2)	(3.5)
Finance costs (net)	**(0.1)**	**–**	**(0.1)**	–	–	–
Taxation	**–**	**–**	**–**	(0.2)	–	(0.2)
	2.0	**2.7**	**4.7**	5.5	(9.2)	(3.7)
Share of profit of joint ventures after finance costs, finance income and taxation	**25.4**	**2.7**	**28.1**	8.8	(8.4)	0.4

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	2015			2014		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**866.7**	**(341.8)**	**524.9**	805.3	(310.1)	495.2
UK Bus (London)	**80.5**	**(99.1)**	**(18.6)**	84.1	(69.8)	14.3
North America	**372.0**	**(129.3)**	**242.7**	349.0	(102.3)	246.7
UK Rail	**415.1**	**(660.6)**	**(245.5)**	245.3	(402.4)	(157.1)
	1,734.3	**(1,230.8)**	**503.5**	1,483.7	(884.6)	599.1
Central functions	**24.3**	**(37.7)**	**(13.4)**	21.9	(30.8)	(8.9)
Joint ventures	**57.8**	**–**	**57.8**	42.8	–	42.8
Borrowings and cash	**395.6**	**(785.3)**	**(389.7)**	240.3	(711.1)	(470.8)
Taxation	**0.1**	**(63.3)**	**(63.2)**	0.8	(83.7)	(82.9)
Total	**2,212.1**	**(2,117.1)**	**95.0**	1,789.5	(1,710.2)	79.3

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.

	2015	2014
	£m	£m
UK Bus (regional operations)	**124.3**	91.5
UK Bus (London)	**3.8**	2.9
North America	**31.1**	33.9
UK Rail	**43.8**	37.1
	203.0	165.4

(f) Capital expenditure on intangible assets

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

	2015	2014
	£m	£m
UK Bus (regional operations)	**8.4**	11.2
North America	**–**	0.6
UK Rail	**64.9**	1.3
	73.3	13.1

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

The results of each segment are further analysed below:

	Year ended 30 April 2015								
	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)	212.2	–	212.2	(71.1)	141.1	(1.5)	–	(0.4)	139.2
UK Bus (London)	32.4	–	32.4	(6.1)	26.3	(0.8)	–	–	25.5
North America	55.7	–	55.7	(33.6)	22.1	(5.3)	–	(0.2)	16.6
UK Rail – subsidiaries	35.9	–	35.9	(9.0)	26.9	(4.3)	–	(0.2)	22.4
UK Rail – joint venture (Virgin Rail Group)	28.0	(5.7)	22.3	–	22.3	–	–	–	22.3
UK Bus – joint venture (Citylink)	1.4	(0.3)	1.1	–	1.1	–	–	–	1.1
North America – joint venture (Twin America)	2.1	(0.1)	2.0	–	2.0	–	2.7	–	4.7
Group overheads	(13.6)	–	(13.6)	(0.3)	(13.9)	–	–	–	(13.9)
Restructuring costs	(0.8)	–	(0.8)	–	(0.8)	–	–	0.8	–
	353.3	(6.1)	347.2	(120.1)	227.1	(11.9)	2.7	–	217.9

	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

Notes to the consolidated financial statements

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2015	2014
	£m	£m
Miscellaneous revenue (see explanation below)	**131.2**	112.8
Rail franchise premia (see explanation below)	**(805.7)**	(599.0)
Rail revenue support (see explanation below)	**315.3**	301.3
Materials and consumables	**(419.8)**	(407.8)
Staff costs (note 6)	**(1,203.8)**	(1,133.9)
Depreciation on property, plant and equipment (note 12)	**(120.1)**	(115.7)
Gain/(loss) on disposal of property, plant and equipment	**2.3**	(2.1)
Repairs and maintenance expenditure on property, plant and equipment	**(32.8)**	(26.7)
Amortisation of intangible assets (note 11)	**(11.9)**	(14.0)
Network Rail charges, including electricity for traction	**(197.4)**	(250.9)
Operating lease rentals payable	**(207.7)**	(179.6)
Other external charges	**(463.4)**	(413.0)
Restructuring costs	**(0.8)**	(0.9)
Total operating costs and other operating income	**(3,014.6)**	(2,729.5)

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 Department for Transport in respect of the operation of UK passenger rail franchises.

Rail revenue support is the amount of financial support receivable from the UK's Department for Transport in certain circumstances where a train operating company's revenue is below target.

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

	2015	2014
	£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	**434.0**	411.0
Total audit fees	**834.0**	811.0
Taxation advisory services	**46.5**	6.0
Other assurance services	**96.0**	99.0
Non-audit fees	**142.5**	105.0
Total fees payable by the Group to its auditors	**976.5**	916.0

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US$165,000 (2014: US$188,000) in relation to the audit of the Group's joint venture, Twin America LLC.

A description of the work of the Audit Committee is set out in the Audit Committee Report in section 5 of this Annual Report, and includes an explanation of how auditor independence is safeguarded when non-audit services are provided by the auditors.

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 1.6.2 of the Strategic report.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 30 April 2015 and for the prior year comparatives can be further analysed as follows:

	2015			2014		
	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	**–**	**(11.9)**	**(11.9)**	–	(14.0)	(14.0)
Share of profit of joint ventures						
Refund of franchise bid costs	**–**	**–**	**–**	1.0	–	1.0
– related tax	**–**	**–**	**–**	(0.2)	–	(0.2)
Twin America litigation	**2.7**	**–**	**2.7**	(9.2)	–	(9.2)
	2.7	**–**	**2.7**	(8.4)	–	(8.4)
Non-operating exceptional items – continuing operations						
Expenses incurred in relation to acquisitions	**–**	**–**	**–**	(0.1)	–	(0.1)
Net loss on disposal of operations (note 16)	**–**	**–**	**–**	(0.2)	–	(0.2)
Provision for onerous property lease	**(2.1)**	**–**	**(2.1)**	–	–	–
Twin America litigation	**(8.5)**	**–**	**(8.5)**	–	–	–
Non-operating exceptional items – continuing operations	**(10.6)**	**–**	**(10.6)**	(0.3)	–	(0.3)
Intangible asset expenses and exceptional items – continuing operations	**(7.9)**	**(11.9)**	**(19.8)**	(8.7)	(14.0)	(22.7)
Tax effect of intangible asset expenses and exceptional items	**2.3**	**3.1**	**5.4**	1.2	4.5	5.7
Intangible asset expenses and exceptional items after taxation – continuing operations	**(5.6)**	**(8.8)**	**(14.4)**	(7.5)	(9.5)	(17.0)

In respect of the Twin America litigation, the Group made payments in the year ended 30 April 2015 of £4.5m (2014: £Nil) to settle litigation and legal fees. Its share of payments made by joint ventures was £6.7m (2014: £3.6m). The prior year exceptional items for refund of franchise bid costs and acquisition expenses were cash items.

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:

	2015	2014
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	**1.5**	3.2
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	**1.2**	1.4
Finance income	**2.7**	4.6
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	**(7.9)**	(7.2)
– Interest payable on hire purchase and finance leases	**(2.5)**	(3.5)
– Interest payable and other finance costs on bonds	**(27.3)**	(28.0)
Other finance costs		
– Unwinding of discounts on provisions	**(3.8)**	(3.9)
– Interest charge on defined benefit pension schemes	**(3.3)**	(4.6)
Finance costs	**(44.8)**	(47.2)
Net finance costs	**(42.1)**	(42.6)

Notes to the consolidated financial statements

Note 6 Staff costs

Total staff costs were as follows:

	2015	2014
	£m	£m
Staff costs		
Wages and salaries	**1,027.0**	971.4
Social security costs	**91.1**	86.3
Pension costs, excluding interest on net liability (note 25)	**80.9**	69.6
Share based payment costs (excluding social security costs)		
– Equity-settled	**2.2**	2.2
– Cash-settled	**2.6**	4.4
	1,203.8	1,133.9

The total amount shown for staff costs above includes an amount of £0.5m (2014: £1.0m) in respect of share based payment costs for the Directors.

Key management personnel are considered to be the Directors and full information on their remuneration, waivers of remuneration, share based payments, incentive schemes and pensions is contained within the Directors' remuneration report in section 8 of this Annual Report.

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

	2015	2014
	number	number
UK operations	**28,496**	27,172
UK administration and supervisory	**3,453**	3,330
North America	**4,860**	4,968
	36,809	35,470

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

	2015	2014
	number	number
UK Bus (regional operations)	**20,075**	19,426
UK Bus (London)	**4,144**	3,971
North America	**4,860**	4,968
UK Rail	**7,609**	6,976
Central	**121**	129
	36,809	35,470

Note 7 Taxation

(a) Analysis of charge in the year

	2015			2014		
	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 20.9% (2014: 22.8%)	**22.3**	**(1.4)**	**20.9**	37.7	(1.2)	36.5
Prior year over provision for corporation tax	**(2.7)**	**–**	**(2.7)**	(6.0)	–	(6.0)
Foreign tax (current year)	**0.8**	**–**	**0.8**	0.1	–	0.1
Foreign tax (prior year)	**0.4**	**–**	**0.4**	–	–	–
Total current tax	**20.8**	**(1.4)**	**19.4**	31.8	(1.2)	30.6
Deferred tax:						
Origination and reversal of temporary differences	**14.2**	**(4.0)**	**10.2**	6.2	(4.5)	1.7
Change in tax rates	**–**	**–**	**–**	(6.1)	–	(6.1)
Adjustments in respect of prior years	**(3.9)**	**–**	**(3.9)**	(0.7)	–	(0.7)
Total deferred tax (note 23)	**10.3**	**(4.0)**	**6.3**	(0.6)	(4.5)	(5.1)
Total tax on profit	**31.1**	**(5.4)**	**25.7**	31.2	(5.7)	25.5

(b) Factors affecting tax charge for the year

	2015 £m	2014 £m
Profit before taxation – continuing operations	**165.2**	158.0
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 20.9% (2014: 22.8%)	**34.5**	36.0
Effects of:		
Intangible asset allowances/deductions	**0.3**	–
Non-deductible expenditure/non-taxable income	**1.6**	5.1
Utilisation of tax losses not previously recognised as deferred tax assets	**–**	(2.5)
Foreign taxes differences	**0.6**	0.9
Adjustments to tax charge in respect of prior years	**(6.2)**	(6.7)
Tax effect of share of results of joint ventures	**(4.7)**	(1.2)
Change in UK corporation rate to 20% from 1 April 2015	**(0.4)**	(6.1)
Total taxation (note 7a)	**25.7**	25.5

(c) Factors that may affect future tax charges

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

Gross deductible temporary differences of £27.4m (2014: £30.1m) 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 deferred tax balances have been calculated with reference to the enacted UK corporation tax rate of 20% (2014: 20%).

(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 59 and the consolidated statement of changes in equity on page 61.

Notes to the consolidated financial statements

Note 8 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2015	2014	**2015**	2014
	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	**6.6**	6.0	**37.9**	34.4
Interim dividend in respect of the current year	**3.2**	2.9	**18.4**	16.6
Amounts recognised as distributions to equity holders in the year	**9.8**	8.9	**56.3**	51.0
Dividends proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares				
Final dividend in respect of the current year	**7.3**	6.6	**41.9**	37.9

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.

	2015	2014
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	**574.4**	574.2
Dilutive ordinary shares		
– Long Term Incentive Plan	**0.2**	1.8
– Executive Participation Plan	**2.3**	2.6
Diluted weighted average number of ordinary shares	**576.9**	578.6

	2015	2014
	£m	£m
Net profit attributable to equity holders of the parent (for basic EPS calculation)	**139.3**	132.5
Intangible asset expenses before tax (see note 4)	**11.9**	14.0
Non-controlling interest in intangible asset expenses	**(0.1)**	–
Exceptional items before tax (see note 4)	**7.9**	8.7
Tax effect of intangible asset expenses and exceptional items (see note 4)	**(5.4)**	(5.7)
Net profit attributable to equity holders of the parent for adjusted EPS calculation	**153.6**	149.5

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:

	2015	2014
	£m	£m
Net book value		
At beginning of year	**125.4**	127.8
Acquired through business combinations	**–**	4.0
Disposals	**–**	(0.1)
Foreign exchange movements	**7.5**	(6.3)
At end of year	**132.9**	125.4

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 UK Bus (regional operations) Division also operates a small number of inter-city coach services in mainland Europe. 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	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	**47.5**	47.5	**3.6**	3.6	**81.8**	74.3
Basis on which recoverable amount has been determined	**Value in use**	Value in use	**Value in use**	Value in use	**Value in use**	Value in use
Period covered by approved management plans used in value in use calculation	**5 years**	5 years	**5 years**	5 years	**5 years**	5 years
Pre-tax discount rate applied to cash flow projections	**9.0%**	9.9%	**9.0%**	9.9%	**11.8%**	13.0%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.3%**	2.2%	**2.3%**	2.2%	**4.4%**	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 commercial terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties facing the Group are set out in section 1.4.6 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 1.4.6. 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 2015 at 7.2% (2014: 7.9%) based on:

- The market capitalisation and net debt of the Group as at 30 April 2015 as an indication of the split between debt and equity;
- A risk-free rate of 1.9% (2014: 2.7%);
- A levered beta for the Group of 0.8 (2014: 0.9);
- A marginal pre-tax cost of debt of 5.4% (2014: 5.2%).

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 2015

	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	38.0	4.1	19.7	16.9	79.7
Additions	–	–	-	60.9	12.4	73.3
Disposals	–	(17.7)	(4.3)	–	–	(22.0)
Foreign exchange movements	0.1	1.6	0.2	–	0.5	2.4
At end of year	1.1	21.9	–	80.6	29.8	133.4
Accumulated amortisation						
At beginning of year	(0.6)	(30.9)	(4.1)	(15.4)	(6.1)	(57.1)
Amortisation charged to income statement	(0.4)	(5.4)	–	(3.5)	(2.6)	(11.9)
Disposals	–	17.7	4.3	–	–	22.0
Foreign exchange movements	(0.1)	(1.2)	(0.2)	–	(0.2)	(1.7)
At end of year	(1.1)	(19.8)	–	(18.9)	(8.9)	(48.7)
Net book value at beginning of year	0.4	7.1	–	4.3	10.8	22.6
Net book value at end of year	–	2.1	–	61.7	20.9	84.7

Intangible assets include customer contracts and operating leases on favourable terms to market purchased as part of business combinations, the right to operate UK Rail franchises and software costs.

There are no unexpired, material non-compete arrangements and the amounts at the beginning of the year have been shown as disposals in the year.

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

Note 12 Property, plant and equipment

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

Year ended 30 April 2015	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	322.7	1,259.0	224.9	1,806.6
Additions	13.4	138.5	51.1	203.0
Disposals	(16.7)	(64.2)	(50.7)	(131.6)
Reclassifications	3.4	–	(3.4)	–
Foreign exchange movements	4.2	30.8	0.1	35.1
At end of year	327.0	1,364.1	222.0	1,913.1
Depreciation				
At beginning of year	(66.1)	(535.6)	(164.0)	(765.7)
Depreciation charged to income statement	(10.0)	(96.6)	(13.5)	(120.1)
Disposals	6.9	58.6	20.2	85.7
Foreign exchange movements	(1.2)	(13.9)	–	(15.1)
At end of year	(70.4)	(587.5)	(157.3)	(815.2)
Net book value at beginning of year	256.6	723.4	60.9	1,040.9
Net book value at end of year	256.6	776.6	64.7	1,097.9
Included in the above net book value at end of year are:				
Assets on hire purchase	–	90.5	–	90.5
Assets on finance leases	–	36.8	–	36.8
Long leasehold land and buildings	48.7	–	–	48.7

Included in the net book value of property, plant and equipment is £17.1m (2014: £22.2m) in respect of assets under construction that the Group expects to be sold to Network Rail and other third parties following the completion of each asset's construction.

Year ended 30 April 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	–	44.3	–	44.3
Long leasehold land and buildings	54.3	–	–	54.3

Note 13 Interests in joint ventures

The Group has four joint ventures as summarised below. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in all four joint ventures using the equity method of accounting. There are no quoted market prices for any of the Group's investments in joint ventures.

(a) Virgin Rail Group Holdings Limited

The Group holds 49% of the equity and voting rights in Virgin Rail Group Holdings Limited ("Virgin Rail Group"). The principal business of the group headed by Virgin Rail Group is the operation of inter-city train services under the West Coast rail franchise. Virgin Rail Group is incorporated in the UK.

The Group considers that it has joint control of Virgin Rail Group even though it controls less than half of the voting rights in Virgin Rail Group. That joint control results from contractual arrangements between the shareholders of Virgin Rail Group that require the agreement of both shareholders to decisions on key matters.

Virgin Rail Group's principal subsidiary is West Coast Trains Limited. Under the terms of its rail franchise agreement, West Coast Trains Limited may only pay dividends and/or repay loans from other related companies to the extent it remains compliant with certain financial ratios specified in the franchise agreement. This could restrict West Coast Trains Limited from making distributions or repaying loans that would be otherwise permitted by company law. West Coast Trains Limited is also prohibited from loaning money to related companies without the prior consent of the UK Department for Transport. Such restrictions on distributions and loans generally apply to all entities operating train services under UK rail franchise agreements.

In addition, under arrangements pursuant to which a performance bond has been issued by an insurance company in connection with the West Coast rail franchise, Virgin Rail Group is required to maintain consolidated net assets (under UK GAAP and applying its own accounting policies) of no less than £22.5m (2014: £22.5m). This could restrict Virgin Rail Group's ability to make distributions to the Stagecoach Group.

Subject to the shareholders consideration of how much cash to retain in the business for working capital requirements and subject to retaining sufficient cash to meet any obligations under rail franchise agreements, the distributable profits of Virgin Rail Group are to be distributed in full to its shareholders. Both shareholders in Virgin Rail Group would need to agree to any changes to or deviations from that dividend policy.

(b) Twin America LLC

The Group holds 60% of the economic interests and 50% of the voting rights in Twin America LLC ("Twin America"). The principal business of the group headed by Twin America is the operation of sightseeing coach tours in and around the city of New York in the United States. Twin America is incorporated in the United States.

Contractual arrangements are in place in respect of Twin America which require the agreement of both members to decisions on key matters. In light of that and despite the fact that the Chief Executive of Twin America is a representative of the other member, the Group considers that it has joint control of Twin America.

In connection with the settlement of litigation in respect of Twin America (see note 31 (iv)), the Group has contractually committed to make loans of up to US$15.0m to Twin America. As at 30 April 2015, the outstanding amount of loans made by the Group to Twin America was US$9.0m. The Group currently expects that the maximum loan that will be required in connection with the settlement of the litigation will be US$9.0m. The Group has also contractually committed to pay non-refundable amounts of US$6.0m directly to the plaintiffs in connection with the settlement of the litigation, of which US$4.0m had been paid prior to 30 April 2015 and the remaining US$2.0m is expected to be paid during the year ending 30 April 2016.

The contractual arrangements between the members of Twin America permit dividends of US$6.0m per annum to be paid by Twin America prior to the repayment of any loans outstanding to the Group. No dividends in excess of US$6.0m per annum may be paid for as long as there remain outstanding loans from the Group. Subject to that and other than where both members agree otherwise, the available cash flow of Twin America is distributed to its members quarterly after retaining sufficient cash for the anticipated working capital needs of the business.

(c) Scottish Citylink Coaches Limited

The Group holds 35% of the equity and voting rights in Scottish Citylink Coaches Limited ("Citylink"). The principal business of Citylink is the operation of inter-city coach services to, from and within Scotland. It is incorporated in the UK.

The Group considers that it has joint control of Citylink even although it controls less than half of the voting rights in Citylink but is responsible for the day-to-day management of the business. That joint control results from contractual arrangements between the shareholders of Citylink that require the agreement of both shareholders to decisions on key matters.

The profit after tax of Citylink is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Citylink in respect of loans from its shareholders and accrued interest on such loans. Both shareholders in Citylink need to agree to any changes to or deviations from that dividend policy.

(d) Anglia Rail Holdings Limited

The Group acquired 40% of the equity and voting rights in Anglia Rail Holdings Limited ("Anglia Rail") during the year ended 30 April 2015. The group headed by Anglia Rail is one of three bidders shortlisted to bid for the new East Anglia rail franchise. It is a joint venture between the Group and Abellio. Anglia Rail is incorporated in the UK.

The Group considers that it has joint control of Anglia Rail even though it controls less than half of the voting rights in Anglia Rail. That joint control results from contractual arrangements between the shareholders of Anglia Rail that require the agreement of both shareholders to decisions on key matters.

Under the contractual arrangements pertaining to the joint venture, the Group is contractually committed to funding up to £2.4m of costs in connection with the bid for the new East Anglia rail franchise.

The distributable profits of Anglia Rail are to be distributed in full to its shareholders subject to retaining sufficient cash to meet any obligations under rail franchise agreements. Both shareholders in Anglia Rail need to agree to any changes to or deviations from that dividend policy.

Note 13 Interests in joint ventures (continued)

(e) Impairment reviews

The Directors undertook an impairment review as at 30 April 2015 of the carrying value of the Group's joint venture interests and concluded that there had been no impairment loss. Other than in respect of Twin America, there is no reasonably possible change that would cause the carrying values to exceed the recoverable amounts.

Trading at Twin America has remained challenging during the year ended 30 April 2015, as the New York sightseeing market continues to be competitive. In addition, the joint venture is relinquishing rights to use certain bus stops as explained in section 1.5.5.2 of the Strategic Report. Headroom exists between the £35.9m carrying value of the investment and its value in use. As at 30 April 2015, the headroom in the base case is £9.3m. This headroom would be eliminated with the investment at breakeven if the assumed revenue growth rate was lower by 70 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.

(f) Movements in carrying values

The movements in the carrying values were as follows:

	Virgin Rail Group	**Citylink**	**Twin America LLC**	**Total 2015**	Total 2014
	£m	£m	£m	£m	£m
Cost					
At beginning of year	**67.7**	**4.1**	**28.5**	**100.3**	110.8
Share of recognised profit	**22.3**	**1.1**	**4.7**	**28.1**	0.4
Share of actuarial gains on defined benefit pension schemes, net of tax	**0.1**	**–**	**–**	**0.1**	–
Share of other comprehensive expense on cash flow hedges, net of tax	**(1.8)**	**–**	**–**	**(1.8)**	–
Share of foreign exchange differences on translation of foreign operations	**–**	**–**	**(0.2)**	**(0.2)**	–
Dividends received in cash	**(13.7)**	**(0.4)**	**(0.4)**	**(14.5)**	(8.2)
Foreign exchange movements	**–**	**–**	**3.3**	**3.3**	(2.7)
At end of year	**74.6**	**4.8**	**35.9**	**115.3**	100.3
Amounts written off					
At beginning and end of year	**(57.5)**	**–**	**–**	**(57.5)**	(57.5)
Net book value at beginning of year	**10.2**	**4.1**	**28.5**	**42.8**	53.3
Net book value at end of year	**17.1**	**4.8**	**35.9**	**57.8**	42.8

A loan payable to Citylink of £1.7m (2014: £1.7m) is reflected in note 21. A loan receivable from Twin America of £5.9m (2014: £Nil) is reflected in note 19.

(g) Summarised financial information of joint ventures

The summarised financial information shown below is in accordance with IFRS and the Group's accounting policies. Where a joint venture's own accounts are prepared other than in accordance with IFRS and the Group's accounting policies, appropriate adjustments have been made to determine the figures shown below. Adjustments have also been made, as appropriate, to reflect fair value adjustments made at the time of acquisition. Except where stated, the amounts shown are in respect of 100% of each joint venture and not just the Group's share of the joint venture.

Each of the Group's joint ventures has a statutory financial year-end that differs from that of the Group's, which is 30 April. In applying the equity method of accounting to its interests in joint ventures, the Group refers to the edition of each joint venture's management accounts that has a balance sheet date closest to the Group's balance sheet date. In some cases, the balance sheet date differs from the Group's by a few days but the impact of that on the Group's consolidated financial statements is not material. Further information on the relevant dates in respect of material joint ventures is below:

Joint venture	Latest statutory financial year-end closest to 30 April 2015	Balance sheet date of management accounts
Virgin Rail Group	31 March 2015	2 May 2015
Twin America	31 March 2015	30 April 2015
Citylink	31 December 2014	17 April 2015

Note 13 Interests in joint ventures (continued)

(g) Summarised financial information of joint ventures (continued)

The financial impact of Anglia Rail on the consolidated financial statements for the year ended 30 April 2015 is immaterial. The consolidated balance sheets of each of the Group's other joint ventures are summarised below:

As at 30 April 2015	**Virgin Rail Group**	**Citylink**	**Twin America**	**Total 2015**
	£m	£m	£m	£m
Non-current assets	16.2	0.1	18.8	
Cash and cash equivalents	92.3	3.3	5.5	
Other current assets	85.3	11.3	6.2	
Non-current liabilities	(9.8)	–	(3.8)	
Current liabilities	(149.0)	(8.4)	(15.8)	
Net assets	**35.0**	**6.3**	**10.9**	
Non-controlling interests	(0.1)	–	–	
Shareholders' funds	**34.9**	**6.3**	**10.9**	
Group share	49%	35%	60%	
Group share of net assets	**17.1**	**2.2**	**6.5**	**25.8**
Goodwill	–	2.6	29.4	32.0
Group interest in joint ventures	**17.1**	**4.8**	**35.9**	**57.8**

As at 30 April 2014	**Virgin Rail Group**	**Citylink**	**Twin America**	**Total 2014**
	£m	£m	£m	£m
Non-current assets	2.8	0.3	19.5	
Cash and cash equivalents	84.4	0.3	8.2	
Other current assets	87.3	12.6	6.6	
Current liabilities	(153.6)	(8.9)	(31.3)	
Net assets	**20.9**	**4.3**	**3.0**	
Non-controlling interests	(0.1)	–	–	
Shareholders' funds	**20.8**	**4.3**	**3.0**	
Group share	49%	35%	60%	
Group share of net assets	**10.2**	**1.5**	**1.8**	**13.5**
Goodwill	–	2.6	26.7	29.3
Group interest in joint ventures	**10.2**	**4.1**	**28.5**	**42.8**

The liabilities shown above include the following financial liabilities (excluding trade and other payables):

	2015	2014
	£m	£m
Virgin Rail Group		
Non-current liabilities – derivative instruments at fair value	**(2.4)**	–
Current liabilities – derivative instruments at fair value	**(2.3)**	–
Twin America		
Current liabilities – bank borrowings	**–**	(2.8)
Current liabilities – loan from Stagecoach Group	**(5.9)**	–

Note 13 Interests in joint ventures (continued)

(g) Summarised financial information of joint ventures (continued)

The financial performance of each of the Group's joint ventures, other than Anglia Rail that is immaterial, is summarised below:

Year ended 30 April 2015	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	1,041.4	43.7	77.9
Depreciation & amortisation	(0.3)	–	(3.2)
Other operating expenses	(984.0)	(39.9)	(71.2)
Operating profit	**57.1**	**3.8**	**3.5**
Exceptional items	–	–	4.5
Finance income	0.5	–	–
Finance costs	(0.5)	–	(0.2)
Taxation	(11.6)	(0.8)	–
Profit after tax	**45.5**	**3.0**	**7.8**
Other comprehensive expense	(3.5)	–	(0.3)
Total comprehensive income	**42.0**	**3.0**	**7.5**

Year ended 30 April 2014	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	950.2	44.6	85.0
Depreciation & amortisation	(0.7)	–	(3.8)
Other operating expenses	(944.2)	(39.7)	(71.7)
Operating profit	**5.3**	**4.9**	**9.5**
Exceptional items	2.0	–	(15.3)
Finance income	0.6	–	–
Finance costs	–	–	–
Taxation	(2.2)	(1.2)	(0.4)
Profit / (loss) after tax	**5.7**	**3.7**	**(6.2)**
Other comprehensive income	–	–	–
Total comprehensive income	**5.7**	**3.7**	**(6.2)**

Note 14 Available for sale and other investments

The available for sale and other investments were as follows:

	2015	2014
	£m	£m
Cost / valuation and net book value		
At beginning and end of year	**0.3**	0.3
Amounts written off		
Amounts written off in year	**(0.3)**	–
At end of year	**(0.3)**	–
Net book value at beginning of year	**0.3**	0.3
Net book value at end of year	**–**	0.3

Note 15 Business combinations

The Group completed no material business combinations during the year ended 30 April 2015. Details of business combinations completed in previous years are provided in the Annual Reports for the years concerned.

Note 16 Disposals

In respect of businesses disposed of, the consideration, net assets disposed and loss on disposal for the years ended 30 April 2014 and 30 April 2015, were as follows:

	2015	2014
	£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

Notes to the consolidated financial statements

Note 17 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned unless otherwise stated) as at 30 April 2015 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
East Coast Main Line Company Limited (90% owned)	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 2015 of the following of its subsidiary companies and the following subsidiary company is exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Companies Act 2006:

Magicbus Limited

Note 17 Principal subsidiaries (continued)

Asset purchase and non-controlling interests

The UK Department for Transport awarded the Virgin Trains East Coast rail franchise to the Group during the year ended 30 April 2015. In connection with that award, a subsidiary company, Inter City Railways Limited, purchased all of the equity in East Coast Main Line Company Limited, the train operating company that now operates inter-city train services in the UK under the Virgin Trains East Coast rail franchise. East Coast Main Line Company Limited held certain assets and liabilities at the date of purchase. However, it did not constitute a business and so the purchase was accounted for by the Group as an asset purchase rather than as a business combination. The purchase price was allocated to the assets acquired and liabilities assumed by the Group based on their fair values and the excess of the purchase price over the fair value of the net liabilities assumed was recognised as an intangible asset, being the cost of the right to operate the franchise.

Inter City Railways Limited is the one subsidiary in which a third party has a material non-controlling interest. The Group holds 90% of the equity and voting rights in Inter City Railways Limited. Both Inter City Railways Limited and East Coast Main Line Company Limited are incorporated in the UK. The Virgin Group of companies holds the other 10% of the equity and voting rights of Inter City Railways Limited and also receives a royalty fee from East Coast Main Line Company Limited that varies depending on the revenue and profit of that company. The Group has contractual arrangements with the Virgin Group in respect of the business. However, the Group may appoint a majority of the directors of Inter City Railways Limited and appoint the executive management of East Coast Main Line Company Limited. Also, the Group is responsible for the day-to-day management of the business, the Managing Director of the business reports directly to the Group Chief Executive and so the Group has the power to direct the activities of the entity. The Group therefore accounts for Inter City Railways Limited and East Coast Main Line Company Limited as subsidiaries.

The profit for the year ended 30 April 2015 allocated to the non-controlling interest is shown on the consolidated income statement. The accumulated non-controlling interest as at 30 April 2015 is shown on the consolidated balance sheet and the movement in that interest in the year (including any dividends paid to non-controlling interests) is shown in the consolidated statement of movements in equity.

At least 75% of the distributable profit of Inter City Railways Limited should be distributed to its shareholders within four months of each financial year-end subject to retaining sufficient cash to meet any obligations under rail franchise agreements. Both shareholders in Inter City Railways Limited need to agree to any changes to or deviations from that dividend policy.

Under the terms of its rail franchise agreement, East Coast Main Line Company Limited may only pay dividends and/or repay loans from other Group companies to the extent it remains compliant with certain financial ratios specified in the franchise agreement. This could restrict it from making distributions or repaying loans that would be otherwise permitted by company law. East Coast Main Line Company Limited is also prohibited from loaning money to other Group companies without the prior consent of the UK Department for Transport. Such restrictions on dividends and loans generally apply to all entities operating train services under UK rail franchise agreements, including two of Stagecoach Group's other subsidiaries, Stagecoach South Western Trains Limited and East Midlands Trains Limited.

The Group may be required to loan amounts to East Coast Main Line Company Limited pursuant to the committed loan facilities shown in note 31(iii). The consolidated balance sheet of Inter City Railways Limited as at 30 April 2015 and its financial performance for the year ended 30 April 2015 are summarised below. The amounts shown below are determined in accordance with the Group's accounting policies before inter-company eliminations.

	2015
	£m
Non-current assets	80.8
Current assets	129.8
Current liabilities	(138.5)
Non-current liabilities	(63.0)
Net liabilities	**9.1**
Revenue	118.0
Expenses	(114.5)
Operating profit	**3.5**
Intangible asset expenses	(1.5)
Finance costs (net)	(0.1)
Taxation	(0.4)
Profit after tax	**1.5**
Other comprehensive expense	(5.7)
Total comprehensive expense	**(4.2)**

Notes to the consolidated financial statements

Note 18 Inventories

Inventories were as follows:

	2015	2014
	£m	£m
Parts and consumables	**26.9**	24.6

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

	2015	2014
	£m	£m
At beginning of year	**(2.3)**	(2.1)
Charged to income statement	**(1.8)**	(0.5)
Amount utilised	**0.3**	0.3
At end of year	**(3.8)**	(2.3)

The Group is party to consignment stock arrangements and as at 30 April 2015, the Group physically held consignment stock of a value amounting to £0.3m (2014: £0.3m) in addition to the amounts disclosed above.

Note 19 Trade and other receivables

Trade and other receivables were as follows:	2015	2014
	£m	£m
Non-current:		
Prepayments	**11.9**	13.9
Other receivables	**0.2**	0.3
	12.1	14.2
Current:		
Trade receivables	**204.7**	132.6
Less: provision for impairment	**(2.8)**	(2.1)
Trade receivables – net	**201.9**	130.5
Other receivables	**22.0**	23.0
Loans to joint ventures	**5.9**	–
Prepayments	**54.6**	30.5
Accrued income	**50.9**	59.6
VAT and other government receivables	**39.9**	25.6
	375.2	269.2

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

	2015	2014
	£m	£m
At beginning of year	**(2.1)**	(1.9)
Impairment losses in year charged to income statement	**(1.0)**	(0.6)
Reversal of impairment losses credited to income statement	**0.1**	0.1
Amounts utilised	**0.2**	0.3
At end of year	**(2.8)**	(2.1)

Further information on credit risk is provided in note 26.

Note 20 Cash and cash equivalents

	2015	2014
	£m	£m
Cash at bank and in hand	**395.6**	240.3

The cash amounts shown above include £10.0m on 9 month deposit maturing by August 2015, £15.0m on 6 month deposit maturing by August 2015, £15.0m on 6 month deposit maturing by September 2015, £15.0m on 3 month deposit maturing by May 2015, £22.0m on 3 month deposit maturing by June 2015, £40.0m on 1 month deposit maturing by May 2015, and £25.0m on 1 week deposit maturing by May 2015 (2014: £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). The remaining amounts are accessible to the Group within one day (2014: 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 £395.6m (2014: £240.3m) above included the net balance on these offset accounts of £49.4m (2014: £22.1m), which comprised £309.8m (2014: £296.9m) of positive bank balances less £260.4m (2014: £274.8m) of bank overdrafts.

Note 21 Trade and other payables

Trade and other payables were as follows:	**2015**	2014
	£m	£m
Current		
Trade payables	**229.6**	156.3
Accruals	**439.9**	297.6
Deferred income	**122.9**	92.8
Cash-settled share based payment liability	**1.3**	2.4
Deferred grant income	**6.2**	8.5
Loans from joint ventures	**1.7**	1.7
PAYE and NIC payable	**28.5**	21.2
VAT and other government payables	**0.3**	0.7
	830.4	581.2
Non-current		
Accruals	**1.0**	11.4
Deferred grant income	**14.9**	13.0
Cash-settled share based payment liability	**1.2**	1.7
PAYE and NIC payable	**0.5**	0.6
Other payables	**0.5**	0.5
Deferred income	**21.9**	1.3
	40.0	28.5

Notes to the consolidated financial statements

Note 22 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:	2015	2014
	£m	£m
On demand or within 1 year		
Loan notes	**19.5**	19.7
Hire purchase and lease obligations	**32.1**	31.2
	51.6	50.9
Within 1-2 years		
Bank loans	**–**	82.4
Hire purchase and lease obligations	**30.8**	30.8
Sterling 5.75% Notes	**408.5**	–
	439.3	113.2
Within 2-5 years		
Bank loans	**172.1**	–
Hire purchase and lease obligations	**25.1**	48.2
Sterling 5.75% Notes	**–**	409.3
	197.2	457.5
Over 5 years		
Hire purchase and lease obligations	**–**	1.1
US Dollar 4.36% Notes	**97.2**	88.4
	97.2	89.5
Total borrowings	**785.3**	711.1
Less current maturities	**(51.6)**	(50.9)
Non-current portion of borrowings	**733.7**	660.2

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 1.90% (2014: 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 2015 averaged 2.3% per annum (2014: 2.6%). Interest terms on bank loans are at LIBOR plus margins ranging from 0.40% to 1.10% (2014: 0.80% to 1.40%). Interest on loan notes are at three months LIBOR. Loan notes amounting to £19.5m (2014: £19.7m) 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:	2015	2014
	£m	£m
Not later than one year	**33.6**	33.3
Later than one year but not more than five years	**57.2**	81.6
More than five years	**–**	1.1
	90.8	116.0
Future finance costs on hire purchase and finance leases	**(2.8)**	(4.7)
Carrying value of hire purchase and finance lease liabilities	**88.0**	111.3

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. 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 2015 was £408.5m (2014: £409.3m) 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. 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 2015 was £97.2m (2014: £88.4m) 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:	2015	2014
	£m	£m
Due after more than one year:		
At beginning of year	**(34.0)**	(35.5)
Credited to income statement	**(6.3)**	5.1
Arising through business combinations	**–**	(0.3)
Credited/(charged) to equity	**16.0**	(3.8)
Foreign exchange movements	**(0.8)**	0.5
At end of year	**(25.1)**	(34.0)

Deferred taxation is calculated as follows:	2015	2014
	£m	£m
Accelerated capital allowances	**(115.2)**	(101.1)
Pension temporary differences	**35.3**	23.1
Short-term temporary differences	**54.8**	44.0
	(25.1)	(34.0)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:	2015	2014
	£m	£m
Accelerated capital allowances	**(8.1)**	(6.2)
Pension temporary differences	**0.2**	1.2
Short-term temporary differences	**1.6**	10.1
	(6.3)	5.1

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	9.9	140.9	4.9	0.4	12.8	168.9
Provided during year (after discounting)	–	50.6	–	1.1	2.7	54.4
Unused amounts credited to income statement	(3.6)	–	–	–	–	(3.6)
Unwinding of discount	–	3.8	–	–	–	3.8
Utilised in the year	–	(48.6)	(0.5)	(1.0)	(6.5)	(56.6)
Arising on sale of tokens during year	0.5	–	–	–	–	0.5
Redemption of tokens	(0.9)	–	–	–	–	(0.9)
Foreign exchange movements	–	4.0	0.2	–	0.1	4.3
End of year	5.9	150.7	4.6	0.5	9.1	170.8
30 April 2015:						
Current	1.2	55.2	1.3	0.5	6.5	64.7
Non-current	4.7	95.5	3.3	–	2.6	106.1
	5.9	150.7	4.6	0.5	9.1	170.8
30 April 2014:						
Current	2.0	48.3	0.4	0.4	6.4	57.5
Non-current	7.9	92.6	4.5	–	6.4	111.4
	9.9	140.9	4.9	0.4	12.8	168.9

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 three years.

Notes to the consolidated financial statements

Note 25 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom funded schemes

The Group participates in a number of funded defined benefit schemes in the UK as follows.

	Date as at which last scheme valuation was prepared
• Stagecoach Pension Schemes ("SPS") comprising:	
The Stagecoach Group Pension Scheme; and	30 April 2011
The East London and Selkent Pension Scheme;	5 April 2013
• The South West Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The Island Line section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Midlands Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Coast Main Line section of the Railways Pension Scheme ("RPS"); and	31 December 2013
• A number of UK Local Government Pension Schemes ("LGPS").	31 March 2013

The Stagecoach Pension Schemes 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.

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 2015 of the expected benefit payments across all UK defined benefit schemes is estimated at 20.0 years (2014: 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 2.3% (2014: 2.4%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 8.9% (2014: 11.5%) of the gross present value of pension obligations as at 30 April 2015 shown in the consolidated balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time.

North America funded schemes

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

Unfunded schemes

The Group 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 2015 was £5.2m (2014: £3.9m).

Other unfunded benefits are provided to a small number of former employees with the net liabilities included within the unfunded balance reported in the tables that follow.

Note 25 Retirement benefits (continued).

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 30 April 2015 and 30 April 2014 are shown below:

	2015	2014
Discount rate	**3.7%**	4.5%
Retail Prices inflation assumption	**3.2%**	3.3%
Consumer Prices inflation assumption	**1.9%**	2.3%
Rate of increase in pensionable salaries		
SPS	**2.0%**	2.0%
Others	**3.2%**	3.8%
Rate of increase of pensions in payment		
SPS	**3.1%**	3.2%
Others	**1.9%**	2.3%
Post-retirement mortality (life expectancies in years)		
Current pensioners at 65 – male	**19.3**	19.2
Current pensioners at 65 – female	**23.6**	23.5
Future pensioners at 65 aged 45 now – male	**21.4**	21.3
Future pensioners at 65 aged 45 now – female	**25.5**	25.3

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

The post-retirement mortality assumptions have been chosen with regard to the latest available published tables adjusted to reflect the experience of the Group and its sector and allow for expected increases in longevity.

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £25.5m (2014: £7.8m) and retirement benefit obligations of £186.0m (2014: £123.6m), resulting in the net liability of £160.5m (2014: £115.8m) analysed below.

The amounts recognised in the balance sheet were as follows:

As at 30 April 2015	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
Equities	687.8	–	225.0	3.9	–	916.7
Private Equity	46.5	148.5	–	–	–	195.0
Infrastructure	–	56.1	–	–	–	56.1
Growth Pooled Fund*	–	1,127.7	–	–	–	1,127.7
Bonds	364.8	–	49.7	1.2	–	415.7
Cash	100.2	6.3	42.6	0.9	–	150.0
Property	60.2	–	20.5	0.2	–	80.9
Fair value of scheme assets	1,259.5	1,338.6	337.8	6.2	–	2,942.1
Present value of obligations	(1,431.2)	(1,793.6)	(314.7)	(8.8)	(4.0)	(3,552.3)
– adjustment for members' share of RPS deficit (40%)	–	182.0	–	–	–	182.0
– franchise adjustment	–	297.4	–	–	–	297.4
(Deficit)/Surplus in the scheme	(171.7)	24.4	23.1	(2.6)	(4.0)	(130.8)
Asset ceiling	–	–	(29.7)	–	–	(29.7)
Pension (liability)/asset before tax	(171.7)	24.4	(6.6)	(2.6)	(4.0)	(160.5)

Notes to the consolidated financial statements

Note 25 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet (continued)

As at 30 April 2014	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£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)

*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.

(d) Funding arrangements and schemes

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

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

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

The regulatory framework in the UK requires the Trustees of the Stagecoach 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. The actuarial valuations for the Stagecoach Group Pension Scheme as at 30 April 2014 is currently being finalised. The Group forecasts to contribute £73.4m (forecast at 30 April 2014 for year ended 30 April 2015: £59.1m) to its defined benefit schemes in the financial year ending 30 April 2016.

(e) Changes in net retirement benefit obligations

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

Year ended 30 April 2015	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(92.6)	6.3	(23.6)	(2.0)	(3.9)	(115.8)
Rail franchise changes	–	24.5	–	–	–	24.5
Expense charged to consolidated income statement	(24.1)	(38.1)	(1.9)	(0.9)	(0.2)	(65.2)
Recognised in the consolidated statement of comprehensive income	(74.3)	(3.2)	12.4	(0.2)	(0.2)	(65.5)
Employers' contributions	19.3	34.9	6.5	0.5	0.3	61.5
At end of year – (liability)/asset	(171.7)	24.4	(6.6)	(2.6)	(4.0)	(160.5)

Year ended 30 April 2014	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(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)

Note 25 Retirement benefits (continued)

(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 £20.3m decrease in the net pension liabilities as at 30 April 2015 (2014: £20.0m). A 10 basis points decrease in the discount rate would result in a £20.6m increase in the net pension liabilities as at 30 April 2015 (2014: £20.4m).
- 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 £11.4m increase in the net pension liabilities as at 30 April 2015 (2014: £12.7m). A 10 basis points decrease in the inflation rate would result in a £11.4m decrease in the net pension liabilities as at 30 April 2015 (2014: £14.0m).
- A 10 basis point increase in the rate of increase in uncapped pensionable salaries would result in a £1.2m increase in the net pension liabilities as at 30 April 2015 (2014: £0.6m). A 10 basis point decrease in the rate of increase in uncapped pensionable salaries would result in a £1.3m decrease in the net pension liabilities as at 30 April 2015 (2014: £0.6m).
- A 10 basis point increase in the rate of increase of pensions in payment would result in a £7.1m increase in the net pension liabilities as at 30 April 2015 (2014: £11.6m). A 10 basis point decrease in the rate of increase of pensions in payment would result in a £7.1m decrease in the net pension liabilities as at 30 April 2015 (2014: £10.7m).
- 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 £36.2m in the net pension liabilities as at 30 April 2015 (2014: £41.6m). If life expectancy of the relevant individuals was to decrease by one year, this would result in a decrease of £36.2m in the net pension liabilities as at 30 April 2015 (2014: £43.8m).

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					
	SPS	RPS	LGPS	Other	Unfunded and DC Schemes	Total
Year ended 30 April 2015	£m	£m	£m	£m	£m	£m
Current service cost	(19.0)	(39.4)	(1.3)	(0.8)	–	(60.5)
Administration costs	(1.0)	(0.4)	–	–	–	(1.4)
Defined contribution costs	–	–	–	–	(19.0)	(19.0)
Included in operating profit	(20.0)	(39.8)	(1.3)	(0.8)	(19.0)	(80.9)
Net interest (expense)/income	(4.1)	(8.4)	0.3	(0.1)	(0.2)	(12.5)
Interest expense on asset ceiling	–	–	(0.9)	–	–	(0.9)
Unwinding of franchise adjustment	–	10.1	–	–	–	10.1
	(24.1)	(38.1)	(1.9)	(0.9)	(19.2)	(84.2)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded and DC Schemes	Total
Year ended 30 April 2014	£m	£m	£m	£m	£m	£m
Current service cost	(20.8)	(33.6)	(1.5)	(0.5)	–	(56.4)
Administration costs	(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 expense 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)

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

Note 25 Retirement benefits (continued)

(h) Pension amounts recognised in statement of comprehensive income

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 30 April 2015	£m	£m	£m	£m	£m	£m
Actual return on scheme assets higher than the discount rate	79.9	117.2	25.0	0.1	–	222.2
Changes in financial assumptions	(153.3)	(36.0)	(14.6)	(0.3)	(0.1)	(204.3)
Experience on benefit obligations	(0.9)	(14.9)	11.0	–	(0.1)	(4.9)
Changes in asset ceiling (net of interest)	–	–	(9.0)	–	–	(9.0)
Change in franchise adjustment	–	(69.5)	–	–	–	(69.5)
	(74.3)	(3.2)	12.4	(0.2)	(0.2)	(65.5)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 30 April 2014	£m	£m	£m	£m	£m	£m
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	–

(i) Benefit obligations

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 30 April 2015	£m	£m	£m	£m	£m	£m
At beginning of year	1,248.2	789.5	309.6	7.0	3.9	2,358.2
Rail franchise changes	–	374.4	–	–	–	374.4
Current service cost	19.0	39.4	1.3	0.8	–	60.5
Interest on benefit obligations	55.6	31.6	13.3	0.3	0.2	101.0
Unwinding of franchise adjustment	–	(10.1)	–	–	–	(10.1)
Benefits paid	(46.8)	(36.6)	(13.5)	(0.5)	(0.3)	(97.7)
Contributions by employees	1.0	5.6	0.4	0.6	–	7.6
Actuarial losses/(gains) due to:						
– Changes in financial assumptions	153.3	36.0	14.6	0.3	0.1	204.3
– Experience on benefit obligations	0.9	14.9	(11.0)	–	0.1	4.9
– Change in franchise adjustment	–	69.5	–	–	–	69.5
Exchange differences	–	–	–	0.3	–	0.3
At end of year	1,431.2	1,314.2	314.7	8.8	4.0	3,072.9

Note 25 Retirement benefits (continued)

(i) Benefit obligations (continued)

Year ended 30 April 2014	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	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
Actuarial (gains)/losses due to:						
– 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

(j) Scheme assets

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

Year ended 30 April 2015	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,155.6	795.8	305.8	5.0	–	2,262.2
Rail franchise changes	–	398.9	–	–	–	398.9
Administration costs	(1.0)	(0.4)	–	–	–	(1.4)
Interest income	51.5	23.2	13.6	0.2	–	88.5
Employer contributions	19.3	34.9	6.5	0.5	0.3	61.5
Contributions by employees	1.0	5.6	0.4	0.6	–	7.6
Benefits paid	(46.8)	(36.6)	(13.5)	(0.5)	(0.3)	(97.7)
Remeasurements						
– Return on assets excluding amounts included in net interest	79.9	117.2	25.0	0.1	–	222.2
Foreign exchange movements	–	–	–	0.3	–	0.3
At end of year	1,259.5	1,338.6	337.8	6.2	–	2,942.1

Year ended 30 April 2014	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
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

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2015	2014
	£m	£m
At beginning of year	**(19.8)**	(5.6)
Interest expense	**(0.9)**	(0.2)
Remeasurements	**(9.0)**	(14.0)
At end of year	**(29.7)**	(19.8)

Notes to the consolidated financial statements

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 Financial Reporting Standard 10 ("IFRS 10"), *Consolidated Financial Statements* and International Financial Reporting Standard 11 ("IFRS 11"), *Joint Arrangements*.
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

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

(b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities on the consolidated balance sheet and their respective fair values were:

	Other balance sheet notes	2015 Carrying value £m	2014 Carrying value £m	2015 Fair value £m	2014 Fair value £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	**0.2**	0.3	**0.2**	0.3
– Current assets					
– Accrued income	19	**50.9**	59.6	**50.9**	59.6
– Trade receivables, net of impairment	19	**201.9**	130.5	**201.9**	130.5
– Loans to joint ventures	19	**5.9**	–	**5.9**	–
– Other receivables	19	**22.0**	23.0	**22.0**	23.0
– Cash and cash equivalents	20	**395.6**	240.3	**395.6**	240.3
Available for sale financial assets					
– Non-current assets					
– Available for sale and other investments	14	**–**	0.3	**–**	0.3
Total financial assets		**676.5**	454.0	**676.5**	454.0
Financial liabilities					
Financial liabilities at fair value through profit or loss		**–**	–	**–**	–
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals	21	**(1.0)**	(11.4)	**(1.0)**	(11.4)
– Other payables	21	**(0.5)**	(0.5)	**(0.5)**	(0.5)
– Borrowings	22	**(733.7)**	(660.2)	**(760.4)**	(696.8)
– Current liabilities					
– Trade payables	21	**(229.6)**	(156.3)	**(229.6)**	(156.3)
– Accruals	21	**(439.9)**	(297.6)	**(439.9)**	(297.6)
– Loans from joint ventures	21	**(1.7)**	(1.7)	**(1.7)**	(1.7)
– Borrowings	22	**(51.6)**	(50.9)	**(51.6)**	(50.9)
Total financial liabilities		**(1,458.0)**	(1,178.6)	**(1,484.7)**	(1,215.2)
Net financial liabilities		**(781.5)**	(724.6)	**(808.2)**	(761.2)

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 cash and cash equivalents, accrued income, trade receivables, loans to joint ventures and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, other payables, accruals 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.

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 £12.1m (2014: £15.8m).

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 2015.

	Note	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Derivatives used for hedging	26(g)	3.4	–	**3.4**
Liabilities				
Derivatives used for hedging	26(g)	(41.3)	–	**(41.3)**

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 "Level 3" financial assets of £0.3m were written down to nil during the year ended 30 April 2015. 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 2015. This note (c) also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in section 1.6.11 of the Strategic report which forms part of these financial statements.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments from time to time to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(i) Market risk

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

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

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

Foreign currency translation risk

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

The Group has material foreign investments in Canada and the USA. To reduce balance sheet translation exposure, the Group partially hedges the sterling carrying value of foreign operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of comprehensive income. Bank loans drawn in US Dollars and a US$150.0m bond issued in October 2012 have been accounted for as a hedge of the Group's foreign net investments.

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

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

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

The Group's consolidated balance sheet exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

	2015	2014
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**249.4**	230.7
– Cash	**33.8**	24.5
– Borrowings	**(183.3)**	(174.0)
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**29.8**	37.0
– Cash	**1.0**	0.7
Net exposure	**130.7**	118.9

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

	2015	2014
US dollar		
US dollar balance sheet foreign exchange rate	**1.5368**	1.6886
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.3831**	1.5197
– Increase in consolidated equity (£m)	**11.1**	9.0
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.6905**	1.8575
– Decrease in consolidated equity (£m)	**(9.1)**	(7.4)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	**1.8614**	1.8531
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.6753**	1.6678
– Increase in consolidated equity (£m)	**3.4**	4.2
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**2.0475**	2.0384
– Decrease in consolidated equity (£m)	**(2.8)**	(3.4)

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.

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 (excluding immaterial exposure to Euros) were as follows:

	2015	2014
	£m	£m
US dollars		
– US$ element of North American operating profit	**16.9**	22.3
– Intangible asset expenses	**(5.3)**	(7.8)
– Redundancy / restructuring costs	**(0.3)**	(0.3)
– Share of profit of joint ventures (excluding exceptional items)	**2.0**	5.5
– Exceptional items	**(7.9)**	(9.2)
– Net finance costs	**(8.6)**	(9.8)
– Net tax credit/(charge)	**0.5**	(0.7)
Canadian dollars		
– C$ element of North American operating profit	**4.7**	2.4
– Redundancy/restructuring costs adjustment	**0.1**	–
– Exceptional items	**–**	(0.2)
– Net tax (charge)/credit	**(1.1)**	0.1
Net exposure	**1.0**	2.3

The operating profit figures shown in the above table reconcile to the operating profit for North America shown in the segmental information in note 2(b) as follows:

	2015	2014
	£m	£m
US$ element of North American operating profit shown above	**16.9**	22.3
C$ element of North American operating profit shown above	**4.7**	2.4
Share based payment adjustment denominated in sterling	**0.5**	(1.0)
Operating profit shown in segmental information	**22.1**	23.7

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

	2015	2014
US dollar		
US dollar average foreign exchange rate	**1.5988**	1.6013
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.4389**	1.4412
– Decrease in consolidated profit after taxation (£m)	**(0.3)**	–
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.7587**	1.7614
– Increase in consolidated profit after taxation (£m)	**0.2**	–
Canadian dollar		
Canadian dollar average foreign exchange rate	**1.8323**	1.6994
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.6491**	1.5295
– Increase in consolidated profit after taxation (£m)	**0.4**	0.3
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**2.0155**	1.8693
– Decrease in consolidated profit after taxation (£m)	**(0.3)**	(0.2)

The above sensitivity analysis is based on the following assumptions:

- Only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in the sterling value of commodity prices that indirectly occur due to changes in foreign exchange rates are not included in the sensitivity calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Note 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 2015 there were no material net transactional foreign currency exposures (2014: £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 103.

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 2015, 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	189.9	412.1	602.0	5.8%	1.6
US Dollar	149.3	34.0	183.3	2.3%	2.2
Gross borrowings	339.2	446.1	785.3	5.5%	1.7

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

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 include cash deposits and cash in hand of £395.6m (2014: £240.3m). Loans to joint ventures of £5.9m (2014: £Nil) bear interest at a fixed rate of 6% (2014: not applicable) per annum. As at 30 April 2015, the Group had no other financial assets on which fixed interest is receivable (2014: £Nil).

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

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

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

Price risk

The Group is exposed to commodity price risk. The Group's operations as at 30 April 2015 consume approximately 406.0m 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 2015 and 30 April 2014, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2015	2014
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	**(81.7)**	(90.7)
– UK Bus (London)	**(8.4)**	(9.5)
– UK Rail	**(25.1)**	(24.6)
– North America	**(33.2)**	(34.8)
	(148.4)	(159.6)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(4.7)**	(5.5)
– UK Bus (London)	**(6.1)**	(8.9)
– UK Rail	**(1.4)**	(9.0)
– North America	**(6.0)**	(8.2)
	(18.2)	(31.6)
Total	**(166.6)**	(191.2)

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:

	2015	2014
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(0.5)**	(0.6)
– UK Bus (London)	**(0.6)**	(0.9)
– UK Rail	**(0.1)**	(0.9)
– North America	**(0.6)**	(0.8)
Decrease in projected profit before taxation	**(1.8)**	(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:

	2015	2014
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**0.5**	0.6
– UK Bus (London)	**0.6**	0.9
– UK Rail	**0.1**	0.9
– North America	**0.6**	0.8
Increase in projected profit before taxation	**1.8**	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.

Demand for the Group's services can also be affected by movements in fuel prices due to the impact on the cost of competing transport services, including private cars.

The Group is also exposed to changes in electricity prices, principally in its UK Rail Division where electricity is consumed to power some of the trains operated. The Group has some protection to price changes via rail industry arrangements to fix the price on a proportion of anticipated future electricity consumption.

The Group's joint venture, Virgin Rail Group, is also exposed to changes in fuel and electricity prices and applies commodity price risk management strategies similar to those applied by the Group and explained above.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

In determining whether a financial asset is impaired, the Group takes account of:

- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

The movement in the provision for impairment of trade and other receivables is shown in note 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
	2015	**2015**	**2015**	2014	2014	2014
	£m	£m	£m	£m	£m	£m
Trade receivables	**204.7**	**(2.8)**	**201.9**	132.6	(2.1)	130.5
Loans, other receivables and accrued income	**79.0**	**–**	**79.0**	82.9	–	82.9
Cash and cash equivalents – pledged as collateral	**18.8**	**–**	**18.8**	18.9	–	18.9
Cash and cash equivalents – other	**376.8**	**–**	**376.8**	221.4	–	221.4
Excluding derivative financial instruments	**679.3**	**(2.8)**	**676.5**	455.8	(2.1)	453.7
Derivatives used for hedging	**3.4**	**–**	**3.4**	0.6	–	0.6
Total exposure to credit risk	**682.7**	**(2.8)**	**679.9**	456.4	(2.1)	454.3

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK'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.

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:

	2015	2014
	£m	£m
United Kingdom & Europe	**623.5**	407.3
North America	**56.4**	47.0
	679.9	454.3

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

	2015	2014
	£m	£m
Sterling & Euros	**623.2**	406.8
US dollars	**54.8**	44.8
Canadian dollars	**1.9**	2.7
	679.9	454.3

The amount of financial assets denominated in Euros included in the figures above is immaterial.

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

	2015	2014
	£m	£m
Amounts 1 to 90 days overdue	**7.0**	9.5
Amounts 91 to 180 days overdue	**2.6**	0.6
Amounts 181 to 365 days overdue	**0.8**	1.0
Amounts more than 365 days overdue	**1.8**	0.7
	12.2	11.8

The Group does not hold any collateral in respect of its credit risk exposures set out above (2014: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2015 (2014: £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 2015, the Group's credit facilities were £1,141.1m (2014: £1,051.4m), £673.7m (2014: £483.5m) of which were utilised, including utilisation for the issuance of bank guarantees, performance/season ticket bonds and letters of credit.

The Group had the following undrawn committed banking and uncommitted asset finance facilities:

	2015	2014
	£m	£m
Expiring within one year	**168.1**	202.6
Expiring in more than one year but not more than two years	**–**	355.8
Expiring beyond two years	**299.3**	9.5
	467.4	567.9

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding.

The Group has bank lines of credit arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit.

The Group's committed bank facilities as at 30 April 2015 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					
– 2019	590.3	(172.1)	(121.4)	(11.1)	285.7
– 2018	105.0	–	(102.5)	(2.5)	–
– 2016	110.5	–	(96.5)	(14.0)	–
– 2015	36.9	–	(36.8)	(0.1)	–
	842.7	(172.1)	(357.2)	(27.7)	285.7
LOCAL & SHORT-TERM FACILITIES					
– Various	20.7	–	(7.6)	–	13.1
	863.4	(172.1)	(364.8)	(27.7)	298.8

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 2015	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured bond issues	(505.7)	(564.9)	(27.3)	(416.3)	(12.9)	(108.4)
Finance lease liabilities	(34.0)	(35.0)	(13.4)	(14.1)	(7.5)	–
Hire purchase liabilities	(54.0)	(55.8)	(20.2)	(17.6)	(18.0)	–
Loan notes payable	(19.5)	(19.5)	(19.5)	–	–	–
Trade and other payables	(672.7)	(672.7)	(671.2)	(1.5)	–	–
Bank loans	(172.1)	(172.5)	(0.4)	–	(172.1)	–
	(1,458.0)	(1,520.4)	(752.0)	(449.5)	(210.5)	(108.4)
Derivative financial liabilities:						
Derivatives used for hedging	(41.3)	(41.3)	(35.9)	(3.4)	(1.7)	(0.3)
	(1,499.3)	(1,561.7)	(787.9)	(452.9)	(212.2)	(108.7)

As at 30 April 2014	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured 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)

The “contractual cash flows” shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the value of the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted interest cash flows in respect of interest up to and including the next rollover date are shown and the principal is shown as repayable at the expiry date of the relevant facility.

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 £395.6m as at 30 April 2015 (2014: £240.3m) are £18.8m (2014: £18.9m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.4m (2014: £18.4m) has been pledged by the Group as collateral for £18.4m (2014: £18.4m) 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.
- £Nil (2014: £0.1m) 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 (2014: £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 2015 and 30 April 2014.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2015 and 30 April 2014 and no loans payable were in default as at 30 April 2015 and 30 April 2014. The Group was in compliance with all bank loan covenants as at 30 April 2015 and as at 30 April 2014.

(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)
	– Interest rate risks	– Derivatives (interest rate 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:

	2015	2014
	£m	£m
Non-current assets		
Interest rate derivatives	**0.1**	–
Fuel derivatives	**2.2**	0.1
	2.3	0.1
Current assets		
Interest rate derivatives	**–**	0.3
Fuel derivatives	**1.1**	0.2
	1.1	0.5
Current liabilities		
Fuel derivatives	**(35.9)**	(9.8)
Non-current liabilities		
Interest rate derivatives	**(0.8)**	(0.6)
Fuel derivatives	**(4.6)**	(2.8)
	(5.4)	(3.4)
Interest rate derivatives	**(0.7)**	(0.3)
Fuel derivatives	**(37.2)**	(12.3)
	(37.9)	(12.6)

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 2015 (2014: 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:

	2015	2014
	£m	£m
Fuel derivatives		
Fair value at start of year	**(12.3)**	(11.0)
Changes in fair value during year taken to cash flow hedging reserve	**(56.0)**	(2.8)
Cash paid during the year	**31.1**	1.5
Fair value at end of year	**(37.2)**	(12.3)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2015		
Within one year	1.1	(35.9)
1 to 2 years	2.2	(3.0)
2 to 3 years	–	(1.3)
More than 3 years	–	(0.3)
	3.3	(40.5)
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)

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 2015		
Sterling denominated – UK Bus (regional operations)	(20.0)	398.8
Sterling denominated – UK Bus (London)	(3.7)	47.5
Sterling denominated – UK Rail	(3.3)	114.2
US dollar denominated – North America	(10.2)	143.9
	(37.2)	704.4
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

Fair value and cash flow hedges - interest

The Group uses a number of interest rate derivatives to hedge its exposure to movements in interest rates. In connection with the issue of the Group's US$150m Bonds in October 2012, the Group entered into a number of interest rate fair value hedges. In addition, during the year ended 30 April 2015, the Group entered into a number of interest rate derivative as cash flow hedges of the Group's exposure to floating interest rates from December 2016.

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

	Cash flow hedges (Sterling denominated)	Fair value hedges (US dollar denominated)	
	2015	**2015**	2014
	£m	£m	£m
Interest rate derivatives			
Fair value at start of year	–	**(0.3)**	0.5
Changes in fair value reflected in carrying value of hedged item	–	**0.6**	(0.5)
Changes in fair value during the year taken to cash flow hedging reserve	**(0.6)**	–	–
Cash received during the year	–	**(0.4)**	(0.3)
Fair value at end of year	**(0.6)**	**(0.1)**	(0.3)

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 2015 was as follows:

	Assets £m	Liabilities £m
As at 30 April 2015		
1 to 2 years	–	(0.4)
2 to 3 years	–	(0.4)
More than 3 years	0.1	–
	0.1	(0.8)

The fair value of the interest rate derivatives split by maturity as at 30 April 2014 was as follows:

	Assets £m	Liabilities £m
30 April 2014		
Within one year	0.3	–
1 to 2 years	–	(0.1)
2 to 3 years	–	(0.5)
	0.3	(0.6)

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

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest derivatives £m	Fuel derivatives £m	Total £m
Cash flow hedging reserve at 30 April 2013	–	(8.5)	(8.5)
Changes in fair value during the year taken to cash flow hedging reserve	–	(2.8)	(2.8)
Cash flow hedges reclassified and reported in profit for year	–	2.1	2.1
Tax effect of cash flow hedges	–	(0.2)	(0.2)
Cash flow hedging reserve at 30 April 2014	–	(9.4)	(9.4)
Changes in fair value during the year taken to cash flow hedging reserve	(0.6)	(56.0)	(56.6)
Cash flow hedges reclassified and reported in profit for year	–	35.1	35.1
Tax effect of cash flow hedges	0.1	4.0	4.1
Cash flow hedging reserve at 30 April 2015	(0.5)	(26.3)	(26.8)
Cash flow hedging reserve before tax	(0.6)	(32.8)	(33.4)
Tax to be credited to income statement in future periods	0.1	6.5	6.6
Cash flow hedging reserve after tax	(0.5)	(26.3)	(26.8)

There have been no instances during the year ended 30 April 2015 (2014: 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 2015 is explained on page 100.

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:

	2015 £m	2014 £m
US$ 4.36% notes		
Fair value at start of year	**88.9**	96.4
Changes in fair value during the year	**8.7**	(7.5)
Fair value at end of year	**97.6**	88.9
US$ bank loans		
Fair value at start of year	**47.4**	51.4
Changes in fair value during the year	**4.7**	(4.0)
Fair value at end of year	**52.1**	47.4

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.

Notes to the consolidated financial statements

Note 27 Share capital

Under the Companies Act 2006, companies are no longer required to have an authorised share capital and a resolution was passed at the 2010 Annual General Meeting to take advantage of this deregulating measure. Therefore, the Company no longer has an authorised share capital. The allotted, called-up and fully paid ordinary share capital was:

	2015		2014	
	No. of shares	**£m**	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each				
At beginning and end of year	**576,099,960**	**3.2**	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 1,371,639 (2014: 724,693) 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 2015, the QUEST held 300,634 (2014: 300,634) ordinary shares in the Company and the EBT held 891,396 (2014: 725,821) 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 2015 (2014: £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 8 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £4.8m (2014: £6.6m) 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 2011	December 2011	June 2012	December 2012	June 2013	December 2013	June 2014	December 2014
Share price at time of grant/award (£)	2.5530	2.5915	2.6170	3.1210	3.1595	3.7200	3.8000	3.7920
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	3.00%	2.96%	3.22%	2.70%	2.94%	2.50%	2.70%	2.71%
Fair value per Incentive Unit at grant date (£)	0.73	0.74	0.75	0.90	0.90	1.06	2.60*	2.59*
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

*Ignoring non-market vesting conditions.

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market-based performance criteria are reflected in the fair value of the LTIP awards.

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 2015 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 2015 £	TSR ranking at 30 April 2015**	Vesting date
30 June 2011	818,913	–	(341,167)	–	(477,746)	–	3.7600	0.7339	–	–	30 June 2014
8 Dec 2011	726,933	–	(583,866)	13,065	(156,132)	–	3.7920	0.7449	–	–	11 Dec 2014
27 June 2012	881,369	–	–	24,339	–	905,708	–	0.7523	0.934	133	27 June 2015
6 Dec 2012	743,943	–	–	20,532	–	764,475	–	0.8972	0.622	162	6 Dec 2015
27 June 2013	888,186	–	–	24,519	–	912,705	–	0.8987	0.808	144	27 June 2016
12 Dec 2013	734,085	–	–	20,261	–	754,346	–	1.0574	0.716	154	12 Dec 2016
26 June 2014	–	782,513	–	21,604	–	804,117	–	2.5999*	2.310*	187	26 June 2017
11 Dec 2014	–	790,115	–	7,479	–	797,594	–	2.5945*	2.212*	209	11 Dec 2017
	4,793,429	1,572,628	(925,033)	131,799	(633,878)	4,938,945					

*Ignoring non-market based vesting conditions.

**TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Notional Units were as follows:

Award date	Outstanding at start of year (Deferred Shares)	Awards granted in year (Deferred Shares)	Vested in year (Deferred Shares)	Lapsed in year (Deferred Shares)	Dividends in year (Deferred Shares)	Outstanding at end of year (Deferred Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
30 June 2011	875,258	–	(875,258)	–	–	–	30 June 2014	2,155,206	2.5530
27 June 2012	903,227	–	(28,334)	(7,747)	24,250	891,396	27 June 2015	2,271,556	2.6190
27 June 2013	757,167	–	(21,007)	(8,350)	20,445	748,255	27 June 2016	2,289,350	3.1600
26 June 2014	–	660,269	–	(5,270)	18,120	673,119	26 June 2017	2,497,467	3.8100
	2,535,652	660,269	(924,599)	(21,367)	62,815	2,312,770			

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 2015 there were 8,732 (2014: 8,617) participants in the BAYE scheme to which were attributed 4,438,746 (2014: 3,200,457) shares that they purchased, 1,473,172 (2014: 1,185,596) matching shares that the Company contributed and 261,500 shares (2014: 137,727) 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 61.

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 (2014: £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.

Notes to the consolidated financial statements

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:

	2015 £m	2014 £m
Operating profit of Group companies	**189.8**	200.5
Depreciation	**120.1**	115.7
(Gain)/loss on disposal of property, plant and equipment	**(2.3)**	2.1
Intangible asset expenses	**11.9**	14.0
Equity-settled share based payment expense	**2.2**	2.2
Operating cashflows before working capital movements	**321.7**	334.5
Decrease/(increase) in inventories	**3.4**	(3.8)
Increase in receivables	**(34.1)**	(26.7)
Increase/(decrease) in payables	**85.8**	(3.2)
Decrease in provisions	**(9.5)**	(8.6)
Differences between employer pension contributions and pension expense in operating profit	**0.4**	1.6
Cash generated by operations	**367.7**	293.8

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

The increase/(decrease) in cash reconciles to the movement in net debt as follows:

	2015 £m	2014 £m
Increase/(decrease) in cash	**152.5**	(19.8)
Cash flow from movement in borrowings	**(51.5)**	92.7
	101.0	72.9
Debt assumed in business combinations	**–**	(1.8)
New hire purchase and finance leases	**(6.4)**	(6.7)
Foreign exchange movements	**(14.1)**	13.1
Other movements	**(0.2)**	(1.1)
Decrease in net debt	**80.3**	76.4
Opening net debt (as defined in note 35)	**(461.6)**	(538.0)
Closing net debt (as defined in note 35)	**(381.3)**	(461.6)

(c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 35. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase/ finance leases £m	Foreign exchange movements £m	Other/ Charged to income statement £m	Closing £m
Cash	221.4	152.6	–	2.8	–	376.8
Cash collateral (see note 26(e))	18.9	(0.1)	–	–	–	18.8
Hire purchase and finance lease obligations	(111.3)	33.2	(6.4)	(3.5)	–	(88.0)
Bank loans and loan notes	(102.1)	(84.7)	–	(4.8)	–	(191.6)
Bonds	(488.5)	–	–	(8.6)	(0.2)	(497.3)
Net debt	(461.6)	101.0	(6.4)	(14.1)	(0.2)	(381.3)
Accrued interest on bonds	(8.7)	27.3	–	–	(27.1)	(8.5)
Effect of fair value hedges on carrying value of borrowings	0.4	–	–	–	(0.3)	0.1
Unamortised gain on early settlement of interest rate swaps	(0.9)	–	–	–	0.9	–
Net borrowings (IFRS)	(470.8)	128.3	(6.4)	(14.1)	(26.7)	(389.7)

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 the inception of the contracts of £6.4m (2014: £6.7m) and no deposits paid up front.

Note 31 Contingencies

Contingent liabilities

(i) At 30 April 2015, the following bonds and bank guarantees were in place relating to the Group's rail operations:

	2015	2014
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**36.8**	35.7
– East Midlands Trains	**30.5**	28.8
– Virgin Trains East Coast	**20.0**	–
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**59.7**	54.2
– East Midlands Trains	**6.3**	5.9
– Virgin Trains East Coast	**4.0**	–
Shareholder loan commitment backed by bank facilities		
– Virgin Trains East Coast	**82.5**	–

These contingent liabilities are not expected to crystallise.

(ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with train lease and maintenance arrangements.

(iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

The Group 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 Department for Transport has the right to terminate the relevant franchises. Where the Group has defaulted on one franchise, the Department for Transport has cross-default rights in certain circumstances that might enable it (but not require it) to terminate 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 Department for Transport sought to call. As at 30 April 2015, the capital at risk of the Group in this respect was:

	Virgin Trains East Coast	South West Trains	East Midlands Trains	Total
	£m	£m	£m	£m
Actual liabilities				
Net intra-group amounts payable to train operators	–	60.7	–	**60.7**
Contingent liabilities				
Season ticket bonds	4.0	59.7	6.3	**70.0**
Performance bonds	20.0	36.8	30.5	**87.3**
Parent company guarantees to suppliers	6.6	–	10.6	**17.2**
Undrawn committed loan facilities	165.0	25.0	–	**190.0**
Capital at risk as at 30 April 2015	195.6	182.2	47.4	**425.2**
Cash				
Cash in train operating companies	44.0	154.7	82.3	**281.0**
Pro forma impact on net debt	239.6	336.9	129.7	**706.2**

To the extent that any of the above contingent liabilities in respect of Virgin Trains East Coast crystalise the Group is contractually entitled to recover 10% of any such payment from Virgin Holdings Limited. The Group has credit exposure to Virgin Holdings Limited in this regard.

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2015, the Group would have needed to have financed £425.2m (2014: £240.0m) 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.

Notes to the consolidated financial statements

Note 31 Contingencies (continued)

Contingent liabilities (continued)

(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.

In March 2014, Twin America and lawyers for the private plaintiffs reached agreement on a settlement without any admission of liability. Settlement has now also been agreed in principle with the US Department of Justice and the New York Attorney General's office. That settlement remains subject to court approval.

Related to the Twin America litigation involving the Group's North America Division, the Department of Justice is continuing to investigate the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Department of Justice has not taken any enforcement action related to these issues, and the Group is co-operating with the investigation.

(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 2015, the accruals in the consolidated financial statements for such claims total £0.1m (2014: £0.1m) in addition to the amounts recognised specifically in respect of the Twin America litigation noted in (iv) above. In addition, certain of the claims intended to be covered by the insurance provisions (see note 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:

	2015	2014
	£m	£m
Contracted for but not provided:		
For delivery within one year	**146.0**	135.9

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2015:

As at 30 April 2015	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 2016	17.0	19.3	216.9	6.8	260.0
Year ending 30 April 2017	12.1	13.3	176.1	5.0	206.5
Year ending 30 April 2018	8.0	9.3	78.5	4.2	100.0
Year ending 30 April 2019	7.1	7.4	75.1	3.7	93.3
Year ending 30 April 2020	6.2	2.3	36.4	3.5	48.4
1 May 2020 and thereafter	28.5	–	3.5	8.8	40.8
	78.9	51.6	586.5	32.0	749.0

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

The amounts shown above do not include Network Rail charges, which are shown separately in note 32(c).

Note 32 Guarantees and other financial commitments (continued)

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). Commitments for payments, until the expected end of the franchises or the end of the current Network Rail regulatory control period, if earlier, under these contracts as at 30 April 2015 are as shown below.

.	**2015**
	£m
Year ending 30 April 2016	**80.9**
Year ending 30 April 2017	**63.3**
Year ending 30 April 2018	**26.7**
Year ending 30 April 2019	**46.7**
	217.6

Commitments for payments under these contracts as at 30 April 2014 were as follows:

	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

(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:

	2015	2014
	£m	£m
Annual commitments under non-cancellable operating leases	**71.5**	64.7
Franchise performance bonds	**10.3**	10.3
Season ticket bonds	**2.8**	2.7

Note 33 Related party transactions

Details of major related party transactions during the year ended 30 April 2015 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 30 April 2015, the Group earned fees of £60,000 (2014: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 30 April 2015, the Group had £60,000 (2014: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £0.4m (2014: £0.5m) from the group headed by Virgin Rail Group Holdings Limited, principally in respect of work undertaken on rail franchise bids, and had an outstanding receivable of £0.1m as at 30 April 2015 (2014: £0.5m payable) in this respect.

The Group also earned £0.3m (2014: £0.4m) 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 £Nil as at 30 April 2015 (2014: £0.4m) in this respect.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see note 33(i)). In the year ended 30 April 2015, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2014: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited totalling £1.4m (2014: £Nil). The outstanding amounts payable as at 30 April 2015 and 30 April 2014 were immaterial. The Group had £1.4m receivable as at 30 April 2015 (30 April 2014: £Nil).

(iii) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2014: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director) is a director of its holding company) controls a further 33.2% (2014: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2015, the Group purchased £64.0m (2014: £65.5m) of vehicles from Alexander Dennis Limited and £8.9m (2014: £9.4m) of spare parts and other services. As at 30 April 2015, the Group had £0.8m (2014: £1.0m) payable to Alexander Dennis Limited, along with outstanding orders of £64.0m (2014: £70.9m).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 25.

Note 33 Related party transactions (continued)

(v) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2014: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 30 April 2015. The Group earned £23.8m in the year ended 30 April 2015 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2014: £25.2m). As at 30 April 2015, the Group had a net £0.7m (2014: £0.1m) 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% 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 of biofuel from Argent Energy Group. At 23 July 2013, the Group had £0.4m payable to Argent Energy Group along with outstanding orders of £0.3m.

(vii) Twin America LLC

In the year ended 30 April 2015, the Group earned revenue of £3.3m (2014: £3.6m) 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 2015, the Group had £0.5m (2014: £0.3m) receivable from Twin America LLC in this regard.

The Group had an outstanding receivable of £5.9m as at 30 April 2015 (2014: £Nil) in respect of a loan note to Twin America LLC. The interest receivable for the year ended 30 April 2015 was £0.1m (2014: £Nil), and accrued interest receivable by the Group as at 30 April 2015, was £Nil (2014: £Nil).

(viii) East Coast Main Line Company Limited

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and enters into various arm's length transactions with other Group companies. In the period from 1 March 2015 (the date on which East Coast Main Line Company Limited became part of the Group) to 30 April 2015, other Group companies earned £4.4m from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services. Other Group companies had a net payable balance of £1.2m as at 30 April 2015.

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £35m as at 30 April 2015 in respect of a loan to East Coast Main Line Company Limited. The interest receivable for the year ended 30 April 2015 was £0.2m. Related to that, the Group had an outstanding payable of £3.5m (2014: £Nil) in respect of a loan from Virgin Holdings Limited.

In addition, in the period from 1 March 2015 to 30 April 2015, East Coast Main Line Company Limited purchased services amounting to £0.5m from Virgin Holdings Limited. The Group had a payable balance of £0.5m to Virgin Holdings Limited at 30 April 2015 in this respect.

Note 34 Post balance sheet events

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

Note 35 Definitions

- **Adjusted earnings per share** is calculated by dividing profit after taxation excluding intangible asset expenses and exceptional items by the basic weighted average number of shares in issue in the period.
- **Like-for-like** amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods.
- **Operating profit or loss** for a particular business unit or division within the Group refers to profit or loss before net finance income/costs, taxation, intangible asset expenses, exceptional items and restructuring costs (except where shown otherwise in note 2(g)).
- **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.

12. Independent auditors' report to the members of Stagecoach Group plc

Report on the parent company financial statements

Our opinion

In our opinion, Stagecoach Group plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 30 April 2015;
- 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.

What we have audited

Stagecoach Group plc's financial statements comprise:

- the Company balance sheet as at 30 April 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Stagecoach Group Annual Report and Financial Statements 2015 (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.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinions

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.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("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
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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.

12. Independent auditors' report to the members of Stagecoach Group plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Responsibility statement, 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the Group financial statements of Stagecoach Group plc for the year ended 30 April 2015.

Graham McGregor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
24 June 2015

13. Separate Financial Statements of Parent, Stagecoach Group PLC

Company balance sheet

As at 30 April 2015

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2015 £m	2014 £m
Fixed assets			
Tangible assets	2	**0.6**	1.0
Investments	3	**1,188.3**	1,172.6
		1,188.9	1,173.6
Current assets			
Debtors – due within one year	4	**783.7**	746.0
Derivative financial instruments at fair value – due after more than one year	7	**2.1**	2.8
Derivative financial instruments at fair value – due within one year	7	**0.5**	9.9
Cash		**18.4**	18.4
		804.7	777.1
Creditors: Amounts falling due within one year			
Deferred tax liability	5	**–**	(0.2)
Derivative financial instruments at fair value	7	**(35.9)**	(9.6)
Trade and other creditors	6	**(349.3)**	(420.7)
		(385.2)	(430.5)
Net current assets		**419.5**	346.6
Total assets less current liabilities		**1,608.4**	1,520.2
Creditors: Amounts falling due after more than one year			
Deferred tax liability	5	**(0.2)**	–
Derivative financial instruments at fair value	7	**(5.4)**	(3.4)
Other creditors	6	**(678.5)**	(579.7)
Net assets excluding pension liability		**924.3**	937.1
Pension liability, net of deferred tax	8	**(3.9)**	(2.8)
Net assets including pension liability		**920.4**	934.3
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	**(32.1)**	(25.7)
Profit and loss account	10	**518.1**	525.6
Total shareholders' funds		**920.4**	934.3

These financial statements were approved for issue by the Board of Directors on 24 June 2015. 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 66.

- **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 relating to the Long Term Incentive Plan is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it currently expects to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash–settled transactions (see above).

- **Dividends**

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

Note 1 UK GAAP accounting policies (continued)

- **Financial instruments**

The accounting policy of the Company under FRS 25 "Financial instruments: Presentation", FRS 26 "Financial instruments: Recognition and measurement" and FRS 29 "Financial instruments: Disclosures" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial instruments: Recognition and measurement", and IFRS 7 "Financial instruments: Disclosures". Therefore for details of the Company's accounting policy for financial instruments refer to pages 69 and 70.

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:

	2015
	£m
Cost	
At beginning and end of year	2.5
Depreciation	
At beginning of year	(1.5)
Charge for year	(0.4)
At end of year	(1.9)
Net book value at beginning of year	1.0
Net book value at end of year	0.6

Note 3 Investments

The movements in investments were as follows:

	Subsidiary undertakings
	£m
Cost and net book value	
At beginning of year	1,172.6
Additions	2.2
Foreign exchange movements	13.5
At end of year	1,188.3

Note 4 Debtors

Amounts falling due within one year were:

	2015	2014
	£m	£m
Amounts owed by Group undertakings	**720.4**	708.9
Other debtors	**63.1**	36.9
Prepayments and accrued income	**0.2**	0.2
	783.7	746.0

Notes to the Company financial statements

Note 5 Deferred tax asset/(liability)

The movement in the deferred tax asset/(liability) during the year was as follows:

	2015 £m	2014 £m
At beginning of year	**(0.2)**	0.2
Charge to the profit and loss account	**–**	(0.4)
At end of year	**(0.2)**	(0.2)

The deferred tax liability recognised can be analysed as follows:

	2015 £m	2014 £m
Short-term timing differences	**(0.2)**	(0.2)

Note 6 Creditors

(a) Creditors: Amounts falling due within one year

	2015 £m	2014 £m
Bank overdrafts	**147.5**	207.1
Loan notes	**19.5**	19.7
Amounts owed to Group undertakings	**176.4**	185.6
Accruals and deferred income	**5.9**	8.3
	349.3	420.7

(b) Creditors: Amounts falling due after more than one year

	2015 £m	2014 £m
Sterling 5.75% Notes	**408.8**	408.4
US Dollar 4.36% Notes	**97.5**	88.7
Bank loans	**172.1**	82.4
Accruals and deferred income	**0.1**	0.2
	678.5	579.7

(c) Borrowings were repayable as follows:

	2015 £m	2014 £m
On demand or within 1 year		
Bank overdraft	**147.5**	207.1
Loan notes	**19.5**	19.7
Repayable between 1 and 2 years		
Bank loans	**–**	82.4
Sterling 5.75% Notes	**408.8**	–
Repayable after 2 years, but within 5 years		
Bank loans	**172.1**	–
Sterling 5.75% Notes	**–**	408.4
Repayable after 5 years		
US Dollar 4.36% Notes	**97.5**	88.7
Total borrowings	**845.4**	806.3

Note 7 Derivative financial instruments

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

	2015 £m	2014 £m
Current assets – due after more than one year		
Interest rate derivatives – external	**0.1**	–
Fuel derivatives – external	**2.0**	–
Fuel derivatives – intra-group	**–**	2.8
	2.1	2.8
Current assets – due within one year		
Interest rate derivatives – external	**–**	0.3
Fuel derivatives – external	**0.5**	0.2
Fuel derivatives – intra-group	**–**	9.4
	0.5	9.9

Note 7 Derivative financial instruments (continued)

	2015	2014
	£m	£m
Current liabilities		
Fuel derivatives – external	**(35.9)**	(9.4)
Fuel derivatives – intra-group	**–**	(0.2)
	(35.9)	(9.6)
Non-current liabilities		
Interest rate derivatives – external	**(0.8)**	(0.6)
Fuel derivatives – external	**(4.6)**	(2.8)
	(5.4)	(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 (2014: None).

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2015	2014
	£m	£m
Pension liability before tax	**4.9**	3.5
Deferred tax asset	**(1.0)**	(0.7)
	3.9	2.8

The Company no longer has any employees but has unfunded liabilities in respect of former employees and funded liabilities in respect of employees of subsidiary companies, 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 2014	3.2	8.4	422.8	(25.7)	525.6	**934.3**
Profit for the year	–	–	–	–	46.6	**46.6**
Credit in relation to share based payments	–	–	–	–	2.2	**2.2**
Dividends paid	–	–	–	–	(56.3)	**(56.3)**
Own shares purchased	–	–	–	(6.4)	–	**(6.4)**
At 30 April 2015	3.2	8.4	422.8	(32.1)	518.1	**920.4**

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 £46.6m (2014: £276.7m) 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 8 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 (2014: £2.2m) 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 (2014: 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 £0.9m (2014: £3.1m) 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.

Notes to the Company financial statements

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £231.0m (2014: £214.4m) 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 £302.1m (2014: £143.8m) 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:

	2015 £m	2014 £m
Contracted for but not provided:		
For delivery in one year	**92.7**	110.2

(c) Operating lease commitments
Annual charges for operating leases are made with expiry dates as follows:

	2015		2014	
	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	**–**	**0.3**	–	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 Share Register, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Telephone +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@capita.co.uk. 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. Lines are open 8.00am to 9.15pm, Monday to Friday.

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 (0)131 240 0448. Lines are open 8.00am to 4.30pm, Monday to Friday.

Other organisations also offer ISA facilities.

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 +44 (0)371 664 0364 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday excluding public holidays in England and Wales). Please have your share certificate to hand when you log-in or call. Charges are 1.25% with a £30.50 minimum charge online and 1.5% with a £40.50 minimum charge by phone.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Charges are 0.5%, with a £17.50 minimum charge and 0.2% for trades exceeding £10,000. Shareholders who would like further information should write to Stocktrade, 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR or call +44 (0)131 240 0414, quoting dealing reference 'Stagecoach dial and deal'. Lines are open 8.00am to 4.30pm, Monday to Friday. Postal dealing packs are available on request.

Other organisations also offer facilities to buy and sell shares.

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

he Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at agreed rates. Shareholders who would like further information should telephone the Company's registrars, Capita Asset Services, on +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@capita.co.uk.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

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

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at **www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/** to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

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

REPORT A SCAM

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

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

Corporate information and financial calendar

Corporate Information

Company Secretary
Mike Vaux

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10 Dunkeld Road
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Telephone +44 (0) 1738 442 111
Facsimile +44 (0) 1738 643 648
Email info@stagecoachgroup.com

Company Number
SC 100764

Financial Calendar

Annual General Meeting
28 August 2015

Interim Results
9 December 2015

Final Dividend
30 September 2015

Interim Dividend
March 2016

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greener smarter travel

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