Stagecoach Group Annual Report and Financial Statements 2018

STAGECOACH GROUP

greener smarter travel

Key financials

- Earnings per share 12.3 pence (2017: 5.5 pence)
- Adjusted earnings per share* 22.3 pence (2017 restated**: 23.3 pence)
- £85.6m+ net exceptional expenses in respect of Virgin Trains East Coast
- Profit before tax £95.3m (2017: £17.9m)
- Full year dividend rebased to 7.7 pence per share (2017: 11.9 pence per share)
- Maintaining our expectation of 2018/19 earnings per share

Good progress in bus and rail

- Positive trends in UK Bus (regional operations)
  - Pricing and network changes delivering improved revenue per vehicle mile
  - Commercial and technology-led initiatives to drive growth
- Moderating capital expenditure in bus divisions following several years of significant fleet and technology expenditure
- Greater clarity on Virgin Trains East Coast – operation of train services now transferred to publically owned company
- Significant progress, value and opportunities in UK rail market
  - East Midlands Trains franchise extended to March 2019, with plan for further Direct Award
  - New Virgin Trains West Coast Direct Award franchise expected to run to at least September 2019
  - Bid submitted for new South Eastern franchise
  - Progressing work on our shortlisted bids for East Midlands and West Coast Partnership franchises
  - Reduced revenue risk on new franchise opportunities

* see definitions in note 33 to the consolidated financial statements

** see note 5 to the consolidated financial statements for details of the restatement for the revised definition of adjusted earnings per share

\+ The net exceptional expenses in respect of Virgin Trains East Coast of £85.6m are after taking account of tax and the non-controlling interest and are analysed further in section 1.5.4 of the Annual Report.

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Financial summary

	"Adjusted" results Results excluding non-software intangible asset amortisation and exceptional items*		**"Statutory" results**	
	2018	2017 (restated**)	**2018**	2017
Revenue (£m)	**3,226.8**	3,941.2	**3,226.8**	3,941.2
Total operating profit (£m)	**179.9**	185.1	**132.1**	47.3
Non-operating exceptional items (£m)	**–**	–	**(1.7)**	4.7
Net finance charges (£m)	**(35.1)**	(34.1)	**(35.1)**	(34.1)
Profit before taxation (£m)	**144.8**	151.0	**95.3**	17.9
Earnings per share (pence)	**22.3p**	23.3p	**12.3p**	5.5p
Proposed final dividend per share (pence)	**3.9p**	8.1p	**3.9p**	8.1p
Full year dividend per share (pence)	**7.7p**	11.9p	**7.7p**	11.9p

* see definitions in note 33 to the consolidated financial statements

** see note 5 to the consolidated financial statements for details of the restatement for the revised definition of adjusted earnings per share

1. Strategic report

1.1 Introduction

Stagecoach Group plc ("the Company") is the ultimate parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group plc ("the Directors") are pleased to present their report on the Group for the year ended 28 April 2018.

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.

This Strategic report is a consolidated report relating to the Group as a whole. It includes matters relating to the Company and its subsidiary undertakings.

1.2 Cautionary statement

The Strategic report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to inform shareholders of the Company and to 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 28 April 2018

We are pleased with the Group's underlying financial performance for the year ended 28 April 2018, when compared to our start of year expectations. We were however, surprised and disappointed by the Secretary of State for Transport's decision to appoint an Operator of Last Resort to take over the operation of InterCity East Coast train services from our Virgin Trains East Coast business. We are also disappointed to report significant exceptional costs in relation to that business.

Revenue for the year was £3,226.8m (2017: £3,941.2m), with the decline reflecting the end of our South West Trains franchise in August 2017. Total operating profit (before non-software intangible asset amortisation and exceptional items) was £179.9m (2017 restated: £185.1m). Unadjusted operating profit for the year was £132.1m (2017: £47.3m). Earnings per share before non-software intangible asset amortisation and exceptional items ("adjusted earnings per share") were 22.3p (2017 restated: 23.3p), with the year-on-year decrease mostly due to lower operating profit from our bus divisions. The adjusted earnings per share of 22.3p is above our recent expectation, principally due to a lower than anticipated tax charge reflecting positive progress with the Group's tax affairs during the year. Basic, unadjusted earnings per share increased to 12.3p (2017: 5.5p), and included exceptional charges relating to Virgin Trains East Coast that are explained below.

Consolidated net debt at 28 April 2018 was £395.8m (2017: £409.4m) and non-rail net debt was £567.0m (2017: £628.8m). Although the consolidated net debt at 28 April 2018 is less than we expected, that largely reflects variations in the timing of UK rail cash flows and the balance at 28 April 2018 includes £84.5m of Virgin Trains East Coast cash. We expect cash outflows in the year to 27 April 2019 in respect of the transfer of the East Coast rail business, further cash outflows in respect of the unwind of the expired South West Trains rail franchise and the reversal of cash flow timing benefits at East Midlands Trains. However, we do expect non-rail net debt to reduce further.

We are proposing a final dividend of 3.9p (2017: 8.1p), which will result in a full year dividend of 7.7p (2017: 11.9p) per share for the year ended 28 April 2018. While our growth ambitions have not changed, we have taken the decision to rebase the dividend to what we view as a sustainable level and which is covered by the normalised, annual free cash flows from our non-rail operations. We will look to at least maintain the rate of annual dividends at that rebased level of 7.7p per share. The proposed final dividend of 3.9p per share is payable to shareholders on the register at 24 August 2018 and, if approved, will be paid on 3 October 2018. Shareholders who wish to participate in the dividend re-investment plan should elect to do so by sending their requests to the Company's registrars to arrive by 12 September 2018.

Our absolute focus remains on safety and operational excellence, which underpin our delivery of high quality public transport services. Providing good value travel and investing in our people, vehicle fleet and new technology is central to enhancing our customers' experience. We also continue to take steps to improve the efficiency of our operations and maintain close control of costs.

We have again delivered high levels of customer satisfaction. Our UK Bus business has achieved 90% satisfaction, according to the latest independent research published by consumer watchdog, Transport Focus, the biggest improvement in overall passenger satisfaction of any major UK operator. In the UK rail sector, our train companies are also amongst the highest performing franchised operators, while our tram operations recorded their second highest customer satisfaction level on record at 95%.

In our core regional UK bus market, our pricing and network changes have delivered improved revenue trends. We are pursuing a package of commercial and technology-led initiatives to drive growth and meet the evolving demand for transport linked to changes in working, social and retail patterns. We have been successful in winning new business with Transport for London in the contracted London bus market.

Performance in our North America Division has been satisfactory and we have made further progress in delivering new contract wins. Our actions in consolidating our megabus.com network and developing the brand's digital presence and wider product offer have helped us protect our market share in a competitive environment.

As previously announced, we have reported further, significant exceptional costs in the year ended 28 April 2018 in respect of our Virgin Trains East Coast franchise. Further details of these are provided in section 1.5.4 of this Annual Report. We regret the losses the Group has experienced on the East Coast franchise, notwithstanding that these were significantly influenced by factors outside of our control. We nevertheless continue to see good opportunities in UK rail. The introduction by the Department for Transport of a new "Forecast Revenue Mechanism" ("FRM") will result in the Department taking a greater share in revenue risk on new franchises and this reduction in revenue risk for train operators has been important in our decision to continue bidding for new UK rail franchises.

While we were surprised and disappointed by the decision of the Secretary of State for Transport to transfer responsibility for operating the East Coast train services from Virgin Trains East Coast to a publically owned company, we welcome the clarity that the decision brings. Elsewhere in our rail portfolio, we have made significant progress over the last year. A new contract has been agreed with the Department for Transport on Virgin Trains West Coast and we have secured the extension of our East Midlands Trains franchise. We are pleased to have submitted our bid for the new South Eastern franchise and we are well advanced in developing our proposals for the West Coast Partnership franchise with input from key stakeholders. We are also working on a further direct award franchise at East Midlands Trains as well as our shortlisted bid for the next competitively tendered East Midlands franchise.

Notwithstanding the contractual issues at Virgin Trains East Coast, we have continued to focus on providing a good, safe, reliable and value for money service to our customers as well as continuing to grow the business. Reflecting the hard work of the Virgin Trains East Coast team and the continuing support of the Stagecoach and Virgin shareholders, we have started to see improving revenue trends. Year-on-year revenue growth in the second half of the year ended 28 April 2018 of 4.3% compared to 3.0% in the first half and in the twelve weeks to 26 May 2018, revenue grew 5.6% from the equivalent prior year period.

1.3 Overview of the year ended 28 April 2018 (continued)

Julie Southern, a non-executive director who joined the Board in October 2016, has indicated her intention to resign from the Board with effect from 31 August 2018 to enable her to take up a new position at another company. The Board extends its thanks to Julie for the contribution she has made to the Group.

During 2016/17, we undertook our biggest employee engagement programme to date covering the entire Group and this year, we launched a major initiative to strengthen further and embed our strong safety culture across our bus and rail businesses. As a responsible forward-looking business, we want to foster an inclusive environment, supporting a diverse workforce where everyone has access to the resources and the opportunity to help them contribute to the success of our business. Action plans are being progressed within our businesses to capitalise on what we have learned and introduce improvements, with planning already underway for our 2018 employee survey. The Board extends its appreciation to all of our people across the Group for their commitment and contribution to making every customer journey better.

Looking ahead, there is no change to our expectation of 2018/19 earnings per share. We recognise the importance of continuing to invest in our business and in the three years to 29 April 2017, our bus and coach divisions invested £490.0m in property, plant, equipment and software representing 1.34 times the related depreciation and amortisation expense. In the year to 28 April 2018, the ratio fell to 0.89, times partly reflecting lower bus and coach mileage but also recognising that the businesses are already well invested following several years of relatively high capital expenditure. For those divisions, we expect a similar expenditure ratio in the year to 27 April 2019 and, in the medium-term, we are planning for capital expenditure at a normalised level of around 1.2 times the related depreciation and amortisation expense. Our investment will be targeted where it will deliver the biggest impact in meeting the business challenges of today and securing future emerging opportunities. We believe there is growing recognition in government that action is needed to address road congestion and poor air quality in urban environments and that the public transport we offer is central to the solution to that. This provides a significant opportunity to deliver better outcomes for our customers and local communities, as well as continued long-term value to our investors.

Revenue by division is summarised below:

REVENUE

	2018 £m	2017 £m	Functional currency	**2018** Functional currency (m)	2017 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	**1,012.5**	1,015.7	£	**1,012.5**	1,015.7	(0.3)%
megabus Europe	**–**	20.2	£	**–**	20.2	(100.0)%
UK Bus (London)	**251.8**	263.4	£	**251.8**	263.4	(4.4)%
North America	**470.9**	488.8	US$	**630.0**	632.3	(0.4)%
UK Rail	**1,495.2**	2,160.7	£	**1,495.2**	2,160.7	(30.8)%
Intra-Group revenue	**(3.6)**	(7.6)	£	**(3.6)**	(7.6)	
Group revenue	**3,226.8**	3,941.2				

Operating profit by division is summarised below:

OPERATING PROFIT

	2018 £m	% margin	2017 (restated) £m	% margin	Functional currency	**2018** Functional currency (m)	2017 (restated) Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	**112.9**	11.2%	117.0	11.5%	£	**112.9**	117.0
megabus Europe	**–**	–	(4.3)	(21.3)%	£	**–**	(4.3)
UK Bus (London)	**13.3**	5.3%	18.4	7.0%	£	**13.3**	18.4
North America	**21.0**	4.5%	18.2	3.7%	US$	**28.1**	23.5
UK Rail	**24.9**	1.7%	28.5	1.3%	£	**24.9**	28.5
Group overheads	**(15.3)**		(14.1)				
Restructuring costs	**(4.0)**		(4.8)				
Operating profit before joint ventures, non-software intangible asset amortisation and exceptional items	**152.8**		158.9				
Joint ventures – share of profit after tax							
Virgin Rail Group	**25.9**		24.8				
Citylink	**1.2**		1.4				
Total operating profit before non-software intangible asset amortisation and exceptional items	**179.9**		185.1				
Non-software intangible asset amortisation	**–**		(9.1)				
Exceptional items	**(47.8)**		(128.7)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**132.1**		47.3				

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 and its business model

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, the United States and Canada. Following the recent end of the Virgin Trains East Coast franchise, the Group employs around 31,500 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 offer greener, smarter travel in the UK and North America. Our principal business is providing passenger transport services, primarily by transporting people by bus, coach, train or tram. Our "This is Stagecoach Group" infographic provides more information and can be found on our website at: http://www.stagecoach.com/stagecoach-group-infographic

This section summarises the Group's business model. The remaining parts of this section 1.4 are also important to an understanding of our business model and we cross-reference them where appropriate.

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its ordinary shares are publically 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".

Section 1.4.2 summarises our strategy and section 1.4.3 explains what we do and provides a description of each of our key business segments, markets and where appropriate, market share.

Business culture

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.

The Group began life as a family business in 1980 and the entrepreneurism and expertise of the founding family has played a significant part in its growth. The founding family continues to play a part in the management of the Group. Although we have been publically listed on the London Stock Exchange since 1993, we aim to maintain an entrepreneurial culture, reflecting our family heritage. That involves encouraging sensible risk taking while managing risks appropriately and responding to risks that do crystallise. It is inevitable and appropriate for a group of its size that the Group has a number of policies and procedures to ensure appropriate behaviours but these are designed to avoid stifling entrepreneurism. More information on the Group's core values and policies is provided in section 1.8 of this Annual Report.

We operate a relatively devolved management structure. That reflects our view that in operating local transport services, day-to-day decision making should be made by local managers who understand the dynamics of their particular markets. We aim to have relatively short chains of command that facilitate the effective exchange of information and enable timely decision making. Delegated authorities and other policies and procedures are in place to achieve an appropriate balance between the benefits we perceive of devolved management and the need for proportionate management of overall risk.

Sources of revenue

We have a number of revenue streams, principally arising from:

- Amounts we receive from individuals or groups of individuals to travel on our transport services;
- Amounts we receive from government bodies in respect of travel by individuals on our transport services – for example, in the UK, older people and people with disabilities are legally entitled to travel on our bus services at certain times free of charge but we receive revenue from government bodies in respect of that travel;
- Amounts we receive from government bodies as payment to us for operating transport services under contract – for example, a US Transit Authority may pay us to run specified bus services. Any amount payable by individual passengers would flow to the US Transit Authority and our revenue would be from that authority;
- Amounts we receive from corporations or others for operating transport services under contract – for example, a university might pay us to operate a bus service to shuttle students around its campus;
- Subsidy we receive from government bodies to financially support the operation of transport services they consider to be socially desirable.

We also earn other income, which may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling advertising space on vehicles and premises we operate;
- access income for others to use railway stations and depots that we operate;
- selling fuel to other transport operators;
- property rental;
- Network Rail in respect of UK railway operating performance regimes;
- The UK Department for Transport under UK rail revenue risk sharing arrangements.

1.4.1 Overview of the Stagecoach Group and its business model (continued)

Key costs and inputs

Our main tangible fixed assets are property, buses, coaches and technology. Our trains, as well as some of our property, buses and coaches, are operated under operating leases.

Our people are key to providing our services. Notwithstanding developments in technology, our business remains relatively labour intensive. Over a third of our consolidated operating costs are staff costs and in our bus divisions, the proportion is higher. Relationships with our people and their trade unions are important to the success of the business.

Our other major operating costs are:

- amounts payable to the UK Department for Transport under rail franchise agreements for the right to operate the relevant franchises;
- amounts payable to Network Rail by our UK train operating companies for use of the railway infrastructure (tracks, stations etc.);
- diesel and electricity to fuel or power our buses, coaches, trains and trams;
- insurance costs and claims costs;
- materials and consumables, including replacement parts for vehicles;
- depreciation and lease charges for the vehicles, properties and technology that we operate.

Section 1.4.4 of this Annual Report sets out more information on the key relationships and resources that underpin what we do.

Cash conversion

For the most part, our revenues and operating costs (excluding depreciation) are converted to cash within a short timescale. Indeed, payment for travel by individuals tends to occur prior to or at the time of travel whereas costs tend to be settled in arrears. The exceptions to this are most significant in the UK Rail Division where the complex, contractual arrangements can result in greater timing differences between the recognition of items in income and the effect of those items on cash.

Competitive advantages

We see our key sources of competitive advantage as being:

- Our operational excellence – providing safe, reliable, good quality, value-for-money, customer-focused transport services;
- Innovation – we have a long record of innovation, including being the first private company to secure a rail franchise in the UK in the 1990s and also, in disrupting the market for inter-city coach travel by introducing megabus.com in the 2000s as a low-cost, internet-only coach travel retailer;
- Our commercial expertise in designing transport networks, pricing our services and marketing our services;
- Our brands – our operational excellence and commercial expertise is reflected in our generally high customer satisfaction scores meaning that our key brands are well regarded in their respective markets;
- Our relationships – we view our relationships with employees, trade unions and government bodies, in particular, as key advantages to our business;
- Our expertise in bidding and managing complex contracts, particularly in the UK rail market where we see success as being predicated on a combination of bidding and winning new contracts on acceptable commercial terms, actively managing those contracts during their term and effective management of the day-to-day train operations;
- The economies of scale of being a relatively large transport provider.

Value for other stakeholders

As well as the financial value we generate for our investors, lenders and people, we provide value to a wider group of stakeholders, including:

- Public transport offers environmental benefits versus wide-scale car usage and can contribute to efforts to reduce pollution and improve air quality, benefiting the public in general;
- Our business generates significant tax contributions to public finances across employee, sales, corporation, property and other taxes;
- We contribute each year to charities as well as providing non-financial support to charities and the communities in which we operate.

Risks

We do face a number of risks. Section 1.4.5 sets out the principal risks to the achievement of our strategy and objectives which include political, regulatory, technological and macroeconomic risks.

Changes in regulation and technology in particular are likely to drive an evolution of our business model.

Key performance indicators

Section 1.4.6 describes how we measure and monitor progress against our objectives and strategy, and how we are performing.

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

Group strategy
The key elements of the 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 6,900 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates inter-urban services linking major towns within its regional operating company areas. The Group also runs the budget inter-city coach service megabus.com, and the UK Bus (regional operations) Division includes megabus.com coach services within the UK. In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group ComfortDelGro. The joint venture is responsible for the Scottish Citylink express coach 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 retailer of scheduled, inter-city 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) Division bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the Division's revenue is from customers paying for their own travel by bus. The Division also operates tendered services, including schools contracts, on behalf of local authorities. Around 10% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. For some services, the Group receives revenue from passengers as well as tendered revenue from a local authority. 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 older people and people with disabilities, at no charge to the passenger, on the same bus services that are also available to the wider public. The Group would typically receive both revenue from passengers and also, concessionary revenue from a local authority in respect of a single bus service and in some cases, may also receive tendered revenue for the same service.
Strategy	The strategy of the UK Bus (regional operations) Division 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 25% of the UK bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that bus is mainly used for trips of between 1 and 25 miles, and that in 2016, there was an average of 774 trips per person per year, excluding short walks. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 4%, 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 the NTS, around 27% of bus journeys are for shopping, 22% for leisure, 20% for education, 19% for commuting and business, 12% are for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.
Macroeconomic factors	Although the UK Bus (regional operations) Division 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) Division faces competition for customers not only from other operators of buses and coaches 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. New, potential, sources of competition are emerging, often enabled by digital developments. Newer competitors include ride-sharing websites, digitally-driven taxi services and aggregators of travel services.
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 older people and people with disabilities at no charge to the passenger. Funding of tendered services by local government has also reduced. The Division does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.5. 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 population growth, increasing urbanisation, rising road congestion, supportive government policy and public concerns for the environment, which augur well for the future of the Division.

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

UK Bus (London)	
Description	The Group is the fourth largest operator in the London bus market, operating from 10 depots with a fleet of around 1,300 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) Division operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and generally 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 on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 14% of the bus operating mileage contracted by Transport for London. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win Transport for London contracts 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. While planned bus mileage reductions by Transport for London present a risk to the Division, continuing population growth in London and positive government policy on public transport can 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 the operation of bus services under contract to transit authorities and others; commuter bus services; inter-city coach services; bus tours; charter operations; and sightseeing bus services. The Division encompasses megabus.com North America, a low cost inter-city coach business, which sells inter-city coach journeys within North America and operates or sub-contracts the coach services. The North America business is headed by a chief operating officer. Stagecoach currently operates approximately 2,100 vehicles in the United States and Canada.
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 that it has less than 4% of the bus and coach market in North America. The latest US Department of Transportation's Bureau of Transportation Statistics, published in 2018, show that in 2016 some 85% 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.
Macroeconomic factors	The North American operations are arguably 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. Demand for its services, particularly megabus.com, is also affected by movements in oil prices. It nevertheless has some flexibility over pricing and supply, enabling it to 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. While megabus.com revenue declined as oil prices fell, we expect the inter-city coach market to continue to present significant long-term opportunities to the Group. We are also exploring new contract opportunities in North America and have added new contract work to our portfolio of businesses.

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

UK Rail	
Description	Stagecoach Group has major rail operations in the UK. Our principal rail subsidiary is East Midlands Trains. Until August 2017, the Group also operated South West Trains, which ran train services in south west England out of London Waterloo railway station, and operated Island Line services on the Isle of Wight. Until June 2018, the Group ran Virgin Trains East Coast, which operated inter-city train services between London and a number of locations including Edinburgh, Newcastle, Leeds and York. Since 11 November 2007, we have operated the East Midlands Trains business. The business 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 was extended by the UK Department for Transport during the year to run until at least March 2019, with plans for a further Direct Award franchise beyond that time until at least August 2019. 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 2019, with the option for a one-year extension at the discretion of the UK Department for Transport. The other shareholder in Virgin Rail Group is the Virgin Group of Companies. East Midlands Trains and Supertram each have a managing director, who reports to the Managing Director of the UK Rail Division, who in turn reports to the Chief Executive. Virgin Rail Group has a managing director, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.
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 ("GDP") 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. Revenue growth in the UK rail sector has, in recent years, been below the levels typically seen since privatisation in the 1990s. From the Group's perspective, our financial returns are driven less by the outlook for rail revenue growth in general and more by how actual revenue growth compares to that assumed in our relevant franchise bid. At this time, we have limited further exposure to long-term rail revenue growth, reflecting the existing good levels of profitability and risk sharing arrangements on our East Midlands Trains franchise and Virgin Rail Group's West Coast franchise. On bids for new franchises, the Group's evaluation of macroeconomic risks is a key component of the bid process. We can take account of recent revenue trends, assess revenue risk sharing arrangements and form a view on longer term revenue expectations as part of agreeing any new contracts.
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, Go Ahead Group, Arriva, MTR, Keolis, Trenitalia, SNCF, Eurostar, Serco, Abellio, East Japan Railway Company and Mitsui.
Future market developments	The Labour Party, the main opposition political party in the UK, currently has an official policy to bring UK train operations into public hands as current rail franchises expire. While this is not the policy of the current UK Government, to the extent this policy were implemented (either by a future Labour Government or otherwise) then the Group would be unable to subsequently win new UK rail franchises. The two major franchises where the Group has a continuing involvement, at East Midlands Trains and Virgin Rail Group's West Coast Trains, could both end as early as 2019. There is therefore no certainty of the Group having a material, continuing involvement in UK Rail beyond 2019. However, notwithstanding that and the early termination of the Virgin Trains East Coast franchise, we are working on a number of opportunities for new business in the UK rail franchising market that we consider to provide an appropriate balance of risk and reward for our shareholders. Further details on the early termination of the Virgin Trains East Coast franchise and the rail opportunities we see are provided in section 1.5.4 of this Annual Report. 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 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 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
Our relationship with our customers is important to us. To deliver organic growth, 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. 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. Our businesses have 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 support the development and operation of 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. The Group has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

The challenges faced by our Virgin Trains East Coast business over recent years and the early termination of its franchise have attracted intense media and political scrutiny. The challenges were financial rather than operational. Operational performance has remained strong over that time and indeed, Virgin Trains East Coast has delivered strong customer satisfaction. We, however, recognise that the media and political focus on Virgin Trains East Coast has had some adverse effect on the reputation of the Group. Now that we have clarity on the Virgin Trains East Coast franchise, we have commenced a programme to enhance the Group's reputation, emphasising its strong record of operational delivery, its history of honouring its financial commitments including in respect of Virgin Trains East Coast and its record of being a reliable partner of government. That programme will include proactive engagement with politicians, officials, the media and others. We have separately ensured that our investors and lenders have been kept up to date on developments at Virgin Trains East Coast and the actions the Group is taking.

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.

1.4.5 The challenges we face (principal risks and uncertainties)

Like most businesses, there is 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 of businesses, regulatory compliance and failure of internal controls.

The Board of Directors determines the nature and extent of the principal risks that it is willing for the Group to take in achieving its strategic objectives. Information on the risk management process is provided in section 4.12. 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 28 April 2018 and since	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 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.	• The Group's East Midlands Trains business successfully managed a major fire incident which occurred at Nottingham railway station during the year. The business worked collaboratively with fire, ambulance and police authorities to protect passengers and safely resume services.	
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. The ongoing negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pensions, financial instruments and other balances. UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff.	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.	• Our current East Midlands franchise runs only until March 2019 and there is therefore a limited period in which it can be affected by economic changes. Furthermore, it is subject to a GDP risk sharing arrangement with the UK Department for Transport that reduces the train operator's exposure to changes in GDP. We would only enter into a new East Midlands franchise beyond March 2019 to the extent we were satisfied with the trade off of risk and reward. The Department for Transport aims to enter into a new Direct Award franchise with our East Midlands Trains subsidiary, to run from March 2019 to the expected start of the next competitively tendered franchise in August 2019. • The new West Coast franchise is operated by our joint venture, Virgin Rail Group, and began in April 2018. It has the potential to run until March 2020. A revenue share arrangement with the UK Department for Transport applies whereby the Department bears 90% of the risk of any difference in excess of 1% between the forecast revenue reflected in the contract and actual revenue. The Department for Transport expects to extend the existing franchise to run until the expected start of the new West Coast Partnership franchise in September 2019.	• 1.5.4 and 1.5.5

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

Description of risk	Management of risk	Developments in year ended 28 April 2018 and since	Section in Annual 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.	
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.	• 1.5.4
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. Included within that overall risk, is the risk that the Group wins a franchise on terms that are unrealistic (whether due to error or overly optimistic assumptions) and which as a result, adversely affects the Group's financial performance and/or financial position.	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. Significant work involving external advisors has been undertaken to review our rail bid governance to learn lessons from previous franchise bids and, in particular, to learn lessons from the bid for the operation of the previously loss-making Virgin Trains East Coast rail franchise.	• The two major franchises where the Group has a continuing involvement, at East Midlands Trains and Virgin Rail Group's West Coast Trains, could both end as early as 2019. There is therefore no certainty of the Group having a material, continuing involvement in UK Rail beyond 2019. However, notwithstanding that and the early termination of the Virgin Trains East Coast franchise, we are working on a number of opportunities for new business in the UK rail franchising market and we are optimistic about the new franchise opportunities. Further details on the early termination of the Virgin Trains East Coast franchise and the rail opportunities we see are provided in section 1.5.4 of this Annual Report. • Virgin Rail Group's previous West Coast franchise ended in March 2018 and a new Direct Award franchise was agreed with the Department for Transport during the year. The new franchise commenced on 1 April 2018 and runs until March 2019, with the option of a one-year extension at the discretion of the Department for Transport. • The East Midlands Trains franchise was extended by the Department for Transport during the year until at least March 2019, with plans for a further Direct Award franchise beyond that time until at least August 2019. • The Group has submitted its bid for the new South Eastern rail franchise. • The Group is progressing work on our shortlisted bid for the next East Midlands Trains franchise and on our shortlisted bid with SNCF and Virgin for the West Coast Partnership franchise.	• 1.5.4 and 1.5.5

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

Description of risk	Management of risk	Developments in year ended 28 April 2018 and since	Section in Annual Report
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 committed 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.	• Revenue growth at Virgin Trains East Coast has been lower than that assumed in the original bid, which has resulted in the franchise utilising all of the £165m loan commitment from the Stagecoach parent company. In addition, the Group has agreed to fund an amount of £21m equivalent to the current performance bond outstanding in respect of the now terminated franchise. The train services previously operated by Virgin Trains East Coast have transferred to a publically owned company.	• 1.5.4
Changing customer habits			
There are opportunities for the Group to shape its services and its interaction with its customers in response to changes in customer habits such as their working patterns and shopping. People travel on the Group's bus, train and tram services for a variety of reasons, including in some cases, to get to and from work and/or to get to and from shopping locations. Changes in people's working patterns, shopping habits and/or other preferences could affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. For example, increases in the proportion of working time that people spend at home, or in the level of shopping undertaken online, could affect demand for travel.	The Group monitors trends in revenue and passenger numbers across its businesses. In forecasting future revenue and passenger numbers, including in respect of bids for new rail franchises, the Group considers research and evidence on changing customer behaviour. The Group will, from time to time, vary its timetables, pricing, range of ticket types and transport networks in response to actual or anticipated changes in demand.	• Lower rates of growth seen recently in the UK rail sector are partly a result of changes in working patterns. On London commuter rail services, we have seen evidence of changing working patterns resulting in variations in demand by weekday. • We continue to adjust the timetables for certain of our bus services to adapt to changes in working patterns.	
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 bus and rail 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 comprising the Finance Director, a Non-Executive Director and other senior executives, oversees the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.	• Pension scheme liabilities have reduced during the year, reflecting good investment returns on pension scheme assets, higher interest rates, changes in inflation assumptions and experience gains on the Stagecoach Group Pension Scheme	• 1.6.8.2

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

Description of risk	Management of risk	Developments in year ended 28 April 2018 and since	Section in Annual Report
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 adversely impact 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.	• The Group continues to invest in leading edge safety technology, such as the advanced in-cab driver sensors, Seeing Machines, which are being piloted at our megabus North America operations.	
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. We see the greatest risk in this respect as being the risk that some bus services in the UK outside London become subject to franchising (whereby a government body specifies the bus services and puts them out to tender) compared to the current model where commercial bus operators are free to design and operate their own services. The Labour Party, the main opposition political party in the UK, currently has an official policy to bring all UK passenger train operations into public hands as current rail franchises expire. While this is not the policy of the current UK Government, to the extent this policy were implemented (either by a future Labour Government or otherwise) then the Group would be unable to subsequently win new UK rail franchises. Current Labour Party policy also favours greater franchising and/or public ownership of UK local bus services. 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 political, regulatory or other reasons. There is also a risk that the Group suffers financial or reputational damage as a result of non-compliance with laws or regulations or as a result of the Group having a different interpretation of laws or regulations from others. In addition, in the case of tax, there is a risk the Group suffers reputational damage because of how others perceive the Group's approach to a tax matter even where the Group has complied with the applicable laws and regulations.	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 trade bodies and government forums. The Group seeks to maintain good, cooperative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	• The Bus Services Act 2017 could see the introduction of franchised bus networks in some areas of England, which could affect our commercialised bus operations. Since the introduction of the Bus Services Act 2017, Transport for Greater Manchester is investigating franchising options for parts of Manchester. • In April 2018, the UK Government confirmed that disabled and older people in England will continue to benefit from free off-peak bus travel for the foreseeable future, following amendments to legislation to protect the English National Concessionary Travel Scheme under its current format. • In April 2018, the UK Labour Party announced a new policy to fund free bus travel for under 25 year olds across the UK. Under the policy, a Labour government would provide funds for free travel for under 25s to local authorities who introduce bus franchising or move to public ownership of their local bus services. That increases the risk of bus franchising or public ownership of UK bus services under any future Labour government. • Although the UK Government decided to appoint a publically-owned Operator of Last Resort to take over the operation of InterCity East Coast train services from our Virgin Trains East Coast business, it is not the policy of the current government to bring all passenger rail services into public ownership. The decision on East Coast is a transitional measure to address the financial challenges faced by the Virgin Trains East Coast franchise. The current media and political scrutiny on UK rail, however, could lead to changes in current Government policy.	• 1.5.1 and 1.5.4

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

Description of risk	Management of risk	Developments in year ended 28 April 2018 and since	Section in Annual Report
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.	• No significant matters to report.	
Disease			
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 security			
There is a risk that confidential and/or commercially sensitive information relating to and/or held by the Group is subject to unauthorised access, use, disclosure, modification, perusal, recording or destruction. There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.	An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts. Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.	• The Board has monitored the Group's preparations for the implementation of the General Data Protection Regulation ("GDPR"), which was effective from 25 May 2018.	
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.	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.	• Following the establishment of a Digital and Technology Committee in the prior year, the Group's digital strategy has continued to mature with enhanced Key Performance Indicators being introduced to monitor the effectiveness of digital initiatives.	
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. Technological developments could enable new competitors and/or business models to be developed that disrupt or compete with the Group's business. Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key divisions.	We monitor competitive developments in each of our markets and respond as appropriate. That includes monitoring developments in technology and business models that could affect the competitive landscape. Multi-modal travel portals, taxi hailing technology and businesses, ride-sharing technology and businesses, and autonomous vehicles are amongst the developments we are monitoring and assessing. 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.	• No significant matters to report.	

Details of the Group's treasury risks are discussed in note 24 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1.4.6 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 non-software intangible asset amortisation ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude exceptional items and non-software intangible asset amortisation) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period. As explained in note 5 to the consolidated financial statements, we have revised our definition of adjusted earnings per share to include the amortisation of capitalised software expenditure. The figures reported below are presented for all years using the revised definition.

Adjusted EPS was as follows:

		Year ended		
	Target	**28 April 2018 pence**	29 April 2017 pence (restated)	30 April 2016 pence (restated)
Adjusted EPS	To increase in excess of the UK Consumer Prices Index	**22.3p**	23.3p	27.0p

Organic growth

The following measures of organic growth are monitored:

- UK Bus (regional operations) and megabus Europe – growth in passenger journeys measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- UK 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 almost 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 UK 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. The growth figures are also normalised for differences in the number of days in each year.

	Target	**Year ended 28 April 2018 Growth %**	Year ended 29 April 2017 Growth %	Year ended 30 April 2016 Growth %
UK Bus (regional operations) passenger journeys	Positive growth each year	**(2.8)%**	(1.5)%	(0.8)%
megabus Europe passenger journeys		**n/a**	n/a	235.0%
UK Bus (London) revenue		**(4.4)%**	(0.8)%	2.5%
UK Rail passenger miles				
– South West Trains		**n/a**	(0.8)%	2.7%
– East Midlands Trains		**0.7%**	2.1%	1.2%
– Virgin Trains East Coast		**3.2%**	2.1%	1.7%
– Virgin Rail Group – West Coast Trains		**1.3%**	5.9%	2.6%
North America revenue		**(0.3)%**	(2.1)%	(3.5)%

The reduction in passenger journeys at UK Bus (regional operations) in the year ended 28 April 2018 largely reflects the actions we took in early 2017 to adjust our pricing and services to respond to changes in customer demand. Vehicle miles operated for the year were 2.7% lower than in the prior year.

The reduction in revenue at UK Bus (London) in the year ended 28 April 2018 reflects the impact of contracts lost in the prior year. We are satisfied by our performance on current year tenders for Transport for London contracts.

The lower revenue in North America during the year ended 28 April 2018 reflects the impact of mileage reductions at our megabus.com inter-city coach business, offset by contract wins secured in the first half of the year.

1.4.6 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. Eight of the more important safety KPIs are reported below:

	Target	**Year ended 28 April 2018**	Year ended 29 April 2017	Year ended 30 April 2016
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**19.5**	18.6	20.4
megabus Europe – number of blameworthy accidents per 1 million miles travelled		**n/a**	n/a	11.9
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		**45.4**	45.8	35.6
US – number of blameworthy accidents per 1 million miles travelled		**7.2**	6.9	6.2
South West Trains – workforce lost time injuries per 1,000 staff		**n/a**	1.4	1.4
East Midlands Trains – workforce lost time injuries per 1,000 staff		**1.0**	0.9	1.3
Virgin Trains East Coast – workforce lost time injuries per 1,000 staff		**1.3**	1.1	1.5
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		**1.3**	1.0	1.3

Although there has been a small increase in the rate of blameworthy accidents at North America during the year ended 28 April 2018, the rate of increase has moderated compared to the previous two years, reflecting the benefits of our safety programmes. Health and safety remains our top priority and we continue to invest in leading edge safety technology, such as advanced in-cab driver sensors, which we are piloting in North America, and expect to improve our safety performance.

Service delivery

Our measures of service delivery include:

- UK Bus (regional operations), megabus Europe and UK Bus (London) – reliability measured as the percentage of planned miles to be operated that were operated.
- UK 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		
	Target	**28 April 2018 %**	29 April 2017 %	30 April 2016 %
UK Bus (regional operations) reliability	>99.0%	**99.3%**	99.5%	99.4%
megabus Europe reliability	>99.0%	**n/a**	n/a	99.7%
UK Bus (London) reliability	>99.0%	**98.5%**	97.9%	97.4%
UK Rail punctuality				
– South West Trains	>90.0%	**n/a**	87.0%	90.0%
– East Midlands Trains	>85.0%	**91.6%**	92.1%	92.8%
– Virgin Trains East Coast	>85.0%	**80.7%**	83.1%	85.0%
– Virgin Rail Group – West Coast Trains	>85.0%	**83.6%**	89.4%	86.2%

The adverse trends in punctuality during the year ended 28 April 2018 across our rail franchises reflect a deterioration in Network Rail operational performance across the network, in addition to adverse weather, particularly increased snowstorms, compared to the prior year.

1.5 Divisional Performance

1.5.1 UK Bus (regional operations)

Summary

- Revenue per vehicle mile up 2.7%
- Investment in fleet, technology and enhancing customer experience
- Strong customer satisfaction

Financial performance

The financial performance of the UK Bus (regional operations) Division for the year ended 28 April 2018 is summarised below:

	2018 £m	2017 (restated) £m	Change
Revenue	**1,012.5**	1,015.7	(0.3)%
Like-for-like* revenue	**1,012.3**	1,013.8	(0.1)%
Operating profit*	**112.9**	117.0	(3.5)%
Operating margin	**11.2%**	11.5%	(30)bp

Actions we took in early 2017 to adjust our pricing and network of services to respond to changes in customer demand have helped reduce pressure on the profitability of the business and ensure we can continue to invest in customer improvements. We have worked closely with our local authority partners as part of our focus on operating sustainable networks and maximising the value of our combined resources. Like-for-like vehicle miles operated were 2.7% lower than in the previous year. The vehicle miles we operate on a commercial basis were reduced by 1.7% with greater reductions in the mileage tendered by local authorities and operated under contract. Reflecting the management actions taken, like-for-like revenue per vehicle mile grew 2.7% and like-for-like revenue per journey also increased 2.7%.

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

	2018 £m	2017 £m	Change
Commercial on and off bus revenue			
– megabus.com	**24.1**	22.0	9.5%
– other	**612.0**	602.1	1.6%
Concessionary revenue	**242.5**	247.9	(2.2)%
Commercial & concessionary revenue	**878.6**	872.0	0.8%
Tendered and school revenue	**97.9**	100.4	(2.5)%
Contract and other revenue	**35.8**	41.4	(13.5)%
Like-for-like revenue	**1,012.3**	1,013.8	(0.1)%

The growth in commercial revenue reflects the actions we have taken to improve yield per journey, partly offset by the impact of more severe weather in the second half of the year which restricted our ability to run some services and suppressed demand. In particular, the reported like-for-like revenue growth for our four-week reporting period ended 3 March 2018 was suppressed by the widespread snowstorms throughout the UK. During that period, the Division's like-for-like revenue declined by 2.5% from the equivalent prior year period, illustrating the scale of the impact of these extreme weather conditions. We estimate the operating profit would have been c.£2m higher but for the adverse weather conditions relative to last year. Our strategy for growth and customer satisfaction is centred on low-fares, operational excellence and continued investment.

Our megabus.com business in the UK performed well in the second half of the year, following weakness in the inter-city coach market in the first half of the year. We are encouraged by the impact of the measures we have taken to improve yield management and modify the network. In addition, we have refreshed our marketing to maximise the value of the brand.

* See definitions in note 33 to the consolidated financial statements

The decline in concessionary revenue includes the effects of the adverse weather and the continuing effects of government changes in the age of eligibility for free bus travel by older people, as we have previously reported. We have also seen a reduction in the concessionary reimbursement rate paid to bus operators in several regions, including Manchester, and lower financial support in Wales for bus travel by young people.

We continue to work with local authorities to maximise the value for local communities from the financial support councils can provide for socially desirable transport services. The decline in tender revenue mainly reflects further reductions by local authorities for tendered bus services and we anticipate some further cuts over the next year.

The reduction in contract and other revenue include the effects of lower rail replacement contract revenues, in addition to year-on-year changes in the amount and timing of one-off contract and events work.

The movement in operating margin was built up as follows:

Operating margin – 2016/17 (restated)	**11.5%**
Change in:	
Insurance and claims costs	**0.8%**
Staff costs	**(0.8)%**
Fuel costs	**0.7%**
Depreciation and amortisation	**(0.4)%**
Gain on disposal of land and buildings	**(0.3)%**
Other	**(0.3)%**
Operating margin – 2017/18	**11.2%**

The main changes in the operating margin shown above are:

- We have seen positive progress on claims costs with the costs for the year being below last year and less than we expected.
- Staff costs, as expected, have continued to rise, and not all headcount varies with vehicle miles. Staff costs include provisions for additional holiday pay costs and the full year impact of the new Apprenticeship Levy applied by the UK Government from April 2017 to fund new apprenticeships. However, wage awards in the year are in line with our forecast assumptions, staff retention rates remain stable and staff costs remain under control.
- Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.
- Gains on the disposal of land and buildings reduced year-on-year.
- Other costs have increased, including higher depreciation and amortisation as a result of our continued investment.

Enhanced products and customer experience

We are continuing to invest in our fleet, technology and customer service to attract people to the benefits of bus travel. Following several years of substantial capital investment in our regional bus operations, our expenditure on new vehicles has moderated to reflect the changes we have made in a number of our local bus networks. We have placed orders for around 170 new buses for 2018/19, representing an investment of around £40m.

We are now well advanced with our roll-out of contactless ticketing across our bus and coach operations in the UK as part of our multi-million pound digital strategy. The technology is now available at many of our regional bus operations in Scotland and England, as well as at our Scottish Citylink inter-city coach joint venture, with contactless payments expected to be in place on all vehicles by the end of 2018. Stagecoach Group won the award for Best Smart Ticketing Project at the 2018 Transport Ticketing Global Awards for the contactless project, which is one of Visa's fastest growing transit schemes in Europe and is also compatible with Apple Pay and Android Pay.

In July 2017, we launched a blueprint to help ensure bus services can effectively serve new housing developments being planned across the country. Failure to integrate public transport to new developments results in a greater cost to the economy in lost productivity, poorer air quality, longer working days because of extra commuting time and a less safe living environment with more cars on the road.

Providing value travel is a central element of our growth strategy. In our annual national travel mode comparison, our research found that people who use the bus to commute are on average £1,200 per year better off than those travelling to work by car who pay for fuel and parking.

Satisfaction with Stagecoach bus services has risen to 90%, according to independent research published by consumer watchdog, Transport Focus, in March 2018. Stagecoach achieved the biggest improvement in overall passenger satisfaction of any major UK operator. Customers rated Stagecoach as the best value of the major UK bus operators, for the fifth year in a row.

Commercial growth initiatives

With declining propensity to travel in the UK presenting challenges, our UK Bus commercial team is progressing a package of initiatives to respond to changing demand for travel driven by evolving work and social patterns, as well as capitalising on opportunities for growth through technology, more effective marketing and product development. Specific actions underway, to support this and our continued focus on safety, punctuality and reliability include:

- Revised Stagecoach brand strategy to leverage its strength as a trusted travel provider.
- Improved online presence for our main megabus.com and Oxford Tube inter-city travel products and further development of inter-urban/express coach services.
- Simpler pricing and ticketing.
- Enhanced functionality of the Stagecoach bus app and better delivery of real time journey information.
- Evaluation of opportunities for more demand responsive services in a number of locations, as well as the UK's first pilot of autonomous vehicle technology on a standard bus.
- Driving a more agile and entrepreneurial culture at local operating companies, supported by a complementary recruitment strategy.
- Fostering joint working to maximise the opportunities from closer integration of bus and rail.
- Using improved understanding of the segmentation of our existing and potential customer base to identify the profile and triggers to travel for non-users.
- Implementing a new customer relationship management ("CRM") system to engage and improve customer loyalty and yield.
- Increasing the volume of work we undertake to support events, festivals and other businesses, where new technology can support an increased capability to grow revenue in these areas.

Stakeholder engagement

Along with other bus industry groups and other industry stakeholders, we are continuing to make the case for the role of the bus in tackling congestion and air quality. We are pleased that a number of local authorities have started to recognise the important role of Euro VI buses in their draft plans to tackle pollution in their areas, with many exempting retrofit buses from charging Clean Air Zones ("CAZs"). The UK Government's new £48m Ultra-Low Emission Bus Scheme, available for local authorities and operators in England and Wales to support the next generation ultra-low emission bus technologies, is also welcome. However, we believe further action is needed by local authorities to prioritise meaningful action to tackle the biggest polluter, the diesel car, which a 2017 Greener Journeys report notes is currently responsible for 41% of all nitrogen oxides emissions compared to just 6% for buses. In addition, we have called for clearer Government guidance for councils on CAZs to encourage a shift towards buses and other cleaner modes of transport with 38 of England's 43 air quality zones currently breaching EU legal limits for nitrogen oxides emissions. We are also engaging with the Scottish Government and authorities in Glasgow, Edinburgh, Aberdeen and Dundee over planned low emission zones in those cities.

Outlook

Consistent with 2017/18, we have implemented further vehicle mileage reductions for 2018/19 and applied some price increases where appropriate. We continue to expect modest revenue growth from our local bus services in the short-term. Our costs remain well controlled, with higher pay and pension costs for staff being partially mitigated by expected lower fuel costs.

We have not significantly changed our expectation of the Division's operating profit for the year ending 27 April 2019 since our last update on trading.

Recent years have seen a reduction in people's propensity to travel in the UK. There are factors outside of the control of bus operators that are influencing travel choices including the growth in online services and home delivery, changes in working patterns, road congestion and changes in car costs from improved vehicle efficiency and changes in fuel prices. While there are undoubtedly challenges to growing bus patronage in the longer term, we still see cause for optimism. Forecast further population growth, particularly in urban areas presents opportunities for growing bus patronage. Mass transit, including buses, can help mitigate the risk of population growth in urban areas contributing to worsening road congestion and air quality challenges. Indeed, we would welcome more proactive policy interventions to encourage mass transit use and reduce car use to address these increasing problems. Technological advances may support new entrants to the transport space but they also allow greater personalisation of bus travel, improved customer relationship management and further operating cost efficiencies, thus making services more attractive to customers. Younger people are learning to drive later, are buying cars later and are more comfortable in the "sharing economy", in which buses have a role. In some areas, younger people are also benefiting from policy initiatives that make bus travel more attractive. Against that background, we continue to adjust our regional UK Bus networks to provide additional capacity where demand is growing and reduce capacity to remain cost competitive in areas of reducing demand. We continue to invest in technology and to pilot new ways of working. We see an exciting future for our regional UK bus operations as we navigate the challenges and build on the opportunities we already see.

1.5.2 UK Bus (London)

Summary
• Positive tender results • Maintaining sustainable contract pricing • New depot facility added in South East London

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 28 April 2018 is summarised below:

	2018 £m	2017 £m	Change
Revenue and like-for-like revenue	**251.8**	263.4	(4.4)%
Operating profit	**13.3**	18.4	(27.7)%
Operating margin	**5.3%**	7.0%	(170)bp

During the year, we have won several new contracts from other operators which we will run on behalf of Transport for London. We have made a net gain of four routes with a peak vehicle requirement of 50 buses and a total contract value of close to £13m. That should benefit our revenue in the next financial year, 2018/19. The revenue impact of contracts lost in the prior year is reflected in this year's financial performance and related revenue decline of 4.4%.

The movement in operating margin was built up as follows:

Operating margin – 2016/17	**7.0%**
Change in:	
Staff costs	**(0.6)%**
Operating lease costs	**(0.6)%**
Impairment of vehicles	**(0.6)%**
Fuel costs	**0.5%**
Other	**(0.4)%**
Operating margin – 2017/18	**5.3%**

Consistent with the UK Bus (regional operations), the new Apprenticeship Levy has added to the UK Bus (London) Division's staff costs in the year. The current year staff costs also reflect pay awards and the implementation of previously disclosed plans to increase starting rates of pay for bus drivers.

Operating lease costs have moved as a percentage of revenue, principally due to year-on-year changes in end of lease vehicle return costs.

The increased impairment expense arises from the impairment of the carrying value of older, owned vehicles that became surplus to requirements during the year.

Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.

We see significant differences in the level of bus depot capacity versus the demand from Transport for London for bus services across the different areas of London. We are exploring the extent to which that presents us with opportunities for growth and/or possible re-deployment of capital. In March 2018, we opened a new depot at Lower Sydenham in South East London. This additional facility will increase our bid capability by providing extra capacity and a modest geographical extension.

We are continuing to innovate and recently launched a new low-cost sightseeing product in London, megasightseeing.com. Leveraging the profile of our megabus.com brand, the service offers a pre-booked two-hour non-stop double-decker bus tour of 50 famous tourist sights with GPS commentary. Around 19 million tourists visit London every year and we believe our significantly lower fares will provide an opportunity to gain a profitable share of the current market as well as to expand it.

Outlook

We currently expect our UK Bus (London) operating margin to remain below our long-term aspiration of 7% in the year ending 27 April 2019. Staff cost inflation in excess of what was assumed in previous successful bids for contracts is affecting profit but our revised expectation of staff and other costs is reflected in our bids for new contracts. We continue to monitor Transport for London's plans to reduce contracted bus mileage in London and will seek to maintain our contract pricing at a sustainable level, where service quality can be maintained and the financial returns reflect the capital invested.

1.5.3 North America

Summary

- Profit and revenue in line with our expectations
- Continued focus on new contract wins
- New megabus.com website performing well

Financial performance

The financial performance of the North America Division for the year ended 28 April 2018 is summarised below:

	2018 US$m	2017 (restated) US$m	Change
Revenue	**630.0**	632.3	(0.4)%
Like-for-like revenue	**628.7**	630.6	(0.3)%
Operating profit	**28.1**	23.5	19.6%
Operating margin	**4.5%**	3.7%	80bp

Like-for like revenue for the year is broadly in line with our expectations. Revenue trends in the second half of the year were lower than growth seen in the first half, reflecting the timing of contract work during the year and more severe weather than our forecasts anticipated over the winter months.

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

	2018 US$m	2017 US$m	Change
megabus.com	**185.8**	192.4	(3.4)%
Scheduled service			
– Commercial revenue	**156.2**	157.7	(1.0)%
– Support from local authorities	**20.2**	20.5	(1.5)%
Charter	**111.2**	118.5	(6.2)%
Contract services	**134.7**	117.8	14.3%
Sightseeing and tour	**20.6**	23.7	(13.1)%
Like-for-like revenue	**628.7**	630.6	(0.3)%

The like-for-like revenue decline of 0.3% for the Division includes a 3.4% decline for megabus.com North America, reflecting previously implemented mileage changes in the network to better match our services to customer demand. megabus.com revenue per mile for the year was up 1.0%. The other businesses in North America reported like-for-like revenue growth of 1.1% for the year.

The movement in the operating margin was built up as follows:

Operating margin – 2016/17 (restated)	**3.7%**
Change in:	
Fuel costs	**1.2%**
Staff costs	**(0.5)%**
Other	**0.1%**
Operating margin – 2017/18	**4.5%**

The main changes in the operating margin shown above are:

- Fuel costs have reduced reflecting market fuel prices and our fuel hedging programme.
- Staff costs have continued to rise as a proportion of our revenue base. That includes increased overtime levels at some locations, where we are working to recruit new drivers to reduce the need for overtime working. In addition, the improved financial performance of the Division is reflected in higher staff incentive costs.

Business developments

We continue to be encouraged by further additional revenue generated from our focus on contract opportunities. In the first half of the year, we benefitted from rail replacement contracts linked to train disruptions on New Jersey Transit and Long Island Rail Road as a result of track repair work at Pennsylvania Station in New York. This contributed to a reduction in charter revenue as we deployed some vehicles on the rail contract work that would otherwise have been available for charter. We have since benefitted from further smaller rail replacement projects in New York and Maryland. Given the pressure on rail infrastructure we are hopeful of more opportunities in the short-term. A contract with Bechtel secured in early 2017, moved from start up to full operation in the 2017/18 financial year.

We have launched Virginia Breeze, created with part financial support from the State's transportation department, with tickets sold on megabus.com and linking into its wider network. It connects Virginia with Washington DC and has several stops including Dulles International Airport.

We are delighted with the successful start of our Airport Express service offering fast, convenient transfers between Stewart International Airport and New York City. 40% of all of the Norwegian airline's passengers flying into the airport are taking our bus service.

As previously reported, we took steps last year to consolidate the megabus.com network to reflect demand in an environment of low fuel prices. We are encouraged by the impact of these management actions and also our ability to retain market share in the highly competitive Northeast corridor. However, we are continuing to develop our product offering and marketing to promote the benefits of low-cost inter-city coach travel.

The investment we have made in our new megabus.com website has improved our customers' experience and is supporting our growth. The new website provides a much improved mobile experience and we have seen clear evidence of this translating through into seat sales. The website's new functionality has allowed us to improve our search engine rankings and we have developed online route and destination content to drive traffic to the website. During the year, we launched Megabus RIDE, our new smartphone and tablet app which allows customers to choose from dozens of movies and TV shows on their journey via our free on board Wi-Fi. We are also continuing to refine our yield management approach at megabus.com to maintain our reputation for good value for money while improving yield based on patterns of demand.

Elsewhere in our portfolio, weak sightseeing markets have impacted some of our services and we have restructured our sightseeing operations as we seek to improve profitability.

Outlook

During 2018/19, we are looking to build on the benefits of the management actions taken during 2017/18 to match services with customer demand at our megabus.com inter-city coach business. Rising fuel prices should help support demand for our services.

We also continue to see growth opportunities from the Division in new contract wins but will remain disciplined in ensuring that we bid for contract opportunities at prices consistent with delivering appropriate rates of return.

1.5.4 UK Rail

Summary

- Good profits from East Midlands Trains and South West Trains
- Greater clarity on Virgin Trains East Coast – franchise terminated in June 2018
- East Midlands Trains franchise extended to March 2019, with plan for further Direct Award
- Bids for new franchises
- UK rail franchises moving to a more balanced risk profile

Financial performance

The financial performance of the UK Rail Division for the year ended 28 April 2018 is summarised below:

	2018 £m	2017 (restated) £m	Change
Revenue	**1,495.2**	2,160.7	(30.8)%
Like-for-like revenue	**1,183.7**	1,142.6	3.6%
Operating profit	**24.9**	28.5	(12.6)%
Operating margin	**1.7%**	1.3%	40bp

Our UK Rail business continues to see growth in revenue, with like-for-like revenue up 3.6% year-on-year.

The South West Trains franchise expired in August 2017. Profitability during the year was strong and included the resolution of a number of contractual matters as part of the transition of the train operations to a new operator.

The UK Rail Division's reported profit reflects the utilisation of the onerous contract provision recorded at April 2017 in respect of the original contractual arrangements at Virgin Trains East Coast. As forecasted, Virgin Trains East Coast continued to incur trading losses under that contract, which have been applied against the onerous contract provision.

Virgin Trains East Coast

While we were surprised and disappointed by the decision announced by the Secretary of State for Transport on 16 May 2018 to transfer responsibility for operating the East Coast train services from Virgin Trains East Coast to a publically owned company, we welcome the clarity that decision brings. The transfer occurred on 24 June 2018. The subsidiary company, East Coast Main Line Company Limited, which traded as Virgin Trains East Coast, remains part of the Group and there are a number of matters to unwind over the coming months.

The decision is consistent with the Secretary of State for Transport's statement in the House of Commons on 5 February 2018, where he intimated that he was considering two options for the continued operation of the InterCity East Coast services. The financial consequences of that for Virgin Trains East Coast are 90% attributable to the equity holders of the Company and 10% attributable to Virgin's non-controlling interest in Virgin Trains East Coast. In our announcement that day, we indicated that the Secretary of State's position on Virgin Trains East Coast could result in Stagecoach Group plc funding up to a further £19m in cash (£21.0m being payable by the Company to the Department for Transport, with £2.1m of that being attributable to the non-controlling interest) and incurring a further consolidated expense of up to £94m, after taking account of tax and deducting the 10% Virgin non-controlling interest. We noted that could result in the Group's consolidated non-rail net debt being up to around £19m higher than previously forecast but that the other elements of any expense should not affect non-rail net debt. The net cash outflow of £19m is expected to occur in June 2018. The net exceptional expense after tax for the year ended 28 April 2018 was £93.9m, of which £85.6m was attributable to the equity holders of Company and is within the previously reported range of up to £94m. The net expense is analysed below, with the effects of tax and the amounts attributable to the non-controlling interest separately shown:

	Exceptional income statement expense £m	Exceptional other recognised expense £m	Total recognised exceptional expense £m
Liability re performance bond	(21.0)	–	(21.0)
Increase in onerous contract provision and adjustments to carrying value of assets and liabilities	(28.0)	–	(28.0)
Pension actuarial loss	–	(32.9)	(32.9)
Loss before tax	**(49.0)**	**(32.9)**	**(81.9)**
Tax	(14.5)	2.5	(12.0)
Loss after tax	**(63.5)**	**(30.4)**	**(93.9)**
Non-controlling interest	5.6	2.7	8.3
Loss attributable to equity holders of the parent	**(57.9)**	**(27.7)**	**(85.6)**

We regret the losses the Group has experienced on the East Coast franchise, notwithstanding that these were significantly influenced by factors outside of our control. We have examined our bid for and operation of the franchise closely and have also looked more broadly at our rail bid governance. We involved external advisors in that and we have made changes to our processes to strengthen our approach to bidding and contract management in UK rail. The lessons learnt have been reflected in our subsequent bids.

East Midlands Trains

Like-for-like revenue at East Midlands Trains grew by 3.5% for the year. While growth in the first half of the year was adversely affected by the terrorist events in London and Manchester, performance in the second half of the year has been stronger. The business continues to deliver good levels of profitability.

During the year, the Department for Transport exercised its pre-contracted option to extend the East Midlands Trains franchise to March 2019, with plans for a further Direct Award franchise beyond that time. The Department for Transport currently expects the Direct Award franchise to run from March 2019 to the anticipated start of the next competitively tendered franchise in August 2019. The current franchise is subject to a GDP risk sharing arrangement with the Department for Transport that reduces the train operator's exposure to significant changes in GDP. We are progressing work on our bid for the next competitively tendered East Midlands franchise.

East Midlands Trains has had the highest punctuality of any of the UK franchised long distance train operators for the last eight years.

We have worked in partnership with Network Rail to support work on the biggest upgrade of the Midland Main Line since it was completed in 1870, alongside the Government-sponsored £7bn Thameslink programme. A new timetable was introduced in May 2018, one of the biggest changes in recent railway history. It includes some changes to East Midlands Trains services to accommodate extra peak-time seats, improved journey times and better connections on the Thameslink network. The Midland Main Line upgrade programme is due for completion in 2020. We have also been working in close partnership with Network Rail, CrossCountry and Transport Focus on operational planning and customer communications around the major Derby resignalling programme taking place from this summer. The £200m project will improve journeys to and through Derby railway station and will also provide a new platform and new track. Most recent independent research shows that 87% of East Midlands Trains customers are satisfied with its services.

South West Trains

In August, we completed the operational delivery of our South Western rail franchise, working collaboratively with the new operator and industry partners to ensure a smooth operational transition. There remain a number of assets and liabilities of South West Trains as at 28 April 2018, where the amounts due will be confirmed and settled with the counterparties in the months ahead.

Sheffield Supertram

Passenger satisfaction with Sheffield Supertram has risen to the second highest level on record at 95%.

The first passenger service of the new vehicles to be used for the innovative Tram Train project took place at Sheffield Supertram in September. The project, which will improve journeys between Sheffield and Rotherham, is the first of its kind in the country. Testing of trains with new infrastructure is being undertaken to allow driver training to begin this summer, with full services due to start towards the end of 2018. We have also made the first changes to the Supertram timetable in 15 years to improve reliability and peak capacity following a significant increase in road traffic.

Franchising update

We are working on new opportunities in the UK franchised rail market and are pleased at the steps taken by the Department for Transport to deliver an improved risk-reward balance in new franchise competitions. We are also encouraged to see signs of moderation in the level of capital put at risk on individual franchises, which we believe should be commensurate with the potential financial returns.

Earlier this year, we submitted our bid for the South Eastern franchise, which serves passengers in south-east London and parts of Kent and East Sussex. Stagecoach is one of three bidders shortlisted for the new South Eastern franchise. We were pleased to confirm in February our intention to form a relationship with Alstom Transport UK Limited (part of the Alstom SA Group) for that rail franchise, subject to Department for Transport consent. It is intended that Alstom will hold 20% of the share capital of the train operating company if our bid for the franchise is successful. Around a third of all rail journeys in the UK are made on Alstom trains, including the flagship Pendolinos that run on the West Coast route.

We are also bidding for the West Coast Partnership franchise jointly with SNCF and Virgin Group. The invitation to tender for the new West Coast Partnership was issued in March. Stagecoach has a 50% share in the bid vehicle, with SNCF holding 30% and Virgin 20%. Our objective is to work with stakeholders to create a new service that offers a world class customer experience whilst delivering value for local communities and supporting economic growth.

Stagecoach has also started work on its bid for the next competitively tendered East Midlands franchise, where it is one of three shortlisted bidders. The Department for Transport issued the invitation to tender in June and the new franchise is expected to begin in August 2019.

We have delivered good investor returns from UK Rail over more than 20 years and some of the biggest returns for taxpayers. We are focused on ensuring that any bid for a new franchise is designed to achieve an acceptable balance of risk and expected reward and based on the emerging re-balancing of risk in UK rail franchises, we are optimistic that we can deliver satisfactory financial returns from UK Rail.

Outlook

Our UK Rail operating profit for 2018/19 is expected to decline, with anticipated profit from the East Midlands Trains franchise being partly offset by the costs of bidding for new opportunities.

Revenue growth across the UK rail sector has strengthened in recent months, albeit remaining below levels typically seen since privatisation in the 1990s. In any event, our current major franchise at East Midlands Trains, has limited exposure to revenue risk because it has only around nine months to run and benefits from a GDP sharing arrangement with the Department for Transport. In our proposals for new franchises, we will assess revenue trends, revenue risk sharing arrangements and longer term revenue expectations to ensure we do not take unacceptable rail revenue risk.

We are positive on new franchise opportunities. We welcome the introduction of the Forecast Revenue Mechanism ("FRM") by the Department for Transport, where the Department for Transport shares in variances in revenue versus forecast, which should significantly reduce the likelihood of a future rail franchise experiencing the extent of the financial challenges that we encountered at Virgin Trains East Coast. The new FRM mechanism is an important factor in our decision to continue bidding for UK rail franchises. Taking account of that, the moderation of the levels of risk capital required for a franchise, the work we have undertaken to learn lessons from our experience at Virgin Trains East Coast, our expertise in rail bidding and operations and the relatively few bidders in each recent franchise competition, we believe we can earn good financial returns from UK rail in the coming years as well as continue to deliver improvements for customers and value for taxpayers.

1.5.5 Joint Ventures

1.5.5.1 Virgin Rail Group

Summary
• Continuing good financial performance • High customer satisfaction • New Direct Award franchise

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 28 April 2018 is summarised below:

49% share	2018 £m	2017 £m
Revenue	**574.0**	556.8
Operating profit	**30.0**	31.5
Net finance income	**0.4**	0.5
Taxation	**(4.5)**	(7.2)
Profit after tax	**25.9**	24.8
Operating margin	**5.2%**	5.7%

Virgin Rail Group's West Coast rail franchise delivered like-for-like revenue growth of 3.1% for the year ended 28 April 2018 and a good profit margin. The lower effective tax rate in the year reflects an adjustment to prior years' tax following the tax authority closing its enquiry into a previous tax return.

In February 2018, Virgin Rail Group agreed a new Direct Award franchise on West Coast which runs through to at least 31 March 2019, with the option for up to a further one-year extension at the Department for Transport's discretion. The contract bridges the gap between the existing franchise, which ended in March 2018, and the new West Coast Partnership, now due to start in September 2019. Under the new franchise, a revenue share arrangement with the Department for Transport applies whereby the Department for Transport bears 90% of the risk of any difference in excess of 1% between the forecast revenue reflected in the contract and actual revenue. This provides Virgin Rail Group with significant protection against movements in forecast rail revenue and enables the Department to share in revenue out-performance.

Under the Direct Award contract, Virgin Trains customers will see a significant improvement in on-board Wi-Fi on all 56 Pendolino trains and free Wi-Fi will be extended to all customers on these trains as part of a £7.5m investment. All station ticket machines are being upgraded to accept contactless payment as part of the new contract. More than £3m is being invested to improve station and on-train environments, including additional seating at stations and improved toilets, lighting and carpets on trains. Additional staff will be based at stations during busy times to improve accessibility and better customer information will be available during disruption, through an improved customer contact system. Virgin Trains is also creating new apprenticeship opportunities, including for train driver roles. The new contract will allow Virgin Trains to build on 20 years of success on the West Coast route where it has almost tripled journey numbers from 14m a year to more than 38m and has consistently topped the long distance franchised sector for passenger satisfaction.

Outlook

Virgin Rail Group's operating profit in 2018/19 is anticipated to reduce, reflecting the full year effect of the contractual terms on the new Direct Award West Coast franchise.

1.6 Other financial matters

1.6.1 Pre-exceptional EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items (pre-exceptional EBITDA) amounted to £334.4m (2017: £345.4m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

	2018 £m	2017 £m
Total operating profit	**132.1**	47.3
Exceptional items	**47.8**	128.7
Intangible asset amortisation	**12.7**	16.8
Depreciation	**132.9**	145.5
Impairment	**4.5**	–
Add back joint venture finance income & tax	**4.4**	7.1
Pre-exceptional EBITDA	**334.4**	345.4

Intangible asset amortisation reduced from £16.8m to £12.7m, reflecting the write-down in intangible assets at Virgin Trains East Coast in the previous year.

Depreciation reduced from the previous year reflecting the cessation of our South Western rail franchise.

1.6.2 Exceptional items

The following exceptional items were recognised in the year ended 28 April 2018:

- As explained in section 1.5.4, an exceptional pre-tax expense of £81.9m has been recorded in respect of the Virgin Trains East Coast franchise. Of the total expense, £49.0m has been recognised in the consolidated income statement, with the remaining £32.9m recognised in the consolidated statement of comprehensive income, as it represents the actuarial loss in relation to the re-measurement of the pension asset arising from the termination of the franchise.
- A pre-tax exceptional loss of £1.7m was recognised in respect of the closure of our Norfolk Green business within the UK Bus (regional operations) Division. Due to the non-recurring nature of business disposals, we present any such gains or losses as exceptional items to allow a proper understanding of the Group's financial performance.
- A pre-tax exceptional gain of £1.2m was recognised in respect of a reassessment of liabilities for North America legal claims.

The net effect of exceptional items was a pre-tax loss of £49.5m (2017: £124.0m).

1.6.3 Net finance costs

Net finance costs for the year ended 28 April 2018 were £35.1m (2017: £34.1m) and can be further analysed as follows:

	2018 £m	2017 £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**3.8**	4.7
Hire purchase and finance lease interest payable	**1.5**	1.7
Interest payable and other finance costs on bonds	**21.8**	22.0
Unwinding of discount on provisions	**3.5**	3.5
Interest charge on defined benefit pension schemes	**6.0**	3.7
	36.6	35.6
Finance income		
Interest receivable on cash	**(0.7)**	(1.2)
Effect of interest rate swaps	**(0.8)**	(0.3)
	(1.5)	(1.5)
Net finance costs	**35.1**	34.1

The modest increase in net finance costs is principally due to higher interest expense on defined benefit pension schemes arising from changes in market-driven assumptions used to determine pension amounts.

1.6.4 Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge including our share of joint ventures' tax relative to the Group's profit before tax excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 28 April 2018, excluding exceptional items, was 15.2% (2017: 17.5%).

The tax charge can be analysed as follows:

Year to 28 April 2018	Pre-tax profit £m	Tax £m	Rate %
Excluding exceptional items	149.6	(22.7)	15.2%
Exceptional items	(49.5)	(13.6)	(27.5)%
With joint venture taxation gross	100.1	(36.3)	36.3%
Reclassify joint venture taxation for reporting purposes	(4.8)	4.8	
Reported in income statement	**95.3**	**(31.5)**	**33.1%**

The effective tax rate, excluding exceptional items, of 15.2% is lower than the 19.0% rate of UK corporation tax for the year. The difference is principally due to the utilisation of previously unrecognised losses and the release of liabilities for uncertain tax positions following the conclusion of a state tax audit in the US, the reclassification of the Group by Her Majesty's Revenue and Customs ("HMRC") to "low risk" and HMRC closing its enquiries into tax returns in respect of previous years. Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to expected corporate tax rates or laws in the UK, the US and Canada, we expect the Group's future effective tax rate (excluding exceptional items) to be between 17% and 20%.

The cash tax paid in the year of £16.3m (2017: £21.6m) compares to the tax charge for Group companies of £31.5m (2017: credit of £0.2m) shown above. The largest difference relates to the £13.6m tax charge recognised on exceptional items that has yet to affect cash tax.

The areas where the Group sees uncertainty around the amount of tax that is payable relate to losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas operations and losses incurred by overseas operations in the ordinary course of business.

1.6.5 Fuel costs

The Group's operations as at 28 April 2018 consume approximately 385m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending April:	2019	2020	2021
Total Group	79%	69%	43%

The Group has no fuel hedges in place for periods beyond April 2021.

1.6.6 Cash flows and net debt

Consolidated net debt (as analysed in note 28(c) to the consolidated financial statements) has reduced in the year, notwithstanding operating cash outflows at Virgin Trains East Coast and the transfer of cash following the August 2017 expiry of the South West Trains franchise. Consolidated net debt at 28 April 2018 was £395.8m (2017: £409.4m) and non-rail net debt was £567.0m (2017: £628.8m). Although the consolidated net debt at 28 April 2018 is less than we expected, that largely reflects variations in the timing of UK Rail cash flows. The balance at 28 April 2018 includes £84.5m of Virgin Trains East Coast cash, which we expect will reduce to £Nil in the year to 27 April 2019 and we also expect further net cash outflows in respect of South West Trains as we conclude open matters relating to the expired franchise. However, we do expect non-rail net debt to reduce in the year to 27 April 2019.

Net cash from operating activities before tax for the year ended 28 April 2018 was £208.8m (2017: £253.7m) and can be further analysed as follows:

	2018 £m	2017 £m
EBITDA of Group companies before exceptional items	**302.9**	312.1
Cash effect of exceptional items	**–**	(3.7)
Gain on disposal of property, plant and equipment	**(3.2)**	(4.3)
Equity-settled share based payment expense	**1.2**	1.9
Working capital movements	**(93.0)**	(53.7)
Net interest paid	**(26.3)**	(26.7)
Dividends from joint ventures	**27.2**	28.1
Net cash flows from operating activities before taxation	**208.8**	253.7

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

Year to 28 April 2018	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	41.0	261.9	302.9
Gain on disposal of property, plant and equipment	(1.0)	(2.2)	(3.2)
Equity-settled share based payment expense	0.5	0.7	1.2
Working capital movements	(129.2)	36.2	(93.0)
Net interest paid	(2.8)	(23.5)	(26.3)
Dividends from joint ventures	–	27.2	27.2
Net cash flows from operating activities before taxation	(91.5)	300.3	208.8
Inter-company movements	48.9	(48.9)	–
Tax paid	(7.8)	(8.5)	(16.3)
Investing activities	2.2	(118.2)	(116.0)
Financing activities	–	(69.6)	(69.6)
Foreign exchange/other	–	6.7	6.7
Movement in net debt	(48.2)	61.8	13.6
Opening net debt	219.4	(628.8)	(409.4)
Closing net debt	171.2	(567.0)	(395.8)

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. The working capital cash outflow shown above principally arises due to the expiry of the South West Trains franchise and the previously provided for cash losses at Virgin Trains East Coast.

The expiry of the South West Trains franchise has increased our net debt in the year by around £30m. We would anticipate a further net cash outflow in this respect as we conclude open matters. The closing balance of £171.2m for train operating companies shown in the table above excludes South West Trains.

The net impact of purchases and sales of property, plant and equipment for the year on net debt ("net capital expenditure") was £100.4m (2017: £157.3m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £111.7m (2017: £155.5m) and new hire purchase and finance lease debt of £27.2m (2017: £47.8m). In addition, £38.5m (2017: £46.0m) cash was received from disposals of property, plant and equipment.

Net capital expenditure, split by division, was:

	2018 £m	2017 £m
UK Bus (regional operations)	**73.8**	97.4
UK Bus (London)	**2.1**	1.6
North America	**36.0**	37.4
UK Rail	**(11.5)**	20.9
	100.4	157.3

In addition to the amounts shown in the table above, a further net £18.7m (2017: £17.8m) was invested in software and a technology business.

1.6.7 Financial position and liquidity

The Group has maintained investment grade credit ratings and appropriate headroom under its debt facilities.

The Group continues to have an appropriate mix of long-term debt enabling it to plan and invest with some certainty.

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

- The ratio of net debt at 28 April 2018 to pre-exceptional EBITDA for the year ended 28 April 2018 was 1.2 times (2017: 1.2 times).
- Pre-exceptional EBITDA for the year ended 28 April 2018 was 9.6 times (2017: 10.3 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £433.4m at 28 April 2018 (2017: £333.8m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.

1.6.8 Year end financial position of the Group

1.6.8.1 Net assets

Net assets at 28 April 2018 were £181.7m (2017: £68.5m).

The increase in the net assets reflects the profit for the year, actuarial gains on defined benefit pension schemes and fair value gains on cash flow hedges, partly offset by dividends paid.

1.6.8.2 Retirement benefits

We are pleased that our net retirement benefit obligations have reduced in the year, reflecting good investment returns on pension scheme assets, higher interest rates, changes in inflation assumptions and experience gains on the Stagecoach Group Pension Scheme.

The reported net assets of £181.7m (2017: £68.5m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £142.2m (2017: £232.5m), and associated deferred tax assets of £24.9m (2017: £44.4m).

The Group recognised net pre-tax actuarial gains of £106.7m in the year ended 28 April 2018 (2017: losses of £127.6m) on Group defined benefit pension schemes.

The Pensions Regulator takes an active interest in the main pension schemes in which we participate and the relevant trustees continue to discuss the appropriateness of scheme valuations and contribution rates with the Regulator.

1.6.8.3 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 28 April 2018, the Group's capital comprised:

	2018 £m	2017 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	**907.6**	1,167.3
Cash	**238.2**	313.3
Gross debt	**(634.0)**	(722.7)
Net debt (see section 1.6.6)	**(395.8)**	(409.4)

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 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 will continue to regularly review its financial strategy and capital structure.

1.6.9 Dividend policy

1.6.9.1 Proposed dividend

The Board has proposed a final dividend of 3.9p, which will result in a full year dividend of 7.7p per share for the year ended 28 April 2018. The Board has taken the decision to rebase the dividend to what it views as a sustainable level and which is covered by the normalised, annual free cash flows from the non-rail operations. The Group will look to at least maintain the rate of annual dividends at that rebased level of 7.7p per share.

1.6.9.2 Approach to dividend policy

The Group takes account of its performance, financial position and prospects when setting dividends. It does not have a prescribed formula for determining each year's dividends and has not set specific targets for dividend growth or dividend cover ratios for the following reasons:

- The Group does not wish such targets to be viewed as a commitment or promise by the Board which, in turn, could act as pressure to pay certain levels of dividend in the future even when at that future point in time, that might not be in the best interests of the Company and its stakeholders.
- The appropriate payout ratio may vary based on many factors including the mix of bus versus rail in the Group's portfolio and factors affecting the outlook that are not reflected in the historically reported figures.

- Earnings may be volatile from year-to-year. We would look for dividend rates to be more stable and not to fluctuate as significantly as earnings simply to achieve target cover ratios.

As at 28 April 2018, the Company's distributable reserves totalled £211.5m (2017: £247.7m), which compares to dividends paid in cash in the year ended 28 April 2018 of £68.3m (2017: £67.1m). In addition, we consider that the Company's distributable reserves could be further increased through dividends from subsidiary companies and/or changes in the Group structure. The Group considers there to be a low risk that the level of distributable reserves will be a constraining factor on dividend payments for the foreseeable future.

The Group has significant undrawn, committed bank facilities as explained in section 1.6.7 of this report. The Group considers there to be a low risk that the level of available liquidity/cash resources will be a constraining factor on dividend payments for the foreseeable future.

As explained in section 1.6.8.3, the Directors are focused on maintaining an investment grade credit rating and as noted in section 1.6.7, the three main credit rating agencies continue to assign investment grade credit ratings to the Group. Where the Group was no longer investment grade rated or there was a significant risk of that, the Board would review the dividend policy.

1.6.10 Treasury policies and objectives

Treasury risk management is carried out by a treasury committee and a central treasury department (together, "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 24 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.

1.6.11 Use of non-GAAP measures

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 33 to the consolidated financial statements provides further information on these non-GAAP financial measures.

1.6.12 Updating definition of adjusted earnings per share

As well as reporting earnings per share in accordance with Generally Accepted Accounting Principles, we also report an adjusted earnings per share measure to help explain the financial performance of the Group. For some years, our measure of adjusted earnings per share has been calculated with reference to profit excluding intangible asset expenses and exceptional items.

In our preliminary results announcement of 28 June 2017, we noted our intention to discuss with analysts and investors whether adjusting our definition of adjusted earnings per share to include software amortisation would provide them with a more useful measure of performance, reflecting the growth in these costs as we have invested in our digital programmes. We confirmed in our trading statement of 28 September 2017 that based on those discussions and consistent with emerging market practice, we will now report adjusted earnings per share inclusive of software amortisation. The adjusted earnings per share of 22.3p that we have reported for the year ended 28 April 2018 has been determined on that basis.

The effect on previously reported amounts of including these costs within adjusted earnings per share is set out below:

Year ended 29 April 2017	Build-up of adjusted EPS £m	Software amortisation £m	**Revised build-up of adjusted EPS £m**
UK Bus (regional operations)	121.1	(4.1)	**117.0**
megabus Europe	(4.3)	–	**(4.3)**
UK Bus (London)	18.4	–	**18.4**
North America	19.3	(1.1)	**18.2**
UK Rail	31.0	(2.5)	**28.5**
Group overheads and restructuring costs	(18.9)	–	**(18.9)**
Joint ventures	26.2	–	**26.2**
Finance costs (net)	(34.1)	–	**(34.1)**
Taxation	(20.7)	1.4	**(19.3)**
Non-controlling interest	1.7	0.1	**1.8**
Profit for adjusted earnings per share	139.7	(6.2)	**133.5**
	Pence	Pence	**Pence**
Adjusted earnings per share	24.4	(1.1)	**23.3**

1.7 Current trading and outlook

We have made a good start to the year ending 27 April 2019 and have not significantly changed our expectation of adjusted earnings per share for the year.

We see positive long-term prospects for public transport. There is a large market opportunity for modal shift from cars to public transport against a backdrop of technological advancements, rising road congestion and increasing environmental awareness. We have a growth strategy built on continued investment, value-for-money travel and high customer satisfaction.

The Group is in good financial shape. Our core debt is committed and in place for over a further three years and we remain investment grade rated.

1.8 Non-financial information statement

The non-financial information statement provided in this section 1.8 is a consolidated report relating to the Group as a whole.

Section 1.4.1 of this Annual Report contains a description of the Group's business model.

1.8.1 Corporate social responsibility

We have a clear sense of our purpose: we provide trusted travel to connect people with opportunities and partner with others to support the sustainability of our local communities. In addition to running commercially successful companies, our business and our people make a significant contribution to society.

Many journeys a day are made on our transport services and in enabling those journeys, we:

- Connect people, families and communities;
- Help individuals access employment, education, healthcare and leisure;
- Support jobs, the skills base and economic growth both nationally and regionally;
- Play our part in improving local air quality and tackling climate change.

Like most 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 can be found on our website at the following link: https://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.

1.8.2 Our corporate values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. We have five shared values that drive our people and the brands they represent across our business: safety, service, integrity, enterprise and partnership. 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 further updated during the year ended 28 April 2018, sets out key principles and provides practical examples and guidance to help shape employees' 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 and can be found at the following link: https://www.stagecoach.com/code-of-conduct.pdf.

We issued a new whistleblowing policy and guide during 2017/18 to help employees understand their rights and responsibilities. Previously referred to as Speaking Up, it sets out how the Group will investigate any concerns raised and the action it may take. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. A new animated video was also produced to help employees understand what the policy covers and how it should be used. A copy of the document is available at: https://www.stagecoach.com/stagecoach-whistleblowing-policy.

1.8.3 Health and safety

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

During the year, we launched a major initiative to strengthen further our safety culture across our bus and rail businesses in the UK and North America. For example, we held a series of safety conferences for our leaders across the UK Bus Divisions attended by more than 200 of our managers and directors, covering operations, engineering, marketing and commercial teams. These conferences were a chance for us to look closely at our current approach, get vital feedback from our employees and work together to become better leaders in safety. We have also appointed a new Director of Safety and Sustainability for our UK bus and rail operations. A key objective of our safety culture programme is to ensure that we provide our people with the fundamental tools and techniques to develop and sustain a safe working environment.

In addition, we work with local communities to encourage a safe environment around our transport networks and use of our services, particularly with young people. 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: https://www.stagecoach.com/sustainability/safety-health.aspx.

1.8.4 Employees

1.8.4.1 Our employees

The Group's employees are fundamental to its successful development and performance. 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.

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.

1.8.4.2 Employment policies

It is our policy that all people should be treated fairly and with respect.

Each of our businesses has detailed employment policies in place that are appropriate to the relevant business and its employees. Across the Group, 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.

We value, and have a policy of, equality of opportunity, regardless of disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. It is the Group's policy to give 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 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.

1.8.4.3 Effectiveness of employment policies

We monitor the effectiveness of our employment policies in a number of ways. We conduct surveys of various employee groups from time to time. In 2016/17, we undertook our biggest employee engagement programme to date. As a responsible forward-looking business, we want to foster an inclusive environment and build a diverse workforce where everyone has access to opportunities and resources to help them contribute to the success of our business. Action plans are being progressed within our individual businesses to capitalise on what we have learned. This includes progressing improvements in the workplace environment, communications, training and development, and rewards and benefits.

We monitor staff turnover and investigate the reasons for any unusual trends.

1.8.4.4 Employee training and development

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.

We 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.

During National Apprenticeship Week in 2018, Stagecoach launched a new Bus Driver Apprenticeship scheme. The initiative is being piloted in the North East of England and Yorkshire, with 23 new recruits initially benefitting from the new programme. It is hoped that more than 150 apprentices will be recruited over the next year in these areas. The programme is being delivered in partnership with training provider, Interserve Learning and Employment. Stagecoach's existing bus driver training module has been enhanced and extended, within the framework of the Apprentice Levy arrangements, using a combination of practical training and off-the-job learning over a period of 12 months. Stagecoach already offers a number of training and development opportunities for new recruits and existing employees. The bus divisions' industry-leading engineering apprenticeship programme has benefitted hundreds of apprentices over more than a decade. Stagecoach also offers a comprehensive Graduate Development Programme, which continues to produce managers and directors of the future, and its Staff Development Programme allows existing employees to train as managers.

Our joint venture, Virgin Rail Group, has launched the UK's first and only train driver apprenticeship scheme. Working with train drivers' union ASLEF, the year-long training course covers all aspects of the train driver role as well as additional learning based on functional skills and English, Maths and Computing. Apprentices shadow drivers, train managers and station staff so they can gain a full appreciation of how the driver's role fits within wider operations. They also benefit from experiencing other areas of the business.

A significant amount of work has been undertaken during the year to create a new People Strategy in our bus divisions following a detailed review of our teams' skills and competencies. Many of our management and supervisors' programmes have previously been focused on operational excellence. Moving forward, we are developing a programme that strengthens recruitment, training and development around commercial skills.

1.8.4.5 Employee relations

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, through a number of internal publications and via our intranet, The Loop. In 2017/18, we have also further extended the scope of and employee participation in The Loop. We have worked closely with our operating companies to identify opportunities to improve the platform and we will shortly undertake a redevelopment of The Loop to make it more engaging and enhance its functionality for employees.

We have programmes in place to promote the health and well-being of our people. During the year, we launched an employee well-being campaign for female staff at our UK bus companies . The Driving Fitness Together campaign is also being used to shine a light on career opportunities for women at Stagecoach. The campaign had strong reach in traditional and social media. Following the success of phase one of the campaign, we plan to make the initiative accessible to all staff, both male and female, and plan to identify a wellness champion for each bus depot. 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.

We are proud that in 2018, East Midlands Trains and Virgin Trains East Coast were recognised as among the top employers in the UK. They are the only two train companies among the 84 UK firms certified by the Top Employers Institute, and it is the second year running that both those rail businesses have been included in the list. The research recognises leading employers who provide excellent employee conditions to nurture and develop talent throughout all levels of the organisation, and who strive to continuously improve.

We are supporting the Scottish Government's Developing Our Young Workforce initiative, helping to ensure young people have the right skills for work and that businesses like ourselves have talented employees that can help us grow. The Group has strong established partnership programmes through initiatives such as Career Ready and we also work with Barnardo's Works to help young people who have personal challenges or come from more socially excluded backgrounds. Many of our businesses offer work experience opportunities and have close links with schools and other education providers as part of our commitments as a responsible employer and our focus on having a good talent pipeline.

Further information is available here:
https://www.stagecoach.com/sustainability/our-people.aspx.

1.8.5 Diversity

The Group recognises and values the individuality and diversity that each employee brings to the business. We value diversity in its wider sense and it is our policy to facilitate diversity of age, gender and background across our workforce. We are particularly focused on promoting gender diversity.

The table below shows the gender split at different levels within the organisation, as at 28 April 2018. The Group's workforce is around 83% male and that high proportion is common in the ground transportation industry.

Population	Male	Female	Total	% Male	% Female
Board	8	3	11	72.7%	27.3%
Senior management *	93	21	114	81.6%	18.4%
Whole workforce	28,779	6,037	34,816	82.7%	17.3%

*Senior management is defined as those employees who receive awards under the Group's Executive Participation Plan and individuals who are statutory directors of the corporate entities whose financial information is included in the Group's 2018 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 29 April 2017 were:

Population	Male	Female	Total	% Male	% Female
Board	8	3	11	72.7%	27.3%
Senior management	98	24	122	80.3%	19.7%
Whole workforce	33,136	6,863	39,999	82.8%	17.2%

Stagecoach Group believes in providing job opportunities and equal pay for everyone regardless of gender. We welcome the UK Government's initiative on Gender Pay Gap reporting as part of our focus on driving change and improvement on these important issues. Stagecoach already ensures that men and women in the same employment performing equal work receive equal pay. Stagecoach Group is made up of a portfolio of devolved public transport operating companies with their own management teams. Consistent with that structure, we report Gender Pay Gap data for our operating companies individually. Full details for our businesses can be accessed here:
https://www.stagecoach.com/about/managing-the-business/governance/gender-pay-gap-reporting.aspx

The picture across our businesses is in line with our expectations and generally consistent with the wider transport industry where the number of male employees has for many years been significantly higher than the number of female employees. Data is also influenced by the roles and associated salaries which male and female employees have traditionally undertaken. Most of our employees fulfil frontline operational roles, such as bus drivers, and in customer service. Nevertheless, we are taking a range of steps to encourage positive change in this area. Across our bus and rail businesses, we are taking action to attract more women to careers in public transport. This includes targeted recruitment campaigns, women-only career open days and gender coded adverts to increase appeal to women. We offer flexible and part-time working arrangements to encourage employees to stay within the business. We are also focused on providing an attractive working environment and training and development programmes to retain their talent and encourage women to progress into senior positions. Training is undertaken for managers on unconscious bias in recruitment, and we also run inclusivity training at a senior level. In addition, we are helping to influence society by taking a leading role in sector initiatives such as Women in Rail, the national volunteer organisation that aims to increase the number of women working in the rail sector. A full transformation for Stagecoach, and across the UK's labour market, will require meaningful changes in society, as well as improvements across the sector and in our own organisations.

During the year, we have continued with our campaigns to encourage more women to join the bus industry as engineers and we are continuing with our campaign to attract more female bus drivers.

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 bus operator in the UK. Research published by Transport Focus in March 2018 found that customers rated Stagecoach as the best value of the major UK bus operators for the fifth year in a row.

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. In 2017/18, we worked with the Mayor of Greater Manchester and other transport operators to introduce a half-price travel initiative for 16 to 18 year olds, benefitting around 100,000 young people in the region.

We are committed to improving the accessibility of our buses, trains and stations. All of our local bus fleets in the UK are fully accessible as a result of our policy of continuing to invest through the business cycle. Automatic vehicle location technology is fully deployed across our UK regional bus fleet, providing real time service information to customers via our smartphone app and online. It also provides a technology platform to deliver audio visual next stop information via smartphones, including those which support blind and partially-sighted people. In the UK, Stagecoach is a founder partner in the national Accessible Travel Alliance, an industry-leading group of travel operators working with the Whizz-Kidz charity to improve transport accessibility for young wheelchair users through a mix of training, try the bus events and workshops. Over the past two years, this partnership has helped us to develop our transport policies and educate and encourage people with a range of disabilities about the benefits of using our services. On our rail networks, we are working with government to introduce easier disabled access at stations.

The Group is also investing in new digital technologies and working with other transport partners to introduce simpler travel through smart, integrated ticketing.

For further information, please go to:
https://www.stagecoach.com/sustainability/accessibility-affordability.aspx

1.8.7 Environmental matters

1.8.7.1 Impact of the Group's business on the environment

The Group actively promotes the use of public transport and aims to provide safe, reliable, good quality, customer-focused transport services that deliver a positive customer experience at a reasonable price. These factors help reduce carbon dioxide emissions from transport by enabling people to switch some of their car journeys to public transport. Greener Journeys, a UK campaign dedicated to encouraging people to make more sustainable travel choices, suggests that everyone switching from car to bus for just one journey a month would mean one billion fewer car journeys and would save two million tonnes of CO2 every year in the UK. Public transport has an important role to play in addressing road congestion and air quality and positive political action in tackling these threats should also be positive for the future development, performance and position of the Group.

Advancements in vehicle technology are likely to enable us to reduce the direct impact of the business on the environment, by for example, making further use of electric-powered vehicles rather than diesel-powered vehicles. Of course, such advancements will likely also reduce the environmental impact of cars and other modes of transport, and so present both opportunities and risks in respect of the Group's future development and performance.

The data below shows our greenhouse gas emissions for the year ended 28 April 2018 with comparative data for the year ended 29 April 2017.

	2017/18	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	940,353	0.32
Operation of facilities (refrigerants)	16,348	0.01
Total Scope 1	**956,701**	**0.33**
Scope 2		
Purchased electricity	118,506	0.04
Statutory total (Scope 1 & 2)*	**1,075,207**	**0.37**

	2016/17	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	998,765	0.25
Operation of facilities (refrigerants)	20,467	0.01
Total Scope 1	**1,019,232**	**0.26**
Scope 2		
Purchased electricity	345,544	0.09
Statutory total (Scope 1 & 2)*	**1,364,776**	**0.35**

* 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 2017.

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 South West Trains franchise expired on 20 August 2017 and the business and employees transferred to another operator. Since this franchise was operated for less than four months out of the twelve months of the 2017/18 reporting year, it was excluded from our footprint for this year to ensure that the relative metric of emissions per £ of revenue was as meaningful as possible.

Group Metrics	2017/18	2016/17
Revenue (£m)	2,915.3	3,941.2
Total Scope 1 & 2 emissions tonnes (tCO_2e)	1,075,207	1,364,776
Intensity ratio		
Scope 1 & 2 emissions per £ of revenue (Kg CO_2e/£)	0.37	0.35

1.8.7.2 Environmental policy

We are committed to making continuing progress in improving the environmental management of our operations and to helping build a sustainable environment.

It is the Group's policy to help reduce the impact of transport on the environment and also to pursue initiatives that reduce the direct impact of the Group's own business on the environment. Switching journeys from cars to public transport helps reduce carbon dioxide emissions. Increasing public transport use could result in increased public transport miles and higher emissions but the Group would still regard that as positive to the extent those higher emissions are more than offset by reduced emissions from cars.

1.8.7.3 Effectiveness of environmental policies

Stagecoach Group has a sustainability strategy covering the five years to 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.

Following the end of the Group's management of the South Western rail franchise on 20 August 2017, Stagecoach worked with the Carbon Trust to update the Group's environmental baseline and targets. This is to ensure continued like-for-like consolidated reporting of performance to the Health, Safety and Environmental Committee and to provide clarity and transparency for external stakeholders. Our updated targets are:

- Reduce Group fleet carbon emissions (kg CO2e/vkm) by 1.3%
- Reduce Group buildings carbon emissions (absolute reduction) by 7.4%
- Reduce Group water consumption year-on-year
- Increase percentage of waste diverted from landfill from 96.4% to 96.8%

We have made good progress during the year on our action plans to achieve those targets, particularly in the areas of carbon and water, and we are working hard to make further improvements in waste where a high level of material continues to be diverted from landfill. The Group was recertified during the year for the Carbon Trust Standard for demonstrating best practice in carbon measurement, management and reduction following a detailed assessment of the environmental performance of our businesses. In 2013, the Group became the first public transport operator to have its operations certified by the Carbon Trust outside of Europe. The Group's certification is valid until the end of April 2019.

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.

Work has started on planning for Stagecoach Group's next sustainability strategy and associated environmental targets for carbon, water and waste. The Group's current five-year strategy runs to April 2019 and the business is considering options around different approaches it may take. As part of the Group's approach to reducing its carbon footprint, it is considering whether to adopt science-based target methodologies. The Science Based Targets initiative ("SBTi") is a partnership between CDP, UN Global Compact, the World Resources Institute ("WRI") and the World Wildlife Fund ("WWF"). A carbon emissions target is defined as science-based if it is in line with the scale of reductions required to keep global temperature increases below 2°C compared to pre-industrial temperatures. This approach involves allocating a proportion of the required global emissions reduction targets to individual sectors and companies in a fair and transparent way. In advance of deciding on its future strategy, the Group is working with the Carbon Trust on modelling work and a series of internal stakeholder workshops.

1.8.8 Social and community matters

The Group is a major employer, now supporting direct employment for around 31,500 people. Our investment in improving our transport services also supports thousands of other jobs through the supply chain. Further information is available at:
https://www.stagecoach.com/sustainability/economic-contribution.aspx

1.8.8.1 Social and community policies

It is our policy to seek to make a positive contribution in the communities in which we work, and to share our success with local people and communities by investing part of our profits in good causes.

1.8.8.2 Effectiveness of social and community policies

We share our success with local people and communities by investing part of our profits in good causes. During the year ended 28 April 2018, £0.9m (2017: £0.9m) 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.

Stagecoach is continuing to work with the Diana Award on the successful #BeNiceBus project. The Diana Award runs the leading anti-bullying campaign in the UK and Ireland, giving young people the skills, confidence and training to become ambassadors to tackle the problem. As part of the project, a bus donated by Stagecoach undertakes an educational tour of schools across England, Scotland and Wales. More than 3,000 pupils at over 30 locations have been reached directly in schools as part of the first year of the initiative, with an estimated total of 16,500 young people benefitting from the wider educational resources shared with schools following the bus visit.

In 2018, we launched a two-year partnership with Royal Manchester Children's Hospital Charity. Nurses from the hospital were involved in treating children injured in the Manchester Arena terrorist attack in 2017.

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. We also have partnerships with veterans' groups in the UK and North America. Stagecoach Group has demonstrated its commitment to the UK Armed Forces by signing a corporate covenant to support the country's military community. More information on our community support and programmes is available at:
https://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 1.8.2), 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.

It is our policy to respect the rights of individuals to hold personal political views, to undertake political activity and to personally support or be members of particular organisations.

We support the objectives of the Modern Slavery Act 2015 ("the Act") of eliminating slavery and human trafficking. We have provided a statement on these matters at:
https://www.stagecoach.com/modern-slavery-statement

1.8.10 Anti-corruption and anti-bribery

1.8.10.1 Anti-corruption and anti-bribery policy

The Group has an anti-bribery and anti-corruption framework in place. The Group's attitude to bribery and corruption is set by the Board of Directors and is reflected in the Group Code of Conduct (see section 1.8.2 of this Annual Report). It is our policy:

- not to tolerate any form of bribery or inducements for any purpose whether directly or through a third party;
- to prohibit the giving of "facilitation payments" or "grease payments" even in jurisdictions where these might be legally permitted or expected by local custom;
- that officers, employees and representatives of the Group shall not accept, offer or provide gifts from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the value of the gift(s) is clearly insignificant;
- that officers, employees and representatives of the Group shall not accept, offer or provide hospitality from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the hospitality is reasonable in terms of its frequency, nature and cost;
- that share price-sensitive information must be properly safeguarded and no individual should profit from undisclosed price-sensitive information;
- that we do not to make political contributions and, therefore, no company within the Group is permitted to make political contributions;
- that all officers, employees and representatives of Stagecoach must use the Group's property and information technology appropriately and responsibly;
- that each officer, employee and representative of the Group should avoid engaging in communications that are illegal, would be a breach of the Code of Conduct or might (by associating personal comments with the Group or portraying them as the views of the Group) bring the Group into disrepute.

1.8.10.2 Effectiveness of anti-corruption and anti-bribery polices

Any known instance of fraud, bribery or attempted bribery that was designed to give an advantage to the Group is reported to the Group's Audit Committee for consideration and appropriate follow up. There were no such matters arising during the year ended 28 April 2018 that were material. The whistleblowing policy provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

1.8.10.3 Anti-corruption and anti-bribery procedures

A Group Compliance Committee is in place to monitor compliance with laws and regulations and to monitor the effectiveness of the anti-corruption framework, policies and procedures. The Group Compliance Committee assesses the nature and extent of the risks relating to bribery and corruption to which the Group is exposed. The Committee considers not only bribery and corruption risks within the Group itself but also within the Group's supply chain. Our procurement group considers anti-corruption and anti-bribery risks in the supply chain and what steps should be taken to reduce those risks. We generally consider such risks to be low given the countries in which we operate and the countries in which the majority of our suppliers are based. Supplier due diligence is undertaken as considered appropriate. Suppliers considered to be of higher risk are requested to complete a questionnaire as part of the Group's supplier due diligence. Further follow up may be undertaken based on the responses to questionnaires, such as requesting further evidence on specific matters. On suppliers that are considered to be of particularly high inherent risk (for example, suppliers of clothing manufactured overseas), we make reference to third party audits of the suppliers and countries involved.

The Group's independent internal auditors review the Group's anti-corruption framework every three years and report their findings to the Group's Audit Committee.

A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's anti-corruption policy.

The Group also has a number of other internal controls in place designed to minimise the risk of anti-bribery and anti-corruption.

1.8.11 Non-financial key performance indicators

Section 1.4.6 describes key performance indicators relevant to the Group's business, including non-financial key performance indicators.

This Strategic report was approved by the Board of Directors and signed on its behalf by:

Mike Vaux

Company Secretary

28 June 2018

2. Board of Directors

Executive Directors

Non-Executive Directors

Martin Griffiths [1]
Chief Executive

Appointment to the Board: 2000
Age: 52
Committee membership: Health, Safety and Environmental, Digital and Technology.
Executive responsibilities: Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for Group health, safety and environmental matters, overall strategy and management of all of the Group's operations.
Skills and previous experience: A Chartered Accountant, Martin Griffiths joined Stagecoach in 1997 as Group Business Development Manager, before being appointed to the Board as Finance Director in April 2000. He has also served as the senior independent non-executive director of Robert Walters plc and as a non-executive director of Troy Income & Growth Trust plc. He was young Scottish Finance Director of the year in 2004.
External appointments: Virgin Rail Group Holdings Limited (Co-Chairman), AG Barr plc (Non-Executive Director), Rail Delivery Group Limited (Non-Executive Director).

Ross Paterson [2]
Finance Director

Appointment to the Board: 2013
Age: 46
Committee membership: Pensions Oversight, Digital and Technology.
Executive responsibilities: Ross Paterson is responsible for the Group's overall financial policy, taxation, treasury, corporate finance, City relations, financial reporting, information technology and employee benefits. He supports the Chief Executive in the management of the Group's operations and new business development.
Skills and previous experience: A Chartered Accountant, Ross Paterson joined Stagecoach in 1999. 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 succeeded Martin Griffiths as Finance Director in 2013. He is former Deputy Convenor of the Audit and Assurance Panel of the Institute of Chartered Accountants of Scotland.
External appointments: Virgin Rail Group Holdings Limited (Director and Audit Committee Chair), The Unite Group plc (Non-Executive Director and Audit Committee Chair). Member of the Business Policy Panel of the Institute of Chartered Accountants of Scotland.

Sir Brian Souter [3]
Chairman

Appointment to the Board: n/a (co-founder)
Age: 64
Committee membership: Nomination (Chair).
Skills and previous experience: A Chartered Accountant, Sir Brian Souter co-founded Stagecoach. 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 was President of the Institute of Chartered Accountants of Scotland in 2017. 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.
External appointments: Chairman, Souter Investments.

Will Whitehorn [4]
Deputy Chairman and Senior Independent Non-Executive Director

Appointment to the Board: 2011
Age: 58
Committee membership: Nomination.
Skills and previous experience: Will Whitehorn joined the Virgin Group in 1987 and served as Group Public Relations manager and as Brand Development and Corporate Affairs Director, before being appointed as President of Virgin Galactic from 2007 to 2011. Will is a former non-executive Chairman of Next Fifteen Communications Group plc and of Crowd Reactive Limited. He was a member of the Science & Technology Facilities Council ("STFC") until 2012, chaired its Economic Impact Advisory Board and was a non-executive director of STFC Innovations Limited.
External appointments: Scottish Event Campus Limited (Chairman), Purplebricks Group plc (Non-Executive Director), Scottish Gallery (Aitken Dott Limited) (Chairman), AAC Microtec A.B. (Non-Executive Director). Member of the First Minister of Scotland's 'GlobalScot' Business mentoring network. Vice-President of the Chartered Institute of Logistics and Transport.

Gregor Alexander [5]
Non-Executive Director

Appointment to the Board: 2013
Age: 55
Committee membership: Audit (Chair) and Remuneration.
Skills and previous experience: A Chartered Accountant, Gregor Alexander has significant recent and relevant financial experience. He is the Finance Director of SSE plc, a FTSE 100 company. He 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.
External appointments: Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 33.3% owned by SSE plc.

James Bilefield [6]
Non-Executive Director

Appointment to the Board: 2016
Age: 49
Committee membership: Digital and Technology (Chair), Remuneration and Nomination.
Skills and previous experience: James Bilefield has an international track record of successfully leading growing digital businesses. He managed the digital transformation of media group, Condé Nast, across 27 countries, scaled Skype's global operations as part of its founding management team and held senior commercial and management roles at Yahoo!. Formerly CEO of global advertising technology company, OpenX, he also co-founded the local information business, UpMyStreet, following an investment banking career at JP Morgan Chase.
External appointments: McKinsey & Company (Senior Advisor), Advent International (Industry Advisor), Teach First (Trustee), Sthree plc (Non-Executive Director).

Sir Ewan Brown CBE [7]

Non-Executive Director

Appointment to the Board: 1988

Age: 76

Committee membership: Pensions Oversight (Chair) and Nomination.

Skills and previous experience: Sir Ewan Brown served as an executive director of Noble Grossart for 35 years and continues to serve as a non-executive director of Noble Grossart Holdings Ltd. Sir Ewan was Chairman of Lloyds TSB Scotland from 1999 to 2008. He has also served as a non-executive director of Wood Group and Lloyds Banking Group, chairing the Audit Committee and the Group Pension Funds, and as Chairman of Creative Scotland 2009 and Scottish Financial Enterprise.

External appointments: Noble Grossart Holdings Ltd (Non-Executive Director).

Ann Gloag OBE [8]

Non-Executive Director

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

Age: 75

Committee membership: Health, Safety and Environmental.

Skills and previous experience: Ann Gloag co-founded Stagecoach and served as an executive director until 2000. She has extensive experience in transport operations, health and safety matters, property management and wider business management.

External appointments: Mercy Ships (International Board Member).

Ray O'Toole [9]

Non-Executive Director

Appointment to the Board: 2016

Age: 62

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

Skills and previous experience: Ray O'Toole served as the Chief Operating Officer of National Express Group until May 2010. In November 2013, Ray joined Kier Group, Fleet and Passenger Services as Managing Director. In July 2015, he led a management buy-out team with private equity investor, Endless LLP, to create Essential Fleet Services Limited, a company which provides 3,500 vehicles with contract hire and leasing to the local authority and corporate markets nationally. Ray continued to serve as Chief Executive of Essential Fleet Services Limited until February 2017.

External appointments: Yorkshire Water Services Limited (Non-Executive Director).

Julie Southern [10]

Non-Executive Director

Appointment to the Board: 7 October 2016 (resigning effective 31 August 2018)

Age: 58

Committee membership: Remuneration (Chair), Audit

Skills and previous experience: A Chartered Accountant, Julie Southern has considerable experience in senior finance and management roles, including in the transport sector. She served as Chief Financial Officer with Virgin Atlantic from 2000 to 2010 and then as the company's Chief Commercial Officer from 2010 to 2013. Previously Group Finance Director at Porsche Cars Great Britain and former Finance and Operations Director at HJ Chapman & Co.

External appointments: Rentokil Initial plc (Non-Executive Director), DFS Furniture plc (Non-Executive Director), Cineworld Group plc (Non-Executive Director), NXP Semi-Conductors N.V. (Non-Executive Director).

Karen Thomson [11]

Non-Executive Director

Appointment to the Board: 2016

Age: 56

Committee membership: Audit, Health, Safety and Environmental, Digital and Technology.

Skills and previous experience: Karen Thomson served as Chief Executive of AOL UK and President of AOL Europe, developing both the telecoms and advertising lines of the business. As a member of the Vodafone UK Board, Karen had responsibility for developing online strategy, customer experience and online sales performance. Karen was a non-executive director of UBM plc from 2006 to 2014 and served on its Audit, Nomination and Remuneration committees.

External appointments: Outplay Entertainment Limited (Chairman).

3. Directors' report

3.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 76.

An interim dividend of 3.8p per ordinary share was paid on 7 March 2018. The Directors recommend a final dividend of 3.9p per share, making a total dividend of 7.7p per share in respect of the year ended 28 April 2018. Subject to approval by shareholders, the final dividend will be paid on 3 October 2018 to those shareholders on the register on 24 August 2018.

3.2 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 include those of their "connected persons".

TABLE A	Number of ordinary shares (including those held under BAYE scheme)			
	27 June 2018	**28 April 2018**	27 June 2017	29 April 2017
Sir Brian Souter	86,900,445	86,900,445	86,900,445	86,900,445
Martin Griffiths	564,879	564,662	501,038	500,879
Ross Paterson	292,093	291,876	244,006	243,847
Gregor Alexander	10,406	10,406	10,406	10,406
James Bilefield	–	–	–	–
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
Ray O'Toole	–	–	–	–
Julie Southern	–	–	–	–
Karen Thomson	–	–	–	–
Will Whitehorn	72,288	72,288	72,288	72,288

Sir Ewan Brown has an indirect interest in the share capital of the Company through his interest in Noble Grossart Investments Limited. Noble Grossart Investments Limited held 0.6% (3,567,999 shares) of the ordinary shares in the Company at 28 April and 27 June 2018 (2017: 0.6%; 3,567,999 shares). Noble Grossart Investments Limited is a subsidiary of Noble Grossart Holdings Limited, in which Sir Ewan Brown and his connected parties own approximately 18% (2017: 18%) of the ordinary shares.

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 Guidance and Transparency Rules of the Financial Conduct Authority. The voting rights of Sir Brian Souter and Ann Gloag determined in accordance with the Disclosure Guidance and Transparency Rules as at 28 April 2018 were 86,896,413 ordinary shares (2017: 86,896,413) and 62,501,721 ordinary shares (2017: 62,501,721) respectively, of which 86,896,009 (2017: 86,896,009) are held via HGT Finance B Limited and 62,501,721 (2017: 62,501,721) are held via HGT Finance A Limited.

Details of share based awards held by the Directors are contained in the Directors' remuneration report in section 8 of this Annual Report. No non-executive director had an interest in share based awards at 29 April 2017, 27 June 2017, 28 April 2018 or 27 June 2018.

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

3.3 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.

3.4 Substantial shareholdings

As at 28 April 2018 and 27 June 2018 (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 3.2 of this report):

	27 June 2018	28 April 2018
Ameriprise Financial, Inc. and its Group	18.1%	18.1%

3.5 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 ("IFRS") 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), including Financial Reporting Standard 101, Reduced Disclosure Framework, ("FRS 101"). 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 IFRS as adopted by the European Union, and applicable UK Accounting Standards, including FRS 101, 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 position, 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 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 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.

3.6 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.

For the period from 30 April 2017 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.

3.7 Financial risk management

Information regarding the Group's use of financial instruments, its financial risk management objectives and policies, and its exposure to price, credit, liquidity and cash flow risks can be found in note 24 to the consolidated financial statements.

3.8 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.

3.9 Shareholder and control structure

As at 28 April 2018, there were 576,099,960 ordinary shares (2017: 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. It is the Group's current policy to hold a poll on each resolution proposed at an annual general meeting. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned. As at 28 April 2018, 2,756,662 (2017: 2,467,204) ordinary shares representing 0.5% (2017: 0.4%) 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);
- in accordance with the Group's policy and applicable regulations, 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 3.4 of this Directors' report gives details of any shareholders (other than the Directors and their connected persons) 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 3.2 of this Directors' report. Two directors of the Company, Sir Brian Souter and Ann Gloag, who are siblings, were interested in 26.1% of the ordinary shares in issue as at 28 April 2018, excluding shares held by the Company in treasury (2017: 26.0%). The other directors of the Company held 0.2% of the ordinary shares in issue as at 28 April 2018 (2017: 0.1%).

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 scheme.

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 schemes. The most significant of these are:

- The Group operates the East Midlands Trains rail franchise. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these two 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 two rail franchises referred to above lease trains. The leases generally contain termination rights for the benefit of the lessor on a change of control of the Group.
- 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 4.00% Guaranteed Bonds due 2025 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.

3.10 Authority for company to purchase its own shares

The movements in the Company's issued share capital, shares held in treasury and authorities to purchase its own shares can be summarised as follows:

	Issued share capital	Shares held in treasury	Issued share capital, excluding treasury shares	Authorised for company to purchase its own shares
As at 30 April 2016	576,099,960	1,885,887	574,214,073	57,472,832
Shares purchased into treasury	–	1,313,266	(1,313,266)	(1,313,266)
Transfer of treasury shares	–	(731,949)	731,949	–
Prior to 2016 AGM	576,099,960	2,467,204	573,632,756	56,159,566
Renewal of buy-back authority	–	–	–	1,203,709
As at 29 April 2017	576,099,960	2,467,204	573,632,756	57,363,275
Shares purchased into treasury	–	506,927	(506,927)	(506,927)
Transfer of treasury shares	–	(199,490)	199,490	–
Prior to 2017 AGM	576,099,960	2,774,641	573,325,319	56,856,348
Renewal of buy-back authority	–	–	–	(6,856,348)
Transfer of treasury shares	–	(17,979)	17,979	–
As at 28 April 2018	576,099,960	2,756,662	573,343,298	50,000,000

At the 2016 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,363,275 of its ordinary shares. On 29 and 30 June 2017, the Company acquired 506,927 of its own ordinary shares and held these in treasury. The aggregate amount paid for the repurchased shares was £1.0m. This represented 0.1% of the Company's called up share capital (excluding treasury shares) on 30 June 2017. The shares were purchased to satisfy awards made under the Group's employee share schemes. During the year ended 28 April 2018, the Company transferred 217,469 of the shares held in treasury for nil consideration to employees to satisfy awards made under the Group's Executive Participation Plan. This represented less than 0.1% of the Company's called up share capital (excluding treasury shares) on the dates of transfer.

At the 2017 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 50,000,000 of its ordinary shares. Under the existing authority, the Company may therefore repurchase up to a further 50,000,000 ordinary shares. This authority will expire at the conclusion of the 2018 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 50,000,000 of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2017 Annual General Meeting and will lapse at the conclusion of the 2019 Annual General Meeting.

3.11 Going concern and longer term viability

Assessment process

The Board has developed the Group's strategy to support the long-term success of the Group. We have a portfolio of good quality transport businesses that we see as having a successful, long-term future. We encourage sensible risk taking but we also seek to manage risks appropriately and respond to the risks that crystallise.

We update our financial forecasts and capital expenditure plans to take account of any changes in risks, opportunities and market conditions. We have recently updated our financial forecasts for the three-year period to 1 May 2021. In considering the "viability statement" that the Board is expected to make under the UK Corporate Governance Code, the Board has formally considered the three-year period to 1 May 2021 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 1 May 2021. The first year of the financial forecasts represents the Group's budget for the year ending 27 April 2019, adjusted for any known, material changes since the budget was approved. The period to 1 May 2021 was chosen because the Board considers this to be a reasonable period over which to assess the financial position and performance of the Group. The level of forecasting accuracy reduces significantly beyond three years and forecasts may be affected by factors such as changes in government transport policy and/or major contract wins and losses. We see limited value in producing detailed financial forecasts for the Group as a whole beyond three years.

The key assumptions in the financial forecasts, reflecting our strategy, include the intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. We will seek to maintain and grow the business, including by potentially bidding for selected rail franchises. However, the base financial forecasts do not assume any rail franchise wins over and above our existing contracts and expected extensions. Our key assumptions also include a stable regulatory environment in both the UK and North America. The key assumptions include no major changes to transport policy – nationalisation of public transport could have a significant bearing on the Group's prospects and while we assume no new franchise wins in our base forecasts, we note the UK Labour Party's policy for bringing UK train operations into public hands as current rail franchises expire. The UK Government's decision to appoint a publically owned Operator of Last Resort to take over the operation of InterCity East Coast train services from our Virgin Trains East Coast business (see section 1.5.4) is not in itself a change of Government policy. Indeed, another operator's franchised operations were similarly transferred to public ownership in 2009 and then later returned to the private sector under the existing franchising structure. East Coast Main Line Company Limited (which traded as Virgin Trains East Coast), is expected to be wound up on a solvent basis, based on the agreed terms of the transfer of the business of Virgin Trains East Coast to a public sector company.

The Group faces a number of risks and those risks that the Board has currently assessed as being the principal risks are set out in section 1.4.5 of this Annual Report.

The cash generative nature of the Group's operations positions it well to meet its liabilities as they fall due. In light of that, the Board considers solvency risks to be relatively low.

The Group has committed bank facilities in place for the period to October 2021 and currently has significant undrawn headroom under these facilities. £400m of bonds are not due to mature until 2025. It also has US private placement notes that are not due to mature until 2022. Furthermore, the Group has three investment grade credit ratings from independent credit rating agencies and remains comfortably in compliance with bank and private placement financial covenants. In light of all of these factors, the Board considers liquidity risks to be relatively low.

Stress testing of the financial forecasts has been undertaken with reference to a number of severe but plausible scenarios involving our principal risks. The scenario analysis undertaken included reverse stress testing that involved constructing scenarios that would threaten the Group's viability then assessing the likelihood of those scenarios occurring. The stress testing also considered the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the conclusions of the Board's monitoring and review of risk management and internal control systems, as described in sections 4.12 and 4.13, were taken into account. The financial forecasts and the scenario analysis considered profitability, cash flows, financial covenant compliance, rating agency metrics, debt facility headroom, and other key financial ratios. The Group's exposures to external factors such as GDP, population, fuel prices, inflation, consumer confidence, competition and terrorism risks were considered. The results of this stress testing illustrated that the Group was expected to be able to withstand the impact of these scenarios occurring over the three-year period through adjusting its operating plans within the normal course of business.

Of course, it is not possible to guarantee the viability of the Group; any such assessment is subject to a degree of uncertainty that can be expected to increase the longer the time horizon.

Viability statement

Based on its assessment of the Group's prospects and viability above, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 1 May 2021.

Going concern

In conjunction with its assessment of longer term viability, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The Board has a reasonable expectation that the Group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.

3.12 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 Ernst & Young 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.

3.13 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

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

Listing Rule 9.8.4 of the Financial Conduct Authority's Listing Rules requires us to make certain disclosures. The table below summarises where each of the disclosures can be found in this Annual Report.

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 31 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.	Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Not applicable
(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

28 June 2018

4. Corporate governance report

4.1 Introduction from Will Whitehorn, Deputy Chairman

The Stagecoach Group is committed to operating with the high standards of corporate governance that are expected of a group with shares traded on the London Stock Exchange. In this introduction to the Group's corporate governance report, I look back at the year 2017/18, at the progress that has been made with the governance of the Group and look forward to the governance challenges for the future.

As the Deputy Chairman, it is my responsibility to promote the highest standards of corporate governance throughout the Group and particularly at Board level. This report sets out the governance structure in place for the Group, which I believe is both robust and appropriate for the Group's operations.

Following a number of changes made to the Board in 2016, the composition of the Board remained the same throughout the year 2017/18 and our newer Board members have contributed significantly to addressing the Group's current challenges and to determining the future direction of the Group.

Martin Griffiths and Ross Paterson continue in their roles as Chief Executive and Finance Director respectively. The Group's Chairman, Sir Brian Souter, is responsible for the conduct of the Board as a whole.

Our Board structure comprises experienced executive directors managing the business, non-executive directors with the skills and experience both to bring new ideas to the Board and to challenge the executive directors, and our co-founder and former Chief Executive continuing as non-executive Chairman. This structure allows the Board to develop the strategic direction of the Group to meet future challenges while ensuring the sound management of the Group's current business. I am satisfied that the governance structure allows the views of all of the Directors to be 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. We 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 continued to discuss franchise opportunities available in the rail sector, submitting a bid for the new South Eastern franchise and securing a franchise direct award for West Coast Main Line for at least a further year from 1 April 2018. The Board has continued to review the balance of the Group between its rail and bus businesses and the balance of risk and reward in rail franchise letting processes. The Board recognises and has discussed in some detail the risks to the business in the changing political landscape.

The Board has continued to discuss how new technology can enhance the passenger experience and attract more passengers to our services. The Board has drawn on the experience of the non-executive members of the Board to develop the Group's digital and technology strategies, looking at how new technologies can support our current business model and open up new ways to provide services to the public, and to ensure that the Group is able to play a part in emerging transport solutions. The Group has continued to enhance the reliability and functionality of the Stagecoach UK Bus App, including the addition of Apple Pay and Android Pay and is rolling out a contactless payment facility across the UK Bus (regional operations) Division. I am confident that the corporate governance structure of the Board provides an appropriate forum to develop and adapt the Group's strategy to address future challenges and opportunities.

Will Whitehorn
Deputy Chairman
28 June 2018

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") to which the Group is subject. This section 4 also describes how the principles of good corporate governance that are set out in the Code have been applied. In line with the recommendations of the Code and best practice, separate reports are provided from each of the Audit, Nomination, Health, Safety and Environmental and Remuneration Committees.

The Code issued in April 2016 applied to the Company's financial year from 30 April 2017 to 28 April 2018. The Directors believe that throughout the year ended 28 April 2018 the Group complied with all of the provisions of the Code. A copy of the Code is available at: https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016

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

DTR 7.2.6 requires the corporate governance statement to contain certain information required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). This information relates to significant interests in the securities of the Company, securities carrying special rights with regard to the control of the Company, restrictions on voting rights, rules regarding the appointment and replacement of directors, rules regarding changes to the Company's Articles of Association and the Directors' powers in relation to the issuing or buying back by the Company of its shares. The relevant information can be found in sections 3.4, 3.9 and 3.10 of this Annual Report.

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*		✓	
James Bilefield *Non-Executive Director*		✓	
Ray O'Toole *Non-Executive Director*		✓	
Julie Southern (resigning effective 31 August 2018) *Non-Executive Director*		✓	
Karen Thomson *Non-Executive Director*		✓	
Will Whitehorn *Senior Independent Director & Deputy Chairman*		✓	
Sir Ewan Brown *Non-Executive Director*			✓
Ann Gloag *Non-Executive Director*			✓
Martin Griffiths *Chief Executive*			✓
Ross Paterson *Finance Director*			✓

*Independence shown based on the guidelines suggested by the Code.

The Board comprises eleven directors, six of who meet the criteria suggested by the Code for determining director independence. Following Julie Southern's planned resignation on 31 August 2018, five of the remaining ten directors will meet those criteria.

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 and Martin Griffiths became Chief Executive, the Board created the new role of Deputy Chairman to maintain the strength of its governance arrangements. 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.

Will Whitehorn, 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 Directors have a complementary range of experience that ensures no one director or viewpoint is dominant in the decision-making process.

The Code recommends that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the year from 30 April 2017 to 28 April 2018, the Board considers that it complied with this Code requirement.

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, or resolutions are circulated in writing, as appropriate, to consider matters 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. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. In June 2017, the Board met away from operational and Head Office locations and discussed the overall strategy of the Group. During the year, the Health, Safety and Environmental Committee visited the UK Rail Division's operations at the Neville Hill Train Maintenance Depot and was briefed in particular on the maintenance processes for the High Speed Train fleet and improvements to the working environment at the depot.

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 28 April 2018 included

- Financial challenges affecting the Virgin Trains East Coast franchise and discussions with the Department for Transport regarding the contractual arrangements for the franchise
- Information security policies, maturity level and response to threats such as "Wannacry"
- UK Bus Division passenger trend analysis, commercial strategy and new initiatives
- Approval of Inter City West Coast franchise direct award
- Approval of bid for new South Eastern rail franchise
- Risk profile of future rail franchise opportunities
- Readiness for introduction of the EU General Data Protection Regulation

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 two managing directors
- North America: headed by a chief operating officer
- UK Rail: headed by a managing director

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

One of the joint ventures in which the Group has an interest, Virgin Rail Group, is managed independently of the Group. It is headed by its own managing director. The Group has two representatives on the Board of Virgin Rail Group. 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 29 April 2017 and details of the review and recommendations made were included in the 2017 Annual Report. The 2018 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: 4

All members are independent non-executive directors.

Chairman and designated member with recent and relevant financial experience

Gregor Alexander

Other members

Ray O'Toole
Julie Southern
Karen Thomson

Nomination Committee

Number of members of Committee: 5

Chairman

Sir Brian Souter

Other members

James Bilefield
Sir Ewan Brown
Ray O'Toole
Will Whitehorn

Remuneration Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman

Julie Southern

Other members

Gregor Alexander
James Bilefield

Health, Safety and Environmental Committee

Number of members of Committee: 4

Chairman

Ray O'Toole

Other members

Martin Griffiths
Ann Gloag
Karen Thomson

With effect from 31 August 2018, when Julie Southern leaves the Board, Ray O'Toole will succeed Julie Southern as Chairman of the Remuneration Committee.

4.10 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 28 April 2018:

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
James Bilefield	6	6	n/a	n/a	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
Ray O'Toole	6	6	3	3	n/a	n/a
Ross Paterson	6	6	n/a	n/a	n/a	n/a
Julie Southern	6	6	3	3	3	3
Karen Thomson	5	6	2	3	n/a	n/a
Will Whitehorn	6	6	n/a	n/a	n/a	n/a

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	1	1	1	1
Martin Griffiths	4	4	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	n/a	n/a	1	1
James Bilefield	n/a	n/a	1	1	1	1
Sir Ewan Brown	n/a	n/a	1	1	1	1
Ann Gloag	4	4	n/a	n/a	1	1
Ray O'Toole	4	4	1	1	1	1
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Julie Southern	n/a	n/a	n/a	n/a	1	1
Karen Thomson	3	4	n/a	n/a	1	1
Will Whitehorn	n/a	n/a	1	1	1	1

4.11 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 has periodic meetings and/or telephone calls with representatives of major institutional shareholders, other fund managers and representatives of the financial media.

The programme of investor relations includes presentations of the full-year and interim results and meetings/calls with institutional investors. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are 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, Deputy 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.

All resolutions proposed to the 2017 Annual General Meeting were decided by a poll (as opposed to a show of hands) and details of all votes lodged for and against, or withheld, in respect of each resolution of the 2017 Annual General Meeting were published on the Group's website at https://www.stagecoach.com/investors/shareholder-services/agm.aspx

The Group intends to undertake a poll on each resolution put to the 2018 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.

4.12 Risk management

The Board recognises the importance of maintaining a sound risk culture throughout the Group such that risks are identified, evaluated and managed appropriately. Further details are provided in the sections that follow about the Board's appetite for risk and the Group's risk management process.

4.12.1 Risk appetite

The Board considers that it is in the interests of the Group's stakeholders for the Group to evaluate and accept risk. Delivering the Group's strategy and objectives necessitates some risk taking.

It is the Group's objective that the risk of it not remaining viable for the foreseeable future should be low. Its appetite for risk reflects that overall objective. Consistent with that risk appetite:

- Safety is at the heart of the Group's business as explained in section 1.8.3 of this Annual Report. Health and safety risks are carefully assessed and the Group avoids activities where health and safety risks cannot be managed to an acceptable level.
- It is the Group's intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. Before entering a new country, the Group carefully evaluates the risks of doing so.
- The Group recognises the different risk profiles of each of its businesses and in particular, recognises that profits and cash flows from UK rail businesses are generally less predictable than those from the Group's bus businesses. As a result, the Board considers there to be an acceptable limit to the size of the UK rail business relative to the other businesses of the Group.
- The Group seeks to minimise as far as practical the risk of breaches of laws and regulations and applies a zero tolerance approach to employee breaches of legal and regulatory requirements, its own Code of Conduct (see section 5.4.5 of this Annual Report), its delegated authority levels and its other internal policies including in respect of health and safety, anti-corruption and share dealing.
- It is the Group's objective to maintain an investment grade credit rating as explained in section 1.6.8.3 of this Annual Report.
- The Board has set a minimum level of undrawn, committed credit lines that the Group should aim to maintain at all times and which should be available for borrowings.
- Stress testing and reverse stress testing are undertaken in respect of major investment proposals, major contract bids including rail franchise bids and generally as part of the Board's assessment of the Group's viability.

The Group's risk appetite and related objectives are reflected in the objectives that the Remuneration Committee sets for the Executive Directors. For example, one of the Chief Executive's current objectives relates to health and safety, while one of the Finance Director's current objectives relates to the Group's investment grade credit ratings and their remuneration is partly linked to the achievement of those objectives.

4.12.2 Risk management process

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

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 28 April 2018, 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 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 PricewaterhouseCoopers, 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.

4.12.3 Principal risks and uncertainties

The Board has undertaken a robust assessment of the principal risks facing the Group, including those risks that would threaten the Group's business model, future performance, solvency and liquidity. In making that assessment, the Board considered the likelihood of each risk materialising in the short-term and the longer term. In assessing the longer term viability of the Group (see sections 3.11 and 5.5 of this Annual Report for further information on the Group's viability), the Board has considered the principal risks.

The principal risks and uncertainties facing the Group are summarised in section 1.4.5 of this Annual Report and that section includes an explanation of how we aim to appropriately manage and mitigate those risks.

4.13 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. The overall Group annual 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. No control failings or weaknesses that are significant to the Group as a whole have been identified in the year to 28 April 2018.

4.14 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.
- Any recommendations from the auditors, the Financial Reporting Council and others in respect of financial reporting are assessed with a view to continuous improvement in the quality of the Group's financial statements.
- 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 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.

4.15 Diversity policy

Information on the diversity policy applied to the Group's Board of Directors is provided in section 6.4 of this Annual Report.

4.16 Pension schemes

The assets of the bus and rail pension schemes in which the Group participates are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are twelve trustees for the principal Stagecoach Group Pension Scheme, two of which are employee representatives nominated by the members on a regional basis and four are pensioner trustees. The chairman of the trustees of that 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, and is a past Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of that 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's 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 and internal controls surrounding pension matters.

Mike Vaux
Company Secretary
28 June 2018

5. Audit Committee report

5.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 28 April 2018 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.

Gregor Alexander
Chairman of the Audit Committee

28 June 2018

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report and this section 5.2 explains how we have addressed the audit committee composition requirements of the UK Corporate Governance Code. 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.

The Committee as a whole has an appropriate and experienced blend of audit, financial and commercial expertise, as well as competence relevant to the Group's industry sector. Of particular note, are the insights brought by Ray O'Toole during the year from his experience in other organisations involved in the bus and rail sectors.

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 (internal audit) 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 outsourced Risk Assurance Function (internal audit). 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:
https://www.stagecoach.com/terms-of-reference-audit-committee

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 28 April 2018.

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.

During the year, the Company corresponded with the Financial Reporting Council ("FRC") in respect of the Group's accounting for its participation in the Railways Pension Scheme ("RPS") in the light of the FRC identifying potential diversity in the accounting by UK listed companies. The FRC did not conduct a full review of our 2017 Annual Report and Financial Statements and considered only specific disclosures in relation to the RPS. The FRC requested further information on the accounting treatment that has been applied by the Group consistently since the adoption of IFRS in 2005, in particular relating to the accounting applied at the end of a franchise period, the Group's application of the amendments to IAS 19 issued in November 2013 and the judgements made in recognising a net RPS pension asset after applying the "franchise adjustment". The FRC has now closed its enquiries. No changes have been required to the accounting treatment we have applied, but we have provided additional explanation in this Annual Report of the judgements we have made in respect of the recognition of the net pension asset for the RPS, including alternative assessments that could have been made and that any asset arises as a consequence of applying the industry-wide accounting treatment for the RPS that was agreed for adoption of IFRS in 2005.

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 28 April 2018, of which it considered the most significant to be those set out in the table on the following pages.

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 28 April 2018, 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. The Committee is satisfied that the Group's approach is appropriate in this area.
- Rail franchise opportunities – In light of the range of opportunities facing the Group's UK Rail Division and also the expiry of the Group's South West Trains franchise in August 2017, the Committee considered whether any actual or anticipated changes in contractual claims against third parties and 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 expensed.

The Audit Committee also reviewed the evidence that supported the conclusions that the Group remains a going concern and that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 1 May 2021, noting it was consistent with the disclosure given in section 3.11 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
Accounting policy judgements			
Accounting for participation in Railways Pension Scheme			
The participation of the Group's train operating companies in the Railways Pension Scheme ("RPS") has some unusual features. Determining how to account for that participation in accordance with IFRS requires a greater level of judgement than for more common pensions arrangements. The Group's critical accounting judgements described in note 1 to the consolidated financial statements includes an explanation of the accounting judgement made for the Group's participation in the RPS.	The Committee considered the continuing appropriateness of the judgement made on accounting for the Group's participation in the RPS. The Committee considered the correspondence between the Group and the Financial Reporting Council during the year on this matter. The Committee also discussed the matter with the auditors. The Committee noted and considered alternative approaches that might be appropriate to accounting for the Group's participation in the RPS. The Committee noted that the accounting policy applied by the Group in respect of the RPS is consistent with an industry-wide accounting treatment agreed with other train operating companies and major accounting firms around the time the Group first adopted IFRS in 2005. The Committee concluded that the judgement made remained appropriate.	Applying the agreed accounting treatment results in a net RPS pension asset being reflected in the Group's consolidated balance sheet as at 28 April 2018 of £4.2m (2017: £45.1m).	1, 23
Estimation judgements			
Rail contractual positions			
The Group's current and former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. These include arrangements with the Department for Transport, Network Rail, Transport for London and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements. The degree of estimation uncertainty has increased since 29 April 2017 due to increased uncertainty arising from the end of the South West Trains franchise in August 2017 and the end of the Virgin Trains East Coast franchise in June 2018. The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include rail contractual positions.	The Committee discussed with management the key judgements made in estimating contractual receivables and payables in relation to current and former train operating companies, challenging the judgements made. The Committee considered the work undertaken by the auditors in relation to rail contractual positions, including the extent to which balances had been validated with the relevant counterparties. The Committee agreed that management's estimates of contractual receivables and payables in relation to current and former train operating companies were appropriate.	As at 28 April 2018, the UK Rail net liabilities shown in note 2(d) were £234.6m (2017: £278.1m). The Directors estimate that these could require adjustment by up to £15m in the year ending 27 April 2019, as a result of the reassessment of rail contractual positions.	1
Virgin Trains East Coast accounting			
The Group has recorded an onerous contract provision in respect of Virgin Trains East Coast, whose rail franchise agreement was terminated in June 2018 and whose business was transferred to a public sector company. The Group has also reviewed the carrying values of Virgin Trains East Coast's assets and liabilities as at 28 April 2018 and made appropriate adjustments to them. While the terms of the transfer of the business, as well as certain assets and liabilities, to the public sector company have been agreed, the transfer values have not yet been agreed for all of the individual transferring items.	The Committee considered the accounting estimates made in respect of Virgin Trains East Coast and challenged the assumptions made. The Committee concluded that the judgements and assumptions made were appropriate. The Committee agreed with management's judgement that the expense relating to the Virgin Trains East Coast franchise onerous contract provision and related adjustments should be recognised as exceptional expenses.	Pre-tax exceptional charges of £49.0m for the year ended 28 April 2018 were recognised in respect of Virgin Trains East Coast.	4, 15, 22

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
North America impairment review			
The financial performance of the North America Division has been less favourable than was assumed in estimating its value in use as at 29 April 2017. The value in use as at 28 April 2018 has been estimated to exceed the carrying value of the Division's non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below carrying value. The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include matters related to the North America impairment review.	The Committee considered and challenged the methodology and assumptions used by management in estimating the value in use of the non-current assets of the North America Division. The Committee considered sensitivity analysis undertaken on those assumptions. The Committee also considered third party evidence relevant to assessing whether the carrying value of the assets was impaired. The Committee agreed with management that the carrying value of the North America non-current assets as at 28 April 2018 was not impaired but noted that alternative assumptions could result in a material impairment loss and that it was possible that such a loss could arise within the next year.	The carrying value of North America non-current assets as at 28 April 2018 was US$501.7m and the estimated value in use was US$689.0m. Note 11 to the consolidated financial statements provides information on the sensitivity of the value in use amount to changes in assumptions.	1, 11
Pensions assumptions			
The determination of the Group's pension benefit obligation and expense for bus and rail 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 life expectancies. Pensions assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	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 28 April 2018 was £90.6m (2017: £95.2m) and the net retirement benefit liability as at 28 April 2018 was £142.2m (2017: £232.5m). In note 23 to the consolidated financial statements, analysis is provided that shows the sensitivity of pension amounts to changes in key assumptions.	1, 7, 23
Insurance provisions			
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 date but for which claims have not been reported to the Group. Insurance provision assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	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 28 April 2018 was £153.8m (2017: £156.8m).	1,22
Uncertain tax positions			
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. Uncertain tax positions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	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 specialist from the external auditors in April 2018. The specific tax accounting judgements considered by the Committee included tax losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas (i.e. non-UK) operations and losses incurred by overseas operations in the ordinary course of business. 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 28 April 2018 was £31.5m (2017: £0.2m credit). The net consolidated tax liability as at 28 April 2018 was £67.0m (2017: £21.9m). Further information on uncertain tax estimates is provided in section 1.6.4 of this Annual Report.	1, 8, 21

5.4.2 External auditors

Ernst & Young was appointed as the Group's external auditor at the Annual General Meeting in August 2016. Mark Harvey, who was appointed in August 2016, is the current audit engagement partner, and under partner rotation rules, a new lead audit partner will be required in 2022. In accordance with the Code, the Group will be expected to tender the external audit by 2026.

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 28 April 2018, the most significant risks identified were in relation to provisioning for insurance claims, carrying value of goodwill and intangibles, pensions accounting, Virgin Trains East Coast accounting, rail contractual positions and uncertain tax positions, 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 discussions with the external auditors between Committee meetings.

The Audit Committee is responsible for agreeing the audit engagement letter, agreeing the scope of the audit, appointing the audit partner and making recommendations on the appointment, reappointment 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 auditors' independence and objectivity, taking account of relevant ethical standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements.

The Audit Quality Review team of the FRC reviewed Ernst & Young's audit of the Group's consolidated financial statements for the year ended 29 April 2017. The FRC wrote to the Chairman of the Audit Committee setting out the scope of its review, its principal findings and the actions which Ernst & Young proposed to take in response. The review raised some important matters and the Audit Committee considered the FRC's report and discussed the proposed actions with Ernst & Young, noting in particular the planned enhancements to audit work in the areas of rail franchise accounting, insurance provisions and pension scheme obligations. The Committee followed up with Ernst & Young in June 2018 to confirm the actions were implemented for the 2018 audit.

Having completed the assessment of both the external audit process and the external auditor for the year ended 28 April 2018, a resolution to reappoint Ernst & Young as the Group's auditor will be put to the forthcoming Annual General Meeting.

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 policies on non-audit services are set by the Audit Committee and are currently:

- General – The auditors are not permitted to provide any non-audit services that they would be prohibited by law from providing due to either the nature of the services or the level of the fee for the services.
- Audit related services – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to any legal restrictions.
- 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 and prior to July 2016, the Group would consider using the auditors for tax consulting where they were best suited to the work being undertaken. It is now the Group's policy not to use the auditors for such work.
- 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 and subject to any legal restrictions.
- 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.

The Group's policies reflect the European Union Statutory Audit Directive and new Audit Regulation which now prohibits most services relating to tax, and which is effective for the year ended 28 April 2018.

In addition to the audit fee, the external auditor received non-audit related fees of £0.1m (2017: £0.1m), which equate to 7.7% (2017: 7.7%) of the audit fee and further details of which can be found in note 3 to 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 review its policy on non-audit services from time to time, to ensure continued compliance with laws and regulations, including European Union legislation.

5.4.4 Internal auditors

PricewaterhouseCoopers assumed responsibility for managing the outsourced Risk Assurance Function (internal auditors) effective from September 2016. The Committee has received several reports from PricewaterhouseCoopers, detailing the planned schedule of audits as well as tracking key findings and any related material actions to address unsatisfactory results. PricewaterhouseCoopers attended all meetings of the Committee, in addition to meeting privately with the Committee without the presence of management. The Audit Committee reviews the internal audit plan at least annually and considers whether it is aligned to the key risks of the Group. The Committee also 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 and seeks to satisfy itself that the quality, expertise and experience of the function is appropriate for the Group. This assessment involves both Audit Committee members and members of the management team completing a questionnaire with the results of that exercise then considered by the Committee. 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.

5.4.5 Code of Conduct and Whistleblowing Policy

The Audit Committee reviews compliance with the Group's Code of Conduct and use of the Group's Whistleblowing 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 material.

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 and the Group Tax Manager on the Group's tax affairs and related accounting judgements and risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, 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.

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 position, 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 regular 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 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, including those matters detailed in section 4.14 of this Annual Report.

5.5 Viability statement

The Audit Committee advised the Board on the statement on the Group's viability included in section 3.11 of this Annual Report, which was underpinned by the consideration of the following points:

- The Audit Committee assessed the reasonableness of the assumptions made about the Group's prospects, with reference to the strategy and risk appetite set by the Board;
- The Audit Committee identified which risks, including those described as principal risks and uncertainties in the Annual Report, could potentially impact the Board's assessment of the Group's viability;
- The Audit Committee reviewed the length of the assessment period;
- The Audit Committee examined the stress testing of financial forecasts, the potential effectiveness of mitigating actions, and consideration of the Group's ability to withstand the severe but plausible downside scenarios modelled.

A draft of the viability statement was presented to the Audit Committee and Board in June 2018 for review and finalisation.

5.6 Committee evaluation

The Committee's activities formed part of the review of Board effectiveness performed in the year. Details of this review are provided in section 4.8. Audit Committee members also completed a separate questionnaire on the effectiveness of the Committee and the results of that exercise were considered by the Committee. Overall, the Committee considers that it has continued to operate effectively during the year.

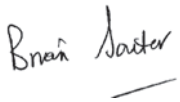
6. Nomination Committee report

6.1 Introduction from Sir Brian Souter, Stagecoach Group Chairman and Chairman of the Nomination Committee

The Nomination Committee has an important place in the governance structure of the Stagecoach Group. An effective board needs to maintain balance over time, taking account of planned and unplanned changes to membership and the changing needs of the business. 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 we aim to promote diversity in the recommendations that we make to the Board. The Stagecoach Group aims to identify and break down barriers to candidates from diverse backgrounds throughout the business and ensure that its talent pipeline reflects the diversity of the population.

We made a number of changes to our Board over the last two years and have been pleased with the overall balance of background and skills that our new Board members have brought.

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 the Directors for re-election at the 2018 Annual General Meeting.



Sir Brian Souter
Chairman of the Nomination Committee

28 June 2018

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 and/or appointed recruitment consultants.

The search for candidates for non-executive directors is undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company. Further detail of the processes for recent appointments is provided in the Group's 2016 and 2017 annual reports.

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:

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

6.4 Board diversity

The Company believes strongly that its Board benefits from being comprised of talented people with a range of perspectives and from differing backgrounds. It is our policy to maintain diversity on the Board with regards to aspects such as age, gender, or educational and professional backgrounds. The objectives of this diversity policy is to maintain a Board with directors that collectively have a broad range of skills appropriate to pursuing the Group's strategy and objectives, to ensure that the Board benefits from a range of perspectives and viewpoints and to ensure that no one director or viewpoint is dominant in the decision-making process.

The diversity policy has been implemented by ensuring that the terms of reference of the Committee reflect diversity in the criteria for identifying suitable candidates for nomination to the Board. The policy is also reflected in the discussions the Committee has with external search consultancies in any search process for a new director.

We consider that our policy in respect of Board diversity has remained effective during the financial year ended 28 April 2018. In recent years, we have widened the range of skills and backgrounds that the Directors have by adding directors with greater expertise in digital, technology and marketing. We have also increased the percentage of women on the Board and maintained that during the year ended 28 April 2018.The Company was co-founded by Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and for almost all of the time since May 2001, at least two. There are currently eleven directors of the Company, of whom three are women. Women constitute 27% of the full Board and 38% of the Non-Executive Directors (excluding the Chairman).

The Board aspires to maintain at least 25% female representation on the Board in future, although the unexpected resignation of Julie Southern will cause the representation to fall to 20% from 31 August 2018. 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 1.8.5 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 aims to ensure that appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seek 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.

The Group's Directors bring a broad range of skills to the Board, including general management skills. In its succession planning, the Committee considers the need to maintain and enhance this wide range of skills with particular emphasis on the following:

- Health and safety – As is explained in section 1.8.3, safety is at the heart of our business. The Group has a separate Health, Safety and Environmental Committee and the Nomination Committee considers it appropriate that the Non-Executive Directors collectively have an understanding of health and safety matters. A number of the Directors bring skills in these areas.
- Transport sector – The Committee considers it beneficial for the Non-Executive Directors to collectively have experience of transport businesses to bring a sector-specific perspective on matters such as health and safety, transport operations, sector regulation and accounting. Ray O'Toole brings considerable experience of bus, rail and the broader transport sector to the Board. Will Whitehorn brings significant aviation and rail experience and Ann Gloag, as a co-founder of the Group, has significant public transport expertise.
- Financial – The Committee considers it essential that the Non-Executive Directors collectively have recent and relevant financial experience, in order for the Audit Committee to function effectively but also to bring broader financial insights to the Board. As Chairman of the Audit Committee and as a serving FTSE 100 finance director, Gregor Alexander brings substantial recent and relevant financial expertise. Sir Brian Souter, Sir Ewan Brown and Julie Southern are qualified accountants, while James Bilefield has investment banking experience, bringing further financial insight to the Board.
- Digital and technology – In recent years, the Committee has identified the increasing importance of digital and technological opportunities and risks to the Group's strategy. It identified a possible skills gap in this respect and considered that it would be desirable to enhance the collective experience of the Non-Executive Directors in those respects. The appointments of James Bilefield and Karen Thomson to the Board have enhanced the Board's skills in these areas.
- Listed company – The Committee believes it is beneficial for the Non-Executive Directors to have collective experience of other publically listed companies to contribute in the areas of corporate governance, management of potential conflicts, investor relations and regulatory compliance. Each of Gregor Alexander, James Bilefield, Sir Ewan Brown, Ray O'Toole, Julie Southern, Karen Thomson, and Will Whitehorn serve or have served on the boards of other publically listed companies.
- Regulatory – The Group operates in regulated markets and the risk of regulatory change is a principal risk. The Committee therefore values the Non-Executive Directors' insight on regulatory matters. A number of the Directors have significant skills on regulatory matters, including Ray O'Toole (from the transport sector and the regulated water business), Will Whitehorn (from the transport sector), Gregor Alexander (from the regulated energy business) and Sir Ewan Brown (from his experience in banking and financial services).

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 Ray O'Toole, 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. As the Chairman of the Committee, I am determined to ensure that the Committee challenges the Group management team to further strengthen its safety management processes over time.

I intend to continue involving a range of contributors from the Group's businesses in the business of the Committee and ensure that the Committee actively engages with those businesses to help the Group to evolve its health, safety and environmental strategy and culture. Members of the Committee are encouraged to be visible to the Group's managers and staff by engaging with operating divisions through regular site visits. Managers are invited to attend meetings of the Committee and are encouraged to bring more junior members of their management teams to engage with the Committee. 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.

Ray O'Toole
Chairman of the Health, Safety and Environmental Committee
28 June 2018

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: https://www.stagecoach.com/HSE-terms-of-reference

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. Senior 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 and to share best practice across the Group. 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, members of the Committee attended meetings of health and safety committees within the Group's operating divisions in order to understand more fully the safety processes and culture within those divisions.

The November 2017 meeting of the Committee was held at the Neville Hill Train Maintenance Depot. This gave members of the Committee the opportunity to see recent safety and working environment improvements implemented at the depot and gave a greater understanding of how the depot was meeting the challenges of continuing to operate the ageing High Speed Train fleet.

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:

- a detailed briefing on the investigation into the fire at Nottingham Station
- a demonstration of new technological safety aids being tested in the Group's North America business
- evaluation and reinforcement of the safety culture in the UK Bus Division

The Committee closely followed the Rail Accident Investigation Branch investigation into the overturning of a tram operated by another operator in Croydon in 2016 and was briefed on the actions proposed for the Group's own tram operations in the light of the findings of that investigation.

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, environment, community, health, customer service and innovation.

8. Directors' remuneration report

8.1 A statement to shareholders from Julie Southern, Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 28 April 2018. The report includes the tabular summary of the Directors' remuneration policy, which was approved at the Annual General Meeting on 25 August 2017, and the Annual Report on Remuneration. A complete copy of the approved remuneration policy is available on our website at:

https://www.stagecoach.com/directors-remuneration-policy

In line with UK legislation, we do not intend to seek further approval of the policy at the 2018 Annual General Meeting because no changes are proposed to the approved policy.

Our remuneration policies are designed with the long-term success of the Company in mind. We believe our remuneration arrangements should provide a clear alignment between the long-term interests of our shareholders and the corporate strategy to be implemented by the executive management. We also consider it is important that the components of remuneration are easily understood and that overall remuneration is not excessive. The principles applied to our approach to executive pay and remuneration have, therefore, remained unchanged during 2017/18.

We engaged in an extensive consultation involving correspondence and meetings with shareholders in the development of the 2017 remuneration policy, and as a result, the policy that emerged received strong support from shareholders at the Annual General Meeting approving the policy. We will continue to welcome and value input from shareholders. The main practical change was to stop using cliff edge targets for the annual bonus scheme which were instead replaced with sliding scales for performance and bonus assessment. To accompany the introduction of sliding scale assessment, the 2017 policy also provides the Committee with the discretion each year to set the overall potential bonus that can be earned at between 100% to 150% of basic pay. Within the total that is set, the Committee has the discretion to set the amount of the potential bonus that can be earned in respect of financial performance at between 70% and 120% of the annual basic salary of the relevant Executive Director, with the balance to be applied on director's individual business related (i.e. 'personal') objectives. For the 2017/18 year, the new sliding scale approach for performance and bonus assessment was applied, although in this, the first year of the new policy, the Committee retained the maximum potential award level at 100% of basic pay with a split of 70% maximum for financial targets and 30% maximum for personal targets. Applying the sliding scale approach from the Policy, the on-target payout for the financial objectives was reduced for 2017/18 to 52.5% of basic pay out of a maximum total potential of 70%, with demanding targets set in order to earn that maximum potential.

The 2017 policy provides that the performance criteria for awards granted under the Long Term Incentive Plan ("LTIP") will be split between measures of TSR and profitability. The policy provides the Committee with the discretion to consider and set appropriate measures of profitability for new LTIP awards and it again set an adjusted measure of earnings per share.

2017/18 was the first year we applied a performance range for determining annual bonus payments, whereby the amount of the bonus payable in respect of a particular financial target is based on the financial performance achieved relative to the target set. Prior to 2017/18, 70% of basic salary was payable to the Executive Directors for meeting all of the financial targets whereas for 2017/18, only 52.5% of basic salary was payable for meeting the targets and to achieve 70% of basic salary required the above-target maximum level to be delivered. We consider the move from a "cliff edge" approach to a "sliding scale" approach to have been successful. For 2018/19, we have decided that 67.5% of basic salary be payable to the Executive Directors for meeting all of the financial targets, broadly in line with the 70% previously payable in 2016/17. Meeting the maximum performance levels across all of the financial measures would result in 100% of basic salary being payable. This will be accompanied for 2018/19 with:

- a freeze on basic pay for all directors for the year;
- using challenging financial targets for annual bonuses and;
- setting challenging targets using the growth of non-rail operating profit as the profit based metric for LTIP awards, rather than an adjusted measure of earnings per share. The use of bus profitability as a target measure recognises the importance of the Group delivering growth from its core bus operations during a period of transition in rail franchising.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 28 April 2018 were:

- Reviewed the performance and approved the Executive Directors' bonuses for the year ended 29 April 2017.
- Set annual performance targets for the Executive Directors' bonuses for the year ended 28 April 2018.
- Reviewed performance of the 2014 awards under the LTIP, in June and December 2017.
- Reviewed and approved targets for LTIP awards made in the year ended 28 April 2018.
- Reviewed and approved the vesting of Deferred Shares of the 2014 awards under the Executive Participation Plan ("EPP") in June 2017.
- Decided on levels of pay and benefits 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, which for all Board members resulted in a pay freeze on basic pay for 2018/19.
- Reviewed the remuneration for senior non-Board managers.
- Consulted with major shareholders on matters of remuneration policy, noting a commitment to provide more information on the performance against the Directors' personal objectives for the year in this 2018 report.
- Obtained approval from shareholders in a binding vote at the 2017 Annual General Meeting for the Directors' remuneration policy.
- Obtained shareholder approval in the advisory vote at the 2017 Annual General Meeting for the rest of the Directors' remuneration report.
- Oversaw the collation and publication of the Group's UK gender pay reporting.

Remuneration for 2017/18

As explained earlier in the Annual Report, the Group exceeded its expectation of adjusted earnings per share for the year ended 28 April 2018 against challenging trading conditions and while the senior management team also sought to address the contractual challenges presented by the franchise contract for Virgin Trains East Coast. We continue to manage the business with its long-term success in mind and that approach is reflected in the further investment that has been made in the business during the year. As a Committee, we try to maintain remuneration arrangements that balance meeting short-term financial objectives with supporting the Group's long-term success. We recognised that the challenges of the Virgin Trains East Coast franchise, as noted in the previous year's annual report, have not been resolved in the way we would have liked, and we have taken that into consideration. We also note, and consider it important, that the businesses have otherwise performed well during the year, and the Executive Directors have delivered on a range of non-financial personal objectives.

Financial objectives

The consolidated profit before interest and taxation ("PBIT") from Group companies was ahead of the target level set at the start of the year but did not meet the maximum levels. Accordingly, out of the potential maximum of 23.4% of basic salary that the Executive Directors could have earned as an annual bonus based on this measure, 20.6% of basic salary would be awarded. Performance against the target for consolidated adjusted earnings per share ("EPS"), which excludes amongst other things the exceptional costs in respect of the Virgin Trains East Coast franchise, was also ahead of target and in this case met the threshold required for a maximum payout meriting an award of 23.3% of basic salary. In the year that involved the handover of the South West Trains franchise to a new operator, cash management over the year has been excellent, and the maximum performance on the net debt target was achieved so meriting an award of 23.3% of basic salary . Consequently, of the maximum of 70% of basic salary that the Executive Directors could have earned as an annual bonus based on financial performance, 67.2% of basic salary would be payable for the year ended 28 April 2018.

Personal business related objectives

Details of the objectives and the Committee's assessment of the performance against the personal objectives are provided in Tables 5 and 6 later in this report.

In summary, the Committee determined that Martin Griffiths achieved four out of the five personal, non-financial objectives that we set for him for the year. That would entitle him to a bonus amount of 24% of basic salary from a potential 30% in respect of his personal, non-financial objectives.

It determined that Ross Paterson also achieved four of the five personal, non-financial objectives that we set for him for the year. That would entitle him to a bonus amount of 24% of basic salary from a potential 30% in respect of his personal, non-financial objectives.

Overall assessment and use of discretion

While the Committee recognises the great efforts and the professional way in which the executive and senior management teams went about trying to address the contractual arrangements with the Department for Transport, it also notes that the outcome achieved on the Virgin Trains East Coast franchise is disappointing. The Committee had constructive discussions with both executive directors in arriving at the use of its discretion and recommendations for the bonus awards for the year.

It recognised that Martin Griffiths had previously noted he would decline any bonus award for the year, and the Committee supported this approach in exercising its discretion to recommend that no bonus award is made to him for the year. In coming to this decision, it noted that on an assessment of the objectives as set by the Committee, Martin Griffiths would otherwise have merited a bonus award of 91.2% of basic pay out of a maximum total potential of 100%.

Based on the performance relative to the objectives set for the year, the Committee considered that Ross Paterson would have been entitled to an annual bonus equal to 91.2% of basic salary, of which 45.6% would ordinarily be paid in cash and 45.6% would have been awarded as Deferred Shares. However, in light of the factors explained above, the Committee has also applied its discretion and agreed with Ross that the cash bonus will not be paid and that the bonus award will be limited to an award of Deferred Shares equivalent in value to 45.6% of basic salary.

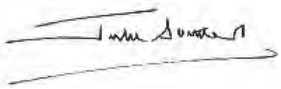
The Committee remains focused in ensuring that there is a clear linkage between pay and performance and that there is a strong alignment of interests of managers, shareholders and other major stakeholders through an appropriate mixture of pay, incentives and the use of shareholding guidelines for the Executive Directors.

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 investor representative bodies. We continue to value shareholders' views on our remuneration arrangements and I can be contacted via the Company Secretary, should any shareholder wish to meet with me before I leave the Company on 31 August 2018.

At the Group's Annual General Meeting on 31 August 2018, 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.

In conclusion, I have tendered my resignation from the Board effective 31 August 2018 to take up a position with another company. I am confident my successor as Chairman of the Committee, Ray O'Toole, will be an effective chairman in the interest of shareholders.



Julie Southern
Chairman of the Remuneration Committee

28 June 2018

8.2 Compliance statement

This Directors' remuneration report covers the year from 30 April 2017 to 28 April 2018 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 ("the 2013 Regulations"). 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 2018 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 other 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 recommendations 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 of the report sets out the tabular summary of the remuneration policy for executive directors and non-executive directors. The full policy was approved by a binding shareholder vote at the Company's Annual General Meeting on 25 August 2017 and took effect from that date. A complete copy of the approved remuneration policy is available on the Company's website at: http://www.stagecoach.com/directors-remuneration-policy

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 Committee believes that remuneration packages for the Executive Directors should contain meaningful and effective 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 can 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 remuneration policy.

8.4.2 Remuneration policy table for the Executive Directors

This section of our report sets out the key components of the remuneration package for the Executive Directors in tabular form.

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 and other companies in the public transport industry. 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. An executive director's annual basic salary may not exceed £850,000. 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 2018 are set out in section 8.5.13.1.1 of the Annual Report on Remuneration.

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 arrangements for executive directors are designed to provide pension benefits on retirement of up to two thirds of final pensionable pay and may be met through a combination of defined benefit pension arrangements, money purchase or cash allowances. Her Majesty's Revenue and Customs ("HMRC") and pension scheme rules provide that defined benefit pension benefits may not be drawn before age 55. Freedom and Choice regulations introduced by the United Kingdom Government in 2015 have impacted the flexibility for pension scheme members in transferring benefits out of pension schemes. Consistent with arrangements for other members of the relevant pension schemes, accrued defined benefits pensions may be transferred out to the beneficiary in accordance with the transfer arrangements established by the trustees or in the case of the company funded arrangements, at the amount accrued in the Group accounts in respect of such benefits at the point of transfer.	**Maximum value** Final salary elements are related to basic salary and length of service, and any payment to a money-purchase arrangement or 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.

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 and communications 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.

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** Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each executive director for the year just ended. This is based on each director's performance in achieving the set objectives, and affordability for the Group. In accordance with the rules of the Executive Participation Plan ("the EPP"), at least 50% of any actual bonus will be deferred as shares. Claw-back and malus provisions will apply to the cash and deferred elements of the annual bonus.	**Maximum value** The potential annual bonus that can be earned by an executive director in respect of any financial year may never exceed 150% of basic salary. The maximum annual bonus would be set each year within a range of 100% to 150% of basic salary, of which no more than 50% of any actual bonus award in the year will be settled in cash. **Performance metrics** The performance conditions for the annual bonus awards are subject to a combination of financial objectives and individual business related objectives. Around the start of each financial year, the Committee will determine one or more financial measures that will apply for bonus purposes for that year. The Committee will also determine the maximum potential bonus amount (expressed as a percentage of basic salary) that an executive director will have the ability to earn in respect of each financial measure.

8.4.2.2 Variable pay (continued)

PERFORMANCE-RELATED ANNUAL CASH BONUSES (continued)

The aggregate maximum potential bonus amount across all financial objectives will be between 70% and 120% of basic salary.

For each financial measure, the Committee will determine the performance levels that will trigger "Threshold", "Target" and "Maximum" payout. The Threshold amount for a given financial measure will be triggered on the minimum performance that needs to be achieved to earn any bonus in respect of that measure. The Maximum amount is the maximum potential bonus in respect of that measure. The Target amount will be the arithmetic average of the Threshold and Maximum amounts.

For each financial measure:

- The maximum potential bonus amount, payable only on the achievement of Maximum performance is the amount set by the Committee subject to the overall aggregate limits explained above.
- The bonus amount payable on the achievement of Threshold performance will be 50% of the maximum potential bonus amount where the aggregate maximum potential bonus amount across all financial objectives is 70% of basic salary.
- The bonus amount payable on the achievement of Threshold performance will be 25% of the maximum potential bonus amount where the aggregate maximum potential bonus amount across all financial objectives is 120% of basic salary.
- The bonus amount payable on the achievement of Threshold performance will be between 25% and 50% of the maximum potential bonus amount, determined on a straight-line basis, where the aggregate maximum potential bonus amount across all financial objectives is greater than 70% but less than 120% of basic salary.
- The bonus amount payable on the achievement of performance between the Threshold and the Maximum will be between (a) the bonus amount payable on Threshold performance and (b) the maximum potential bonus, determined on a straight-line basis proportionate to the extent actual performance exceeds Threshold performance.

The tables below provide examples of how the above policy may be implemented.

Example 1: Bonus potential of 70% of basic pay for financial performance:

Financial objectives Potential payout as a percentage of:	Maximum Potential	Threshold	Target	Maximum
Maximum award level		50.0%	75.0%	100.0%
Basic pay	70.0%	35.0%	52.5%	70.0%

Example 2: Bonus potential of 120% of basic pay for financial performance:

Financial objectives Potential payout as a percentage of:	Maximum Potential	Threshold	Target	Maximum
Maximum award level		25.0%	62.5%	100.0%
Basic pay	120.0%	30.0%	75.0%	120.0%

The aggregate maximum potential bonus amount for achievement of the individual business related objectives will be between 30% and 45% of basic pay.

A number of objectives are set for the individual business related objectives. To the extent that a particular objective is satisfied then there would be a payout in respect of that objective. If the objective is not satisfied then there is no payout in respect of that objective. The minimum level of performance required to be met for payout for each of the discrete objectives is that specified in the objectives.

In assessing the level of bonuses that will be paid, including individual business related objectives, the Committee has the discretion to reduce the level of any payouts after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant director. So, even where one or more of the specified objectives have been achieved, the Committee has the discretion to pay no or a reduced bonus.

Further details of the performance measures used for the 2018 bonus are set out in the Annual Report on Remuneration in section 8.5.3 (iii).

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.

Awards are subject to malus, and all awards granted after 25 August 2017 are subject to both malus and claw-back. The Committee may adjust and amend awards only in accordance with the rules of the LTIP.

Subject to performance conditions, Incentive Units vest around three years after the date of award.

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 granted prior to 25 August 2017 are subject to the terms of the 2014 remuneration policy that was in effect up to that date.

Awards granted from 25 August 2017 are subject to the following arrangements.

Awards are subject to two performance conditions, with one half of annual awards being made based on relative total shareholder return ("TSR"), and the other half based on challenging profit targets set by the Committee for a three-year 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 or other peer grouping of companies in the public transport industry.

In setting targets for the profit based performance condition the Committee may take into account a range of factors such as:

- internal and external factors affecting the Group;
- the long-term expectations for each of the operating divisions; and
- analysts' consensus expectations for the operating divisions and the Group as a whole.

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 adjusted on a straight-line basis depending on the actual ranking against the comparator group.

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

- If the profit achievement is below the target for threshold vesting set by the Remuneration Committee, then none of the relevant available Incentive Units will vest and they will all lapse;
- If the profit achievement 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 profit achievement equals or exceeds the target for maximum vesting set by the Remuneration Committee then all of the available Incentive Units will vest;
- If the profit achievement 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 profit achieved.

The performance conditions are 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.

8.4.2.2 Variable pay (continued)

EXECUTIVE PARTICIPATION PLAN ("EPP")	
Purpose and link to strategy objectives Aims to align the interests of managers and shareholders by awarding interests in shares out of the annual bonus award. It is also designed to provide an incentive for managers to remain with the Group. **Operation** Participants are awarded Deferred Shares (with a minimum 3 year vesting period), which can be issued as either a conditional award or a nil-cost option, with an initial market value approximately equal to the amount of the actual cash bonus forgone. Unvested awards 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. By agreement with the Remuneration Committee, more than 50% may be deferred. Additional shares are allocated in respect of dividends payable during the relevant period. 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 under which the Deferred Shares are earned is already subject to performance conditions.

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 Directors' remuneration policy, the Committee reserves the right to make minor amendments to the policies set out for regulatory, exchange control, administrative or tax purposes.

8.4.3 Remuneration policy table for the Non-Executive Directors

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

BASIC SALARY/FEES	
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 although there is discretion to adjust them at other times of the year. Account is taken of individual responsibilities, involvement in Board committees and fees for similar roles in comparable companies. Remuneration comprises an annual fee for acting as a non-executive director. Remuneration for the Chairman comprises an annual fee for acting as Chairman. Non-executive directors do not participate in pensions or incentive benefits, or receive other remuneration in addition to their fees. Business related expenses and travel and accommodation expenses will be met or reimbursed including for partners to corporate events or management conferences. Home telephone and communications 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. Following shareholder approval at the 2017 Annual General Meeting, that cap was set at £1,200,000 and may subsequently be further adjusted by an ordinary resolution of the Company. That cap, as adjusted from time-to-time, is the only limit in place that acts as setting a maximum value for fees payable to non-executive directors. **Performance metrics** Continued good performance.

8.4.4 Employment conditions across the Group

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

8.4.5 Consideration of shareholder views

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

8.4.6 External appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other unconnected companies and to retain any related remuneration, as this will broaden and enrich the business skills of the directors so long as the time commitments do not have any detrimental impact on the ability of the director to fulfil his duties. Any such directorships must be formally approved by the Board.

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 28 April 2018.

8.5.1 Committee members

The Remuneration Committee is currently composed of three independent non-executive directors. The Committee met three times during the year.

The Group Director of Tax and Employee Benefits attended as Secretary to the Committee. The Chief Executive attended meetings to provide information on performance and strategy. A representative from the Committee's independent external remuneration advisor attended meetings during the year. Attendance at meetings by individual members is detailed in section 4.10. No director was involved in decisions as to their own remuneration.

The members who served on the Committee during the year ended 28 April 2018 were:

- Julie Southern (Chair)
- Gregor Alexander
- James Bilefield

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 Osborne Clarke LLP as its remuneration consultant to provide access to independent research and advice. It has no other connection to the Group. £12,697 (2017: £10,211) was payable to Osborne Clarke LLP in respect of work it carried out in the year ended 28 April 2018. The fees payable were determined by Osborne Clarke 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 Osborne Clarke 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 28 April 2018 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION	Basic Salary/Fees		Benefits in kind		Short-term Incentives (performance related bonus)		Long-term Incentives vested (LTIP)		Pension related benefits		Total	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Executive directors												
Martin Griffiths	**652**	639	**25**	25	**–**	302	**–**	–	**310**	347	**987**	1,313
Ross Paterson	**435**	426	**23**	23	**198**	195	**–**	–	**211**	167	**867**	811
Non-executive directors												
Gregor Alexander	**61**	60	**–**	–	**–**	–	**–**	–	**–**	–	**61**	60
James Bilefield	**61**	58	**–**	–	**–**	–	**–**	–	**–**	–	**61**	58
Sir Ewan Brown	**53**	53	**–**	–	**–**	–	**–**	–	**–**	–	**53**	53
Ann Gloag	**56**	55	**–**	–	**–**	–	**–**	–	**–**	–	**56**	55
Ray O'Toole (appointed 1 September 2016)	**61**	40	**–**	–	**–**	–	**–**	–	**–**	–	**61**	40
Sir Brian Souter	**217**	213	**–**	–	**–**	–	**–**	–	**–**	–	**217**	213
Julie Southern (appointed 7 October 2016)	**61**	34	**–**	–	**–**	–	**–**	–	**–**	–	**61**	34
Karen Thomson	**61**	58	**–**	–	**–**	–	**–**	–	**–**	–	**61**	58
Garry Watts (resigned 31 July 2016)	**–**	33	**–**	–	**–**	–	**–**	–	**–**	–	**–**	33
Will Whitehorn	**153**	150	**–**	–	**–**	–	**–**	–	**–**	–	**153**	150
Total	**1,871**	1,819	**48**	48	**198**	497	**–**	–	**521**	514	**2,638**	2,878

Notes to Table 1:

i. Basic Salary/fees

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

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

ii. Benefits in kind and other allowances

TABLE 2 – BENEFITS IN KIND AND OTHER ALLOWANCES	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
	2018 £	2017 £	**2018 £**	2017 £	**2018 £**	2017 £	**2018 £**	2017 £	**2018 £**	2017 £
Martin Griffiths	**22,000**	22,000	**1,086**	964	**1,549**	1,906	**214**	202	**24,849**	25,072
Ross Paterson	**22,000**	22,000	**1,086**	964	**–**	–	**214**	202	**23,300**	23,166
Sir Brian Souter	**–**	–	**–**	–	**350**	337	**–**	–	**350**	337

During the year, both Executive Directors participated in the Buy As You Earn ("BAYE") Plan. We believe that the BAYE plan aligns the interests of employees and shareholders by allowing all UK employees of the Group to purchase shares out of their salary. It is designed to aid staff motivation and retention. The maximum employee purchase is governed by HMRC limits and is currently £1,800 per annum. 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 13.

iii. Performance-related bonus

Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Committee determines the annual bonus for each executive director for the year just ended. This is based on the director's performance in achieving the set objectives. 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 28 April 2018 were with respect to adjusted measures of profit before interest and taxation, earnings per share, and net debt.

For the year ended 28 April 2018, 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.

As explained in the statement from the Chairman of the Remuneration Committee in section 8.1 of this Annual Report, the Committee considered that the disappointing outcome on Virgin Trains East Coast should be considered in determining the Executive Directors' bonuses for the year ended 28 April 2018. As set out in section 8.4.2.2, in assessing the level of bonuses to be paid, including in respect of personal objectives, the Committee has the discretion to reduce the level of any awards taking into account the financial performance and standing of the Group and the overall individual performance of the relevant director. The Committee exercised its discretion on the level of bonus awards granted and it agreed that the actual bonuses awarded to each director would be less than the amounts they would have been entitled to if based simply on determining the bonuses with reference to the performance against the objectives set at the start of the year. As a result, it was agreed that no bonus would be awarded to the Chief Executive and that the cash element of the bonus would not be awarded to the Finance Director.

The maximum potential awards and the performance-related assessment in respect of the year ended 28 April 2018 are summarised in Table 3:

TABLE 3 – EXECUTIVE DIRECTORS' ANNUAL BONUSES FOR THE YEAR ENDED 28 APRIL 2018	Chief Executive		Finance Director	
	Maximum bonus (% of basic salary)	Performance Related Assessment (% of basic salary)	Maximum bonus (% of basic salary)	Performance Related Assessment (% of basic salary)
Annual bonus in respect of financial objectives – See Table 4	70.0%	67.2%	70.0%	67.2%
Annual bonus in respect of personal objectives – See Tables 5 and 6	30.0%	24.0%	30.0%	24.0%
Personal Related Assessment	**100.0%**	**91.2%**	**100.0%**	**91.2%**
Reduction through Committee's discretion / awards declined		(91.2%)		(45.6%)
Bonus Awarded	**100.0%**	**–**	**100.0%**	**45.6%**

Applying the bonus awards from Table 3, the Finance Director would receive an award only of Deferred Shares (3 year deferral) for the amount of the bonus of £198,223.

Details of the Directors personal objectives for the year ended 28 April 2018 are shown in Tables 5 and 6.

TABLE 4 – DIRECTORS' FINANCIAL OBJECTIVES Proportion of maximum potential bonus achievable:	Threshold 50%	Target 75%	Maximum 100%	Achieved	Maximum Potential Bonus (% of basic salary)	Level of Performance (% of basic salary)
Consolidated adjusted profit before interest and taxation ("PBIT") from Group companies	£154.7m	£171.8m	£189.0m	£180.9m	23.4%	20.6%
Consolidated adjusted earnings per share ("EPS")	21.1p	23.4p	25.7p	26.2p	23.3%	23.3%
Consolidated net debt ("Net Debt")	£646.1m	£621.1m	£596.1m	£400.7m	23.3%	23.3%
Element of bonus related to Group financial objectives					70.0%	67.2%

The PBIT and EPS measures shown above are determined in accordance with International Financial Reporting Standards but adjusted to exclude intangible asset expenses, exceptional items, and rail franchise bid costs. The PBIT measure also excludes any share of profit or loss from joint ventures. The Net Debt measure is determined in accordance with the definition of net debt given in note 33 to the consolidated financial statements, adjusted to exclude:

i) any unbudgeted over or under spend on rail franchise bid costs.

ii) the impact of unbudgeted transactions with shareholders such as additional dividends or other distributions.

iii) the impact of currency translation on opening and closing debt balances.

The actual values achieved in respect of each of the three measures are adjusted to exclude the impact of any acquisitions and disposals of businesses that were not included in determining the target values.

The Committee separately assessed the extent to which each executive director achieved the personal objectives that were set for them in respect of the year ended 28 April 2018.

As noted above, even where one or more of the specified objectives have been achieved, the Committee has the discretion to pay no or a reduced bonus. However, the Committee is not of the view that it necessarily follows that there should be no payouts in respect of personal objectives in circumstances where some or all of the financial objectives for the year are not met. Indeed, the financial objectives for the annual bonus are relatively short-term in nature, while the personal objectives can encompass matters that are important to the long-term development and performance of the Group. For example, the Board and the Committee regard maintaining an appropriate health and safety culture as important to the Group's long-term success and look to reflect that in the Chief Executive's objectives. The Committee believes executives should be incentivised to ensure effective health and safety arrangements are maintained even if, or as a consequence of which, shorter term financial targets are not met. It similarly looks to balance shorter term and longer term considerations in assessing bonus payouts in relation to other personal objectives.

The Executive Directors' personal objectives for the year ended 28 April 2018 and the Committee's assessment of the extent that they were met are summarised in Tables 5 (for Chief Executive) and 6 (for Finance Director).

TABLE 5 – CHIEF EXECUTIVE'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 28 APRIL 2018			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Leadership on health and safety performance across all business units	The Committee consulted with the Health, Safety and Environmental Committee in assessing the extent to which the Chief Executive's health and safety objective had been achieved. The Health, Safety and Environmental Committee noted that the Chief Executive continued to take a lead on health and safety matters, including the promotion and achievement of continual improvement in health and safety performance across all business units and the promotion of an appropriate safety culture, and reported to it at each meeting. Based on its interaction with the Chief Executive and its monitoring of health and safety performance indicators during the year, the Health, Safety and Environmental Committee considered the objective to be met and the Remuneration Committee concurred.	6.0%	6.0%
Implementation of a strategy for rail franchising activities	The Committee acknowledged the rail franchising strategy that was developed and approved by the Board and further noted the planning that had progressed in the UK Rail Division in order to support the implementation of the strategy. The Committee also noted that the Group had expended significant resource and energies to maintain a constructive working relationship with the UK Department for Transport. The Committee also noted that as at the year end the Group retained a profitable interest in UK Rail and was involved in three live franchise bids. When taken against the position at the start of the year, the Committee considered that much good progress had been achieved, but it nevertheless considered that given the outcome on Virgin Trains East Coast, that this objective was not achieved.	6.0%	Nil
Strategic review of North American operations	The Chief Executive led the review that resulted in the restructuring of the North American business segments. The Committee agreed that as a result of the restructuring across North American operations, the level of profitability in the contract business had increased and therefore concluded the objective had been met.	6.0%	6.0%
People and Talent Development	The Chief Executive leads the Group's approach on people development, talent pool progression, engagement and training. During the year, the Chief Executive reshaped and strengthened the UK Bus management team, with a particular focus on commercial development and management leadership, supporting the succession arrangements within the business. Successful pilots have also been introduced making use of the Apprentice Levy arrangements and we have become the first UK Bus company to successfully adopt the Institute of Apprenticeships bus driver standards to enhance new driver skills. We have also commenced a review of our successful graduate programme which has supported the careers of many of the Group's managers, to ensure we further strengthen the digital and commercial elements of that programme. The Chief Executive continues to lead on the development of our talent pool, where we have been pleased to see a number of our developing managers progressing successfully into director roles across the business. We continue to make progress on diversity and inclusion, and are setting targets across our business to support the aspirations of all of our employees to realise their full potential to contribute to the success of the businesses. Taking account of these and other factors, the Committee considered the objective to be met.	6.0%	6.0%
Implementation of the Group digital strategy	The Committee acknowledged the three-year digital and technology strategy that was developed and approved by the Digital and Technology Committee in the prior year. Noting the range of measures taken through changes to strengthen the organisational structure in order to support the implementation and delivery of this strategy, and the good progress being made against a range of digital related performance indicators, the Committee considered the objective to be met.	6.0%	6.0%
Percentage of basic salary earned in respect of personal objectives		30.0%	24.0%

TABLE 6 – FINANCE DIRECTOR'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 28 APRIL 2018			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Maintain an investment grade credit rating	The Finance Director is responsible for managing the relationships with the ratings agencies and for the overall financial management of the Group. The Committee considered this objective to have been met, noting that the parent company had held three investment grade credit ratings (one from each of Standard & Poors, Moody's and Fitch) throughout the year.	6.0%	6.0%
Secure an agreement with the Department for Transport in respect of the Virgin Trains East Coast franchise	The Committee noted that the Group had made significant progress with the Department for Transport on the contractual terms relating to Virgin Trains East Coast. However, it nevertheless considered that given the outcome on Virgin Trains East Coast, that this objective was not achieved.	6.0%	Nil
Enhance the Group's periodic reporting cycle	The Finance Director was responsible for improving the Group periodic management accounts and KPI reporting for management and the Board. The Committee noted that a new four-weekly KPI pack had been developed, taking account of Board feedback and that the new form of four-weekly pack is shared with the Board on an ongoing basis. In addition, the Committee noted that significant enhancements have been made to the Group's IT & Digital Dashboard. Short and longer versions of the dashboard are now issued four-weekly, and include KPIs to monitor the performance of the Group's key digital retail channels.	6.0%	6.0%
Support the documentation and delivery of the Group's digital and technology plan	The Finance Director has had a high level involvement in documenting the digital and technology strategy that was approved by the Digital and Technology Committee and supported the organisational changes necessary for the implementation and delivery of this strategy. The Committee considered the objective to be met.	6.0%	6.0%
Enhance reporting and analytics within UK Bus (regional operations)	The Committee noted that the quality of information and analysis on UK Bus (regional operations) commercial passenger revenue, transaction and journey numbers has been improved through a number of initiatives, including improved trend analysis reports, a new Revenue and Passenger Analysis System ("RAPAS") and appointments to enhance finance business partnering and decision analysis. The Committee was satisfied that significant progress was made in the year and the Committee considered the objective to be met.	6.0%	6.0%
Percentage of basic salary earned in respect of personal objectives		30.0%	24.0%

iv. LTIP

No amount is shown in Table 1 in respect of the LTIP vestings for the year ended 28 April 2018. The December 2014 award achieved a ranking of 213 out of the 227 companies in the comparator group throughout the performance period, and so did not pay out. Similarly, no amount is included for the June 2015 awards as it is considered unlikely they will pay out.

TABLE 7 – LTIP AWARDS treated as vested for inclusion in Table 1 **Grant date**	As at 29 April 2017 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	As at 28 April 2018 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Vesting Date
Martin Griffiths						
11 Dec 14	134,145	6,460	(140,605)	–	–	11 Dec 17
25 Jun 15	123,260	9,431	–	132,691	–	25 Jun 18
					–	
Ross Paterson						
11 Dec 14	89,429	4,306	(93,735)	–	–	11 Dec 17
25 Jun 15	82,171	6,288	–	88,459	–	25 Jun 18
					–	

LTIP awards vested in June 2017

In the 2017 Annual Report an estimate of nil value was included in respect of the June 2014 LTIP awards, and it is confirmed that this was in accordance with the actual vesting as no payment was made on vesting in June 2017.

v. Pension related benefits

The pension amounts shown in Table 1 are calculated in accordance with the provisions of the 2013 Regulations and so represent 20 times the increase (excluding inflation) in the accrued annual pension entitlement plus the increase (excluding inflation) in the accrued cash lump sum entitlement, less contributions paid by the director.

vi. External Appointments

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £57,148 fees received from this position in the year ended 28 April 2018 (2017: £56,289). Ross Paterson was appointed as a non-executive director of The Unite Group plc on 21 September 2017. He was permitted to retain the £30,755 fees received from this position for the period from 21 September 2017 to 28 April 2018 (2017: £Nil).

8.5.4 Pensions (audited)

Under the legacy terms of their service agreements, the Executive Directors accrued benefits under defined benefit pension arrangements. Historic benefits previously accrued under an HMRC approved pension scheme and included in Table 8 below were revalued only for inflation. The directors accrued benefits in the year ended 28 April 2018 under Group funded pension arrangements. Other than adjustments for inflation, no further benefits accrued under the HMRC approved Group defined benefit pension scheme during the year. Pension benefits are targeted with a normal retirement age of 60 and in accordance with HMRC rules, accrued defined benefits may not be drawn before age 55.

Table 8 below provides the 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 8 – DIRECTORS' PENSION BENEFITS	Normal Retirement date	Contributions paid by the director for the year ended 28 April 2018 £000	Accrued cash entitlement at 29 April 2017 £000	Accrued annual pension entitlement at 29 April 2017 £000	Accrued cash entitlement at 28 April 2018 £000	Accrued annual pension entitlement at 28 April 2018 £000
Martin Griffiths	31 March 2026	58	169	153	174	176
Ross Paterson	29 July 2031	38	138	87	142	102

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 8 above are made by way of salary sacrifice arrangements.

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

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

Tables 9 and 11 set out the awards to the Executive Directors under the Company's share schemes during the year ended 28 April 2018.

TABLE 9 – LTIP AWARDS IN YEAR	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Incentive Units)	Expected total value at time of grant £	Face value at time of grant £	Vesting Date	Performance period (approximate)
Martin Griffiths								
25 Aug 17	Incentive Units	1.7450	75% of basic salary	280,229	334,565	489,000	25 Aug 20	1 May 2017 - 30 April 2020
7 Dec 17	Incentive Units	1.7800	75% of basic salary	274,719	334,567	489,000	7 Dec 20	1 Nov 2017 - 31 Oct 2020
Ross Paterson								
25 Aug 17	Incentive Units	1.7450	75% of basic salary	186,833	223,060	326,024	25 Aug 20	1 May 2017 - 30 April 2020
7 Dec 17	Incentive Units	1.7800	75% of basic salary	183,160	223,060	326,025	7 Dec 20	1 Nov 2017 - 31 Oct 2020

Each Incentive Unit shown in Table 9 has a notional face value equal to one of the Company's ordinary shares and was granted as a cash-settled award. The closing price on the preceding dealing day was used to determine the number of Incentive Units.

The face 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. Both awards are subject to two performance conditions. One half of the award is based on TSR, where the TSR over the performance period must exceed the median of the comparator group, which is the list of FTSE 250 companies over the period. The amount of units awarded which are released will range from 25% to 100% depending on the actual ranking achieved. A top quartile ranking is required to achieve a 100% release of units. No units will vest for below-threshold performance. The other half of each award is based on targets set for a measure of EPS over a three-year period. The threshold and upper performance targets for each award over the three year performance period are as follows:

TABLE 10 – EPS PERFORMANCE CRITERIA Award date	Threshold	Maximum
25 Aug 17	24.4p	25.7p
7 Dec 17	24.4p	25.7p

25% of the Incentive Units would vest for a threshold level of performance and 100% for maximum performance. A sliding scale of vesting on a straight-line basis would be applied between these lower and upper vesting levels.

TABLE 11 – EPP AWARDS IN YEAR Award date	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Deferred Shares)	Maximum and expected total value of award at time of grant £	Vesting Date	Performance period
Martin Griffiths							
29 Jun 17	Deferred Shares	1.9110	50% of annual bonus	79,105	151,170	29 Jun 20	n/a
Ross Paterson							
29 Jun 17	Deferred Shares	1.9110	50% of annual bonus	51,072	97,599	29 Jun 20	n/a

Each Deferred Share shown in Table 11 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 (2017: £Nil) in excess of the de minimis threshold to former directors during the year ended 28 April 2018 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 28 April 2018 (2017: £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. Where there have been relevant increases in basic salary or significant fluctuations in the share price of the Company, the Committee may allow a further period of three years for directors to adjust their holdings within the shareholding guideline. 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 relevant measurement date. LTIP Incentive Units are not included in this measurement. As at 28 April 2018, Martin Griffiths had an interest in shares equivalent to 166% (2017: 197%) of his basic salary and Ross Paterson an interest in shares equivalent to 135% (2017: 154%) of his basic salary. Both directors have at various points in the previous two years comfortably met the guideline and the Committee also noted that both directors increased their interest in the number of shares held outright during the year. There was no divestment in the year by either director and they are below the target because of the fall in the Company's share price. As such the Committee remains satisfied that both directors retained significant interests in the shares of the Company and consistent with the guidelines explained above it is satisfied that the directors should have a period of three years to adjust their holding in shares to achieve the shareholding guideline.

The effective interests of the Directors (including those of connected persons) as at 28 April 2018 were:

TABLE 12 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 28 APRIL 2018	Interests as at 28 April 2018				Scheme interests vested during year ended 28 April 2018	
	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	559,367	1,382,733	225,417	5,295	–	89,179
Ross Paterson	286,581	921,897	148,485	5,295	–	59,454
Non-executive directors						
Gregor Alexander	10,406	–	–	–	–	–
James Bilefield	–	–	–	–	–	–
Sir Ewan Brown	*see note below*					
Ann Gloag	62,501,721	–	–	–	–	–
Ray O'Toole	–	–	–	–	–	–
Sir Brian Souter	86,900,445	–	–	–	–	–
Julie Southern	–	–	–	–	–	–
Karen Thomson	–	–	–	–	–	–
Will Whitehorn	72,888	–	–	–	–	–

Sir Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 18% (2017: 18%) of the ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 3,567,999 ordinary shares in the Company at 28 April 2018 (2017: 3,567,999).

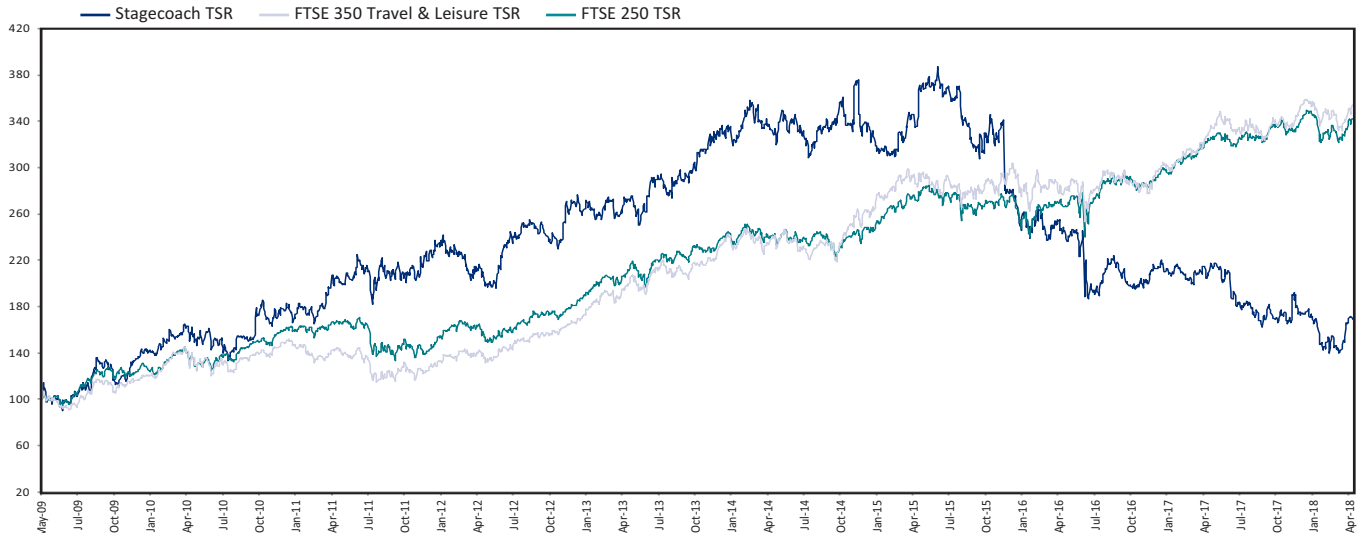
Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 13 below.

TABLE 13 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 29 April 2017	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 28 April 2018	Vesting Date
Long Term Investment Plan							
Martin Griffiths	136,270	–	–	(136,270)	–	–	28 Jun 17
	134,145	–	6,460	(140,605)	–	–	11 Dec 17
	123,260	–	9,431	–	–	132,691	25 Jun 18
	163,664	–	12,523	–	–	176,187	10 Dec 18
	223,736	–	17,121	–	–	240,857	30 Jun 19
	231,460	–	17,712	–	–	249,172	8 Dec 19
	–	280,229	21,443	–	–	301,672	25 Aug 20
	–	274,719	7,435	–	–	282,154	7 Dec 20
	1,012,535	554,948	92,125	(276,875)	–	1,382,733	
Ross Paterson	90,846	–	–	(90,846)	–	–	28 Jun 17
	89,429	–	4,306	(93,735)	–	–	11 Dec 17
	82,171	–	6,288	–	–	88,459	25 Jun 18
	109,107	–	8,349	–	–	117,456	10 Dec 18
	149,179	–	11,416	–	–	160,595	30 Jun 19
	154,330	–	11,810	–	–	166,140	8 Dec 19
	–	186,833	14,297	–	–	201,130	25 Aug 20
	–	183,160	4,957	–	–	188,117	7 Dec 20
	675,062	369,993	61,423	(184,581)	–	921,897	
Executive Participation Plan							
Martin Griffiths	89,179	–	–	–	(89,179)	–	28 Jun 17
	52,391	–	3,995	–	–	56,386	25 Jun 18
	77,947	–	5,945	–	–	83,892	30 Jun 19
	–	79,105	6,034	–	–	85,139	29 Jun 20
	219,517	79,105	15,974	–	(89,179)	225,417	
Ross Paterson	59,454	–	–	–	(59,454)	–	28 Jun 17
	34,927	–	2,663	–	–	37,590	25 Jun 18
	51,965	–	3,963	–	–	55,928	30 Jun 19
	–	51,072	3,895	–	–	54,967	29 Jun 20
	146,346	51,072	10,521	–	(59,454)	148,485	
Buy as you Earn Scheme							
Martin Griffiths	3,776	1,184	335	–	–	5,295	n/a
Ross Paterson	3,776	1,184	335	–	–	5,295	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 nine years to April 2018 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 currently 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 9-Year TSR Comparative Performance to April 2018:



For comparative purposes, the pay for the role of Chief Executive over time is shown in Table 14 below.

TABLE 14 – PAY FOR THE ROLE OF CHIEF EXECUTIVE Year ended April:	Sir Brian Souter 2010	2011	2012	2013	Martin Griffiths 2014	2015	2016	2017	2018
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%	65%	53%	47%	0%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	56%	10%	0%	0%	0%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,212	1,451	1,316	1,313	987

*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 14 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 15 below.

TABLE 15 – BONUS AWARDED TO CHIEF EXECUTIVE (before waivers) Year ended April:	Sir Brian Souter 2010	2011	2012	2013
Bonus (percentage of maximum)	80%	90%	90%	90%

The total remuneration figures in Table 14 are 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 2016/17 to 2017/18 in comparison to a comparator group of employees is shown in Table 16 below.

TABLE 16 – 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	2.0%	4.3%
Benefits	(0.9)%	5.6%
Bonus	(100.0)%	(2.2)%

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 28 April 2018 and the year ended 29 April 2017. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 17 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS	2018 £m	2017 £m	Percentage change
Profit distributed by way of dividend to shareholders	68.3	67.1	1.8%
Overall spend on pay for employees	1,284.2	1,436.8	(10.6)%

The fall in the overall spend on pay for employees reflects the expiry of the Group's South West Trains franchise in August 2017 and the legal transfer of the employees of that business to the new operator.

8.5.12 Shareholder voting at general meetings

The following table shows the results of the vote on the 2017 remuneration report at the 2017 Annual General Meeting, along with the last vote on the policy, also from the 2017 Annual General Meeting.

TABLE 18 – SHAREHOLDER VOTES	Directors' 2017 Remuneration Report Total number of votes	% of votes cast	Directors' 2017 Remuneration Policy Total number of votes	% of votes cast
For+	410,449,250	89.38%	435,077,565	94.70%
Against	48,780,786	10.62%	24,354,070	5.30%
Total votes cast (excluding withheld votes)	459,230,036	100.00%	459,431,635	100.00%
Votes withheld*	443,680		215,151	
Total votes cast (including withheld votes)	459,673,716		459,646,786	

+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 27 April 2019

In the year ending 27 April 2019, 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 2018/19 basic salary decisions which are in line with the Directors' remuneration policy.

TABLE 19 – INCREASES IN BASIC SALARY	2018/19 salary £	2017/18 salary £	Percentage change
Martin Griffiths	652,000	652,000	0.0%
Ross Paterson	434,700	434,700	0.0%

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. The maximum potential bonus award for the year to 27 April 2019 has been set at 130% of basic salary and the nominal value of LTIP awards will be retained at 150% 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. For 2018/19, each director has a maximum potential bonus of up to 130% of basic salary, with up to 100% being based on achieving demanding financial objectives and up to 30% based on achieving specified personal objectives. The on-target level of bonus award for financial targets has been set at 67.50% of basic pay, and 30% available for individual business related targets producing a total on-target level of bonus of 97.5% of basic pay. Payout at threshold level on the financial targets has been reduced from 50% in 2017/18 to 35% for 2018/19, with payout for maximum performance on demanding financial targets limited to 100% of basic pay. The Committee has determined that the element of the potential bonus related to three key financial objectives for 2018/19 will be allocated as follows:

TABLE 20 – POTENTIAL 2018/19 BONUS PAYOUTS FOR FINANCIAL OBJECTIVES	Threshold performance (% of basic salary)	Target performance (% of basic salary)	Maximum Bonus (% of basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	11.67%	22.50%	33.34%
Consolidated adjusted earnings per share ("EPS")	11.67%	22.50%	33.33%
Consolidated net debt ("Net Debt")	11.66%	22.50%	33.33%
Element of bonus related to Group financial objectives	35.00%	67.50%	100.00%

The three measures listed in Table 20 will be defined consistently with 2017/18 (see note iii to Table 1), except that:

- PBIT and EPS amounts will be measured after deducting software amortisation (whereas for 2017/18 PBIT and EPS were measured exclusive of all intangible asset amortisation)
- PBIT and EPS amounts will be measured after deducting all rail franchise bid costs (whereas for 2017/18 PBIT and EPS were measured exclusive of all rail franchise bid costs)
- Net debt amounts will be measured without adjustment for unbudgeted variances in rail franchise bid costs (whereas for 2017/18 actual net debt was adjusted for unbudgeted variances in rail franchise bid costs).

In section 8.5.3 of this report, detailed information has been provided in relation to (a) the financial targets for annual bonus purposes for the year ended 28 April 2018 and (b) the Executive Directors' personal objectives for the year ended 28 April 2018 and the Committee's assessment of the extent that they were met.

The Committee is of the view that the values of the 2018/19 performance targets for the financial measures under the annual bonus scheme 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 27 April 2019 will be disclosed in the 2019 Annual Report. The Committee is of the view that the performance targets for the 2018/19 individual business related objectives 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 in the 2019 Annual Report to the extent it considers that they are no longer considered commercially sensitive. 50% of any actual bonus earned in the year would ordinarily 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 27 April 2019 and the nature of the performance conditions are provided in Table 21 below.

TABLE 21 – INTENDED LTIP AWARDS	Award Type	Performance metric	Face value of award at maximum vesting (% of 2018/19 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	Profitability targets	75%	25%	3 years
Ross Paterson	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	Profitability targets	75%	25%	3 years

In all cases, LTIP 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.

Long-term incentives – LTIP awards (continued)

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. For 2017/18, however, the first tranche of LTIP awards were made following the shareholders vote on the policy at the Annual General Meeting on 25 August 2017. 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 2018/19 awards will be split one half based on TSR performance against a comparator group of the FTSE 250 companies, and the other half based on a measure of profitability. For any TSR based awards to vest, 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 profitability targets 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 and a sliding scale of vesting on a straight-line basis would be applied between the lower and upper vesting levels.

8.5.13.2 Implementation of non-executive directors' remuneration policy

Annual fees for 2018/19

The implementation of policy in relation to the Non-Executive Directors is in line with the Directors' remuneration policy. 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 similar companies. There are no changes to the fees for non-executive directors for the 2018/19 financial year. The fees per annum for the Non-Executive Directors for 2017/18 and the amount set for 2018/19 are set out in Table 22 below.

TABLE 22 – NON-EXECUTIVE DIRECTOR FEES	2018/19 fees £	2017/18 fees £
Chairman	217,400	217,400
Deputy chairman	153,000	153,000
Other non-executive directors (range)	52,500 - 60,900	52,500-60,900

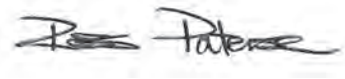
9. Responsibility statement

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 28 June 2018 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)

Opinion

In our opinion:

- Stagecoach Group plc's Consolidated financial statements (the "consolidated financial statements") and separate financial statements of the parent (the "Company financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 April 2018 and of the Group's profit for the year then ended;
- The consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- The consolidated and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the consolidated and Company financial statements of Stagecoach Group plc, which comprise:

Group	Parent company
Consolidated income statement	Company balance sheet
Consolidated statement of comprehensive income	Company statement of changes in equity
Consolidated balance sheet (statement of financial position)	Related notes 1 to 15 to the Company financial statements
Consolidated statement of changes in equity	
Consolidated statement of cash flows	
Related notes 1 to 33 to the consolidated financial statements.	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated and Company financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the annual report, in relation to which ISAs (UK) requires us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the annual report set out in section 1.4.5 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out in section 4.12.3 of the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out in section 3.11 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- Whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out in section 3.11 of the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Overview of Our Audit Approach

Key audit matters	• Termination of Virgin Trains East Coast franchise • Valuation of provision for insurance claims • Valuation of pension liabilities and pension assets • Carrying value of North America goodwill • Revenue recognition arising from management override of controls (Fraud Risk) • Accounting for rail contractual positions • Liability for uncertain tax positions
Audit scope	• We performed an audit of the complete financial information of 13 components and audit procedures on specific balances for a further 16 components. • The components where we performed full or specific audit procedures accounted for 99% of adjusted profit before tax, 99% of revenue and 88% of total assets.
Materiality	• Overall Group materiality of £6.8m represents 4.7% of adjusted profit before tax ("PBT").

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Termination of Virgin Trains East Coast franchise Refer to the Audit Committee report (section 5.4.1) and notes 4, 15 and 22 of the consolidated financial statements. On 5 February 2018 the Secretary of State for Transport confirmed that the Virgin Trains East Coast franchise had breached a key financial covenant and that he would need to, in the very near future, end the contract and put in place a successor arrangement to operate this railway. He also stated that Stagecoach would be held to all of its contractual obligations in full. On 16 May 2018 he confirmed that the contract would terminate on 24 June 2018 and that responsibility for operating the train services would transfer to an Operator of Last Resort. The significant risk arises due to the complexities in agreeing franchise transfer agreements and transfer values for those assets transferring to the new operator. The transfer agreements were signed on 21 June 2018, thereby reducing the audit risk. While the terms of the transfer of the business, as well as certain assets and liabilities, to the public sector company have now been agreed, the transfer values have not yet been agreed for all of the individual balances. Under the agreed terms any residual net assets of Virgin Trains East Coast are payable to the UK Department for Transport.	We read the announcements and related statements made by the Secretary of State for Transport to independently assess the impact of the termination on the consolidated financial statements as at 28 April 2018. We read the signed transfer agreements dated 21 June 2018 setting out the principles on which the business of the franchise would transfer to the Operator of Last Resort and considered whether the approach adopted by management to assess the carrying value of assets and liabilities was appropriate. In advance of the signing of the transfer agreements we reviewed correspondence between the Department for Transport and Stagecoach to assess the evidence supporting management's approach. We specifically focused on an assessment of the transfer values of assets and liabilities through discussions with management and an understanding of the signed terms of the transfer. We tested management's calculation of the onerous contract provision to ensure its measurement is in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". We considered the impact of the termination of the franchise on contingent liabilities at 28 April 2018. We considered whether it was appropriate to account for the crystallisation of the performance bond as a liability prior to 28 April 2018. We assessed the adequacy of disclosure within the financial statements.	Management has reflected the outcome of the signed transfer agreements with the UK Department for Transport and the Operator of Last Resort in its assessment of the carrying values of Virgin Train East Coast's other assets and liabilities as at 28 April 2018, and has made appropriate adjustments to those carrying values. The £59.1m onerous contract provision as at 28 April 2018 has been appropriately determined based on the amount by which the forecast unavoidable costs from 29 April 2018 of meeting the obligations under the contracts (i.e. the Virgin Trains East Coast franchise agreement and related contracts) exceed the expected economic benefits to be received. We concluded that management has appropriately recognised the Virgin Trains East Coast performance bond of £21.0m within the onerous contract provision as at 28 April 2018 in accordance with the requirements of IAS 37. We are satisfied with the adequacy of disclosure within the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of provision for insurance claims *Refer to the Audit Committee report (section 5.4.1) and notes 1 and 22 to the consolidated financial statements.* As at 28 April 2018 the Group recognised total insurance provisions for amounts payable on individual claims amounting to £153.8m (2017: £156.8m). The Group protects against the cost of claims in respect of bus traffic incidents and related employee claims through third party insurance policies. Under these policies, the Group has exposure primarily relating to an "excess" it is responsible for paying per claim. The Group provides for this exposure on a discounted basis. The provisions in the UK and North America are based on an independent actuarial computation of the expected settlement of known claims together with an estimate for claims that have not yet been reported to the Group but relate to incidents occurring prior to the balance sheet date, with adjustment by management to reflect its view of volatility in actuarial estimates from year to year. The significant risk arises due to the inherent uncertainty in actuarial assessments and the level of management judgement exercised in determining the appropriate level of volatility adjustment.	We gained an understanding of the key controls and processes in place to assess insurance claims and related provisions. We have evaluated the competence, capabilities and objectivity of management's external actuarial specialists. We obtained and read the insurance documents to ensure all relevant terms have been appropriately considered in the provision calculation. Through the involvement of our insurance actuarial specialists, we evaluated the appropriateness of the processes, methodologies and assumptions used by the external actuarial specialists to arrive at the actuarial central estimate. We performed audit sample testing over the underlying data maintained by the Group and provided to the actuarial specialists for use in their actuarial calculation of the provision, including historic claims data, movements in the current period, current and historic payment data, and open claims at year-end. Testing to confirm completeness of provisions was performed, including a review of news articles related to Stagecoach incidents and testing of payments made following the year end. In assessing the appropriateness of the assumptions used, we reviewed recent settlement history on comparable claims and obtained relevant correspondence. We tested settlements in the year by comparing the amount provided to the amount settled, following up on unusual fluctuations. We have challenged management's assumptions and methodology in relation to the volatility in actuarial estimates adjustment by comparing management's adjustment to benchmarking analysis prepared by our insurance actuarial specialists and considering other factors (e.g. claims experience). We assessed the appropriateness of management's volatility adjustment and related calculations to ensure that the recorded provision is in accordance with IAS37 and based on a consistent methodology between the UK and the US. Following our audit procedures, management reassessed the value of the volatility adjustment, taking into consideration claims development trends. We assessed the adequacy of disclosure within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of insurance actuarial specialists.	Based on our consideration of the external actuarial specialist's report and available evidence, we can conclude that the methodology, assumptions and approach used by management's specialist are appropriate. We did not note any material exceptions based on testing performed over the accuracy and completeness of data provided to the actuary. We did not note any material exceptions based on our testing of the underlying claims and settlement information. We are satisfied that the valuation of the insurance provision is materially correct. We are satisfied with the adequacy of disclosure within the financial statements.
Valuation of pension liabilities and pension assets *Refer to the Audit Committee report (section 5.4.1) and notes 1, 7 and 23 to the consolidated financial statements.* The Group makes provision for the net pension liabilities of its defined benefit pension schemes. At 28 April 2018 the Group had recognised a net pension deficit of £142.2m (2017: £232.5m). The significant risk relates to the potential misstatement of the gross pension liabilities of £3,054.2m (2017 - £4,257.7m) due to the significant	We understood and walked through management's process and methodology for calculating the pension liability and for determining the valuation of the pension assets, for each of the SPS, RPS and LGPS pension schemes. We evaluated the competence and objectivity of management's external actuarial experts. *Gross Pension Liabilities:* With the assistance of our actuarial specialists, we corroborated key assumptions (including the discount rate, life expectancies of scheme	We have concluded that the pension liability is materially correct and that management's judgements in relation to the underlying actuarial assumptions were appropriate. We have concluded that the valuation of pension scheme assets are materially correct. We are satisfied with the adequacy of disclosure within the financial statements.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
judgements being exercised by management in determining the appropriate underlying actuarial assumptions. We also considered the valuation of the gross pension scheme assets of £2,674.3m (2017: £3,408.3m) to be a key audit matter, but these do not give rise to a significant risk of material misstatement. In particular, we consider the valuation of SPS harder to value assets and the Group's share of the allocation of the LGPS and RPS pension scheme assets to be a key audit matter due to the degree of estimation uncertainty in determining the pension asset value at 28 April 2018. We also consider management's accounting for the participation in the Railways Pension Scheme, as outlined in notes 1 and 23 to be a key audit matter but not a significant risk.	members and inflation rates) using external third party data and independently assessed the assumptions to allow us to determine whether the Group's assumptions are within an appropriate range. We evaluated, via a reasonable range, key assumptions (including the discount rate, life expectancies of scheme members and inflation rates) used in the valuation of the pension liabilities by management. We have tested a sample of the membership data used by the actuaries to the Group's records. *Gross Pension Assets:* We have performed testing on the appropriateness of the valuation of pension scheme assets for SPS, LGPS and RPS. For SPS, we performed underlying testing of pension scheme assets and involved property specialists and private equity specialists to assist us with the valuation of a sample of harder to value assets. For RPS, we obtained the scheme's audited financial statements to support the value of assets held at 31 December 2017. With the involvement of our actuarial specialists, we performed substantive analytical review procedures to roll forward the valuation of the assets to 28 April 2018 and agreed this to third party administrator reports at 28 April 2018, which management have used to record the asset valuations. For LGPS, with the involvement of our actuarial specialists, we performed a substantive analytical review and recalculation of the roll forward of the LGPS assets from the latest triennial valuation at 31 March 2016. We then compared this to management's roll-forward exercise to conclude on management's level of estimation accuracy. We also considered the historic true-up impact of the 2016 triennial valuation in assessing the appropriateness of the roll forward methodology as management's best estimate of the LGPS pension assets. In assessing the true-up impact, we enquired with management's external actuarial specialists and concluded that based on the information available to the actuary, that the roll forward remains an appropriate approach for determining the valuation of the LGPS pension assets at 28 April 2018. We assessed the accounting for the Railways Pensions Scheme franchise adjustment and adequacy of related disclosures within the financial statements. We assessed the adequacy of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of our actuarial specialists.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of North America goodwill *Refer to the Audit Committee report (section 5.4.1) and notes 1 and 11 to the consolidated financial statements.* The Group carries out an annual impairment review of the carrying value of its goodwill. At 28 April 2018 the Group carried goodwill in North America of £91.0m (2017: £97.1m). The significant risk arises because the headroom in the North America cash generating unit is particularly sensitive to management's estimated future cash flows, the discount rate and expected long-term growth. The preparation of cash flow forecasts and value in use calculations requires management to exercise significant judgement in estimating future cash flows and the appropriate growth and discount rates.	We gained an understanding of the key controls and processes in place over management's impairment review. We assessed the methodology used to calculate value in use and integrity of the valuation model. We corroborated key assumptions used by management in the forecasts, including future cash flows, growth rates and the pre-tax discount rate. We evaluated management's sensitivity analysis and disclosures showing the impact of a reasonably possible change in impairment assumptions and contrasted to our own independently prepared sensitivity analysis to test for reasonableness. In doing so, we assessed the adequacy of the disclosure provided in the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of our valuation specialists.	We are satisfied that there is no impairment required for North America goodwill. We are satisfied with the adequacy of the disclosure within the financial statements.
Revenue recognition arising from management override of controls *Refer to note 1 to the consolidated financial statements.* Revenue recognition is a particular area of focus for our audit in considering possible areas of management bias and fraud, arising from management override of controls. Revenue arrangements for customer travel are generally straightforward. However, in some instances, manual adjustments are required to properly reflect the timing and valuation of revenue recognised, for example cash received for the sale of season tickets or travel cards. In UK Rail, revenue is attributed to train operating companies by the Railway Settlement Plan ("RSP"). Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of the UK bus and tram businesses participate. Whilst the revenue attributed is determined by a third party, the recording of the revenues and subsequent amendments are recorded by way of manual journals. The accuracy of recording any such material adjustments to revenue related transactions may represent a fraud risk of material misstatement to revenue. This includes material manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.	We obtained an understanding of the key controls and processes in place over revenue recognition and the recording of manual journal entries. At full and specific scope locations (excluding rail entities) we employed a combination of data analytic techniques to correlate sales through to trade receivables and cash receipts. We tested non-correlating entries with detailed testing of a sample of sales transactions to ensure that revenue had been appropriately recognised in line with customer travel. At full and specific scope locations, we tested all material manual journal entries to revenue through to supporting evidence to confirm that the revenue recognised was appropriate and in line with the Group's accounting policy. We performed full and specific scope audit procedures over this risk area, which covered 99% of the total revenue. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	We have concluded that revenue recognised in the year is materially correct on the basis of procedures performed.
Accounting for Rail Contractual Positions *Refer to the Audit Committee report (section 5.4.1) and notes 1 and 3 to the consolidated financial statements.* The UK Rail industry is subject to complex 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 is a high level of management judgement over amounts receivable or payable by the Group in accordance with the contracts.	We obtained an understanding of the Group's process for identifying and monitoring compliance with the requirements of each of its rail franchise agreements. We met with the compliance team at each of the train operating companies to understand and evaluate the processes and controls in place to ensure compliance with rail franchise agreements. We understood and assessed the impact of any breaches we were made aware of or changes in rail franchise agreements occurring during the year and re-assessed matters brought forward, considering the impact on the consolidated financial statements of new or revised franchise terms.	Whilst the nature of the contracts involves a high level of management judgement, we have concluded that the material franchise receivable and payable balances are supportable and appropriate. We are satisfied with the adequacy of disclosure within the consolidated financial statements, particularly in respect of the Group's contingent liabilities which could crystallise following a breach of one or more of its rail franchise agreements.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	We performed detailed testing over a sample of franchise assets, provisions and accruals, and associated revenue or costs recognised to assess whether these were appropriately recorded. We checked the outturn of prior period estimates in relation to Schedule 4 and 8 claims (refer to definition in note 3 to the consolidated financial statements) and other material balances to assess management's estimation accuracy. These are amounts receivable or payable under the franchise agreement under specified circumstances. We performed a comparative review of the material judgemental franchise assets, provisions and accruals held across each of the train operating companies of the Group against each other in order to assist us in concluding on the completeness of the balances recognised. We assessed whether there were any indicators that the assets or liabilities held should no longer be recognised due to the passage of time, changes in contractual commitments, or legal requirements. Specifically in relation to the South West Trains franchise, we reviewed the Transfer Agreement to understand management's evaluation of the resulting impact on the franchise accruals and receivable balances. We tested the accruals and receivable balances to supporting documentation and a third party confirmation of specific residual balances at 28 April 2018 from the new operator of the franchise. We assessed the adequacy of disclosures within the financial statements, particularly as they relate to contingent liabilities. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	
Liability for uncertain tax positions *Refer to the Audit Committee report (section 5.4.1) and notes 1, 8 and 21 to the consolidated financial statements.* Management applies judgement in assessing tax uncertainties across the different locations, which requires interpretation of local tax laws. Given this judgement, there is a risk that tax liabilities/assets are misstated.	We gained an understanding of the Group's process for determining liabilities for tax and calculating the tax charge for the Group. We involved our US tax specialists in specific areas of US tax and transfer pricing and challenge of the assumptions and estimates in relation to the level of liability recognised for significant tax risks. We agreed underlying tax balances to supporting documentation, including correspondence with tax authorities. We have also challenged the appropriateness of management's assumptions with regard to the recoverability of deferred tax assets. We assessed the adequacy of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with assistance from our specialist tax team.	We have concluded that management's judgements in relation to the provision of liabilities for uncertain tax positions were appropriate. We have concluded that tax balances recognised in the year are materially correct on the basis of procedures performed and tax provisions are supportable and materially correct. We are satisfied with the adequacy of disclosure within the financial statements.

In the current year, the Virgin Trains East Coast onerous contract key audit matter from the prior year has been updated to reflect the termination of the franchise. We have also included pension assets as a key audit matter as set out above.

Scope of Our Audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of the performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 55 reporting components of the Group, excluding the parent entity, we selected 29 components covering entities within the UK Rail, UK Bus (regional operations), UK Bus (London) and North America business areas, which represent the principal business units within the Group.

Of the 29 components selected, we performed an audit of the complete financial information of 13 components ("full scope components") which were selected based on their size or risk characteristics and comprised three rail operating companies, eight UK Bus (regional operations) components, North America and the Virgin Rail Group joint venture. For the remaining 16 components ("specific scope components"), comprising 14 UK Bus (regional operations) components and 2 UK Bus (London) components, we performed audit procedures on specific accounts within each component that we considered had the potential for the greatest impact on the significant accounts in the consolidated financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures were:

	Components	Percentage of adjusted profit before tax	Percentage of revenue	Percentage of total assets
Full Scope	13	64%	77%	56%
Specific Scope	16	42%	22%	28%
	29	106%	99%	84%
Parent and consolidation adjustments		(7)%	–	4%
Overall coverage		99%	99%	88%

Of the remaining components, none are individually greater than 1.5% of the Group's adjusted profit before tax. For these components, we performed other procedures, including analytical review, intercompany eliminations and obtaining audit evidence to respond to any potential risks of material misstatement to the consolidated financial statements

Changes from the Prior Year

The increase in full scope components from 8 to 13 reflects management's changes to the granularity of components recorded in the Group's consolidation. Two components have been added to specific scope in order to increase coverage. Management has also adjusted reporting of components which has increased the overall number of components. This has had no impact on our scoping assessment, with consistent testing still applied across the original components.

Involvement with Component Teams

The audit work on all in scope reporting units, with the exception of Virgin Rail Group, was performed directly by the Group engagement team. We also communicated with a firm outside of the EY network of firms with respect to the audit of the complete financial information of the Virgin Rail Group joint venture. The Group engagement team held meetings and calls with the Virgin Rail Group auditors to clarify and discuss their audit approach, materiality and our reporting requirements. In addition, we had meetings and calls with them as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work. We also observed the Virgin Rail Group Audit Committee meeting in May 2018, at which Virgin Rail Group's external and internal auditors presented.

This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6.8m (2017: £7.0m), which is 4.7% of adjusted profit before tax being reported profit before tax adjusted to exclude net exceptional losses. We believe that adjusted profit before tax provides us with a consistent measure of underlying year-on-year performance as it excludes the impact of non-recurring items.

We determined materiality for the Company to be £6.8m (2017: £7.0m), in line with group materiality. This is based on the parent entities share of net assets which has been allocated 100% of Group materiality.

During the course of our audit, we reassessed initial materiality and have deemed this still to be appropriate at the year end.

Performance materiality

Performance materiality represents the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £5.1m (2017: £5.3m). We have set performance materiality at this percentage due to our understanding of the perspective of the users of the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The range of performance materiality allocated to components was £1.1m to £2.5m (2017: £1.1m to £2.5m).

Reporting Threshold

Reporting threshold represents the amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.4m (2017: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information

The other information comprises the information included in the annual report, including the shareholder information set out on pages 155 to 156, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out in section 3.5 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out in section 5 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee or is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code set out in section 4.2 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are Required to Report by Exception

In light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out in section 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant include compliance with rail franchises, applicable health & safety and data protection regulations, competition and consumer protection laws, labour regulations and employee rights laws.
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included a review of board minutes to identify any non-compliance with laws and regulations and enquiries of senior management.
- We identified any instances of non-compliance with laws and regulations at Group components through the direction and oversight of our component audit teams. We discussed any potential findings with senior management.

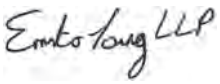
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed as auditors and signed an engagement letter on 29 November 2017. We were appointed by the Company at the Annual General Meeting in 2016 to audit the financial statements for the year ended 29 April 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ended 29 April 2017 to 28 April 2018.
- The non-audit services prohibited by the Financial Reporting Council's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional Report to the Audit Committee.

Use of Our Report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Harvey

Senior statutory auditor
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

28 June 2018

Notes:

The maintenance and integrity of the Stagecoach Group plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

11. Consolidated financial statements

Consolidated income statement

For the year ended 28 April 2018

		2018			2017 (restated)		
		Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	Notes	£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	2(a)	**3,226.8**	**–**	**3,226.8**	3,941.2	–	3,941.2
Operating costs and other operating income	3	**(3,074.0)**	**(47.8)**	**(3,121.8)**	(3,782.3)	(137.8)	(3,920.1)
Operating profit of Group companies	2(b)	**152.8**	**(47.8)**	**105.0**	158.9	(137.8)	21.1
Share of profit of joint ventures after finance costs, finance income and taxation	2(c)	**27.1**	**–**	**27.1**	26.2	–	26.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2(b)	**179.9**	**(47.8)**	**132.1**	185.1	(137.8)	47.3
Non-operating exceptional items	4	**–**	**(1.7)**	**(1.7)**	–	4.7	4.7
Profit before interest and taxation		**179.9**	**(49.5)**	**130.4**	185.1	(133.1)	52.0
Finance costs	6	**(36.6)**	**–**	**(36.6)**	(35.6)	–	(35.6)
Finance income	6	**1.5**	**–**	**1.5**	1.5	–	1.5
Profit before taxation		**144.8**	**(49.5)**	**95.3**	151.0	(133.1)	17.9
Taxation	8	**(17.9)**	**(13.6)**	**(31.5)**	(19.3)	19.5	0.2
Profit from continuing operations and profit after taxation for the year		**126.9**	**(63.1)**	**63.8**	131.7	(113.6)	18.1
Attributable to:							
Equity holders of the parent		**128.0**	**(57.5)**	**70.5**	133.5	(101.7)	31.8
Non-controlling interest		**(1.1)**	**(5.6)**	**(6.7)**	(1.8)	(11.9)	(13.7)
		126.9	**(63.1)**	**63.8**	131.7	(113.6)	18.1
Earnings per share (all of which relates to continuing operations)							
Adjusted basic/Basic	10	**22.3p**		**12.3p**	23.3p		5.5p
Adjusted diluted/Diluted	10	**22.2p**		**12.2p**	23.2p		5.5p

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

Consolidated statement of comprehensive income

For the year ended 28 April 2018

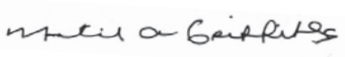
	2018	2017
	£m	£m
Profit for the year	**63.8**	18.1
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value gains on cash flow hedges	**50.3**	17.6
– Reclassified and reported in profit for the year	**(2.0)**	21.0
– Share of other comprehensive income on joint ventures' cash flow hedges	**0.2**	3.3
– Tax effect of cash flow hedges	**(9.2)**	(7.3)
– Tax effect of share of other comprehensive income on joint ventures' cash flow hedges	**–**	(0.6)
Foreign exchange differences on translation of foreign operations (net of hedging)		
– Foreign exchange differences arising in year	**(7.0)**	13.5
– Tax effect of foreign exchange differences arising in year	**(0.3)**	–
– Reclassified and reported in profit for the year	**–**	(4.6)
Total items that may be reclassified to profit or loss	**32.0**	42.9
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on Group defined benefit pension schemes	**106.7**	(127.6)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	**(20.6)**	22.7
Share of actuarial gains on joint ventures' defined benefit pension schemes, net of tax	**(0.6)**	2.5
Total items that will not be reclassified to profit or loss	**85.5**	(102.4)
Other comprehensive income/(expense) for the year	**117.5**	(59.5)
Total comprehensive income/(expense) for the year	**181.3**	(41.4)
Attributable to:		
Equity holders of the parent	**190.7**	(29.9)
Non-controlling interest	**(9.4)**	(11.5)
	181.3	(41.4)

Consolidated balance sheet (statement of financial position)

As at 28 April 2018

	Notes	2018 £m	2017 £m
ASSETS			
Non-current assets			
Goodwill	11	**142.1**	148.2
Other intangible assets	12	**44.4**	45.0
Property, plant and equipment	13	**1,137.1**	1,190.3
Interests in joint ventures	14	**25.2**	25.7
Available for sale investment		**2.7**	–
Derivative instruments at fair value	24(g)	**30.0**	7.0
Deferred tax asset	21	**–**	14.4
Retirement benefit assets	23	**4.6**	45.6
Other receivables	17	**3.8**	4.9
	2(d)	**1,389.9**	1,481.1
Current assets			
Inventories	16	**22.9**	25.2
Trade and other receivables	17	**235.3**	449.0
Derivative instruments at fair value	24(g)	**11.4**	7.3
Foreign tax recoverable		**–**	0.3
Cash and cash equivalents	18	**238.2**	313.3
		507.8	795.1
Total assets	2(d)	**1,897.7**	2,276.2
LIABILITIES			
Current liabilities			
Trade and other payables	19	**614.6**	848.0
Current tax liabilities		**41.2**	36.6
Foreign tax liabilities		**0.6**	–
Borrowings	20	**36.9**	40.5
Derivative instruments at fair value	24(g)	**0.4**	16.6
Provisions	22	**117.7**	118.6
		811.4	1,060.3
Non-current liabilities			
Other payables	19	**20.4**	35.8
Borrowings	20	**606.9**	693.0
Derivative instruments at fair value	24(g)	**0.1**	6.9
Deferred tax liabilities	21	**25.2**	–
Provisions	22	**105.2**	133.6
Retirement benefit obligations	23	**146.8**	278.1
		904.6	1,147.4
Total liabilities	2(d)	**1,716.0**	2,207.7
Net assets	2(d)	**181.7**	68.5
EQUITY			
Ordinary share capital	25	**3.2**	3.2
Share premium account	27	**8.4**	8.4
Retained earnings	27	**(228.6)**	(320.4)
Capital redemption reserve	27	**422.8**	422.8
Own shares	27	**(38.0)**	(37.0)
Translation reserve	27	**2.9**	10.2
Cash flow hedging reserve	27	**30.1**	(9.0)
Total equity attributable to the parent		**200.8**	78.2
Non-controlling interest		**(19.1)**	(9.7)
Total equity		**181.7**	68.5

These financial statements have been approved for issue by the Board of Directors on 28 June 2018. 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 interest	**Total equity**
		£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 30 April 2016		3.2	8.4	(185.1)	422.8	(34.3)	1.3	(40.3)	**176.0**	1.8	**177.8**
Profit for the year		–	–	31.8	–	–	–	–	**31.8**	(13.7)	**18.1**
Other comprehensive (expense)/income net of tax		–	–	(101.9)	–	–	8.9	31.3	**(61.7)**	2.2	**(59.5)**
Total comprehensive (expense)/income		**–**	**–**	**(70.1)**	**–**	**–**	**8.9**	**31.3**	**(29.9)**	**(11.5)**	**(41.4)**
Own ordinary shares purchased		–	–	–	–	(2.7)	–	–	**(2.7)**	–	**(2.7)**
Credit in relation to equity-settled share based payments		–	–	1.9	–	–	–	–	**1.9**	–	**1.9**
Dividends paid on ordinary shares	9	–	–	(67.1)	–	–	–	–	**(67.1)**	–	**(67.1)**
Balance at 29 April 2017		**3.2**	**8.4**	**(320.4)**	**422.8**	**(37.0)**	**10.2**	**(9.0)**	**78.2**	**(9.7)**	**68.5**
Profit for the year		–	–	70.5	–	–	–	–	**70.5**	(6.7)	**63.8**
Other comprehensive income/(expense) net of tax		–	–	88.4	–	–	(7.3)	39.1	**120.2**	(2.7)	**117.5**
Total comprehensive income/(expense)		**–**	**–**	**158.9**	**–**	**–**	**(7.3)**	**39.1**	**190.7**	**(9.4)**	**181.3**
Own ordinary shares purchased		–	–	–	–	(1.0)	–	–	**(1.0)**	–	**(1.0)**
Credit in relation to equity-settled share based payments		–	–	1.2	–	–	–	–	**1.2**	–	**1.2**
Dividends paid on ordinary shares	9	–	–	(68.3)	–	–	–	–	**(68.3)**	–	**(68.3)**
Balance at 28 April 2018		**3.2**	**8.4**	**(228.6)**	**422.8**	**(38.0)**	**2.9**	**30.1**	**200.8**	**(19.1)**	**181.7**

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

Consolidated statement of cash flows

For the year ended 28 April 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated by operations	28	**207.9**	252.3
Interest paid		**(30.8)**	(26.9)
Interest received		**4.5**	0.2
Dividends received from joint ventures		**27.2**	28.1
Net cash flows from operating activities before tax		**208.8**	253.7
Tax paid		**(16.3)**	(21.6)
Net cash from operating activities after tax		**192.5**	232.1
Cash flows from investing activities			
Disposal of business		**–**	19.6
Purchase of property, plant and equipment		**(111.7)**	(155.5)
Disposal of property, plant and equipment		**38.5**	46.0
Purchase of intangible assets and other investments		**(18.7)**	(17.8)
Disposal of intangible assets		**3.1**	–
Disposal of investment in joint ventures		**–**	7.0
Net cash outflow from investing activities		**(88.8)**	(100.7)
Cash flows from financing activities			
Purchase of treasury shares		**(1.0)**	(2.7)
Repayments of hire purchase and lease finance debt		**(26.0)**	(58.1)
Drawdown of other borrowings		**160.0**	182.9
Repayment of other borrowings		**(242.0)**	(258.3)
Dividends paid on ordinary shares	9	**(68.3)**	(67.1)
Sale of tokens		**0.1**	0.1
Redemption of tokens		**(0.4)**	(0.5)
Net cash used in financing activities		**(177.6)**	(203.7)
Net decrease in cash and cash equivalents		**(73.9)**	(72.3)
Cash and cash equivalents at the beginning of the year		**313.3**	382.3
Exchange rate effects		**(1.2)**	3.3
Cash and cash equivalents at the end of the year	18	**238.2**	313.3

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 respect of the group of companies headed by Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth, Perthshire, PH1 5TW.

The 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. As explained in note 5 to the consolidated financial statements, the definition of adjusted earnings has been changed to include software amortisation. The accounting policies have otherwise been consistently applied to all the years presented.

- **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 European Union 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. All values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 30 April 2017 to 28 April 2018.

- **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 30 April 2017:

- Amendments to IAS 7, Disclosure Initiative, Changes in liabilities arising from financing activities
- Amendments to IAS 12, Recognition of deferred tax assets for unrealised losses

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*
Amendments to IAS 19	Plan amendment, curtailment or settlement*	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures*	1 January 2019
Amendments to IFRS 2	Clarification of classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IFRS 4 and IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance contracts*	1 January 2021
Annual Improvements to IFRSs 2014-2016 Cycle		1 January 2018
Annual Improvements to IFRSs 2015-2017 Cycle*		1 January 2019
Amendments to IAS 40	Amendments to clarify transfers of property to, or from, investment property*	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration*	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to references to conceptual framework in IFRS*		1 January 2020
*Not yet adopted for use in the European Union.		

(i) IFRS 9 Financial Instruments – effective for year beginning on 29 April 2018

IFRS 9 Financial Instruments is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

The Directors believe that the Group's current hedge relationships will continue to qualify as continuing hedges upon adopting the new standard and there will not be a significant change to the carrying value of the financial assets and liabilities of the Group. As part of our impact assessment, we have updated our internal policy documentation where appropriate to ensure compliance with IFRS 9. Implementing IFRS 9 is not anticipated to have a significant impact on the Group's financial statements.

Under IFRS 9, the Group will elect to recognise its available for sale investments at fair value through other comprehensive income. At 28 April 2018, the carrying value was £2.7m.

IFRS 9 introduces expanded disclosure requirements. These are expected to change the extent of the Group's disclosures about its financial instruments, particularly in the year of adoption of the new standard.

(ii) IFRS 15 Revenue from Contracts with Customers – effective for year beginning on 29 April 2018

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services.

In both our rail and bus divisions, performance obligations are clear and transaction prices are even over the period to which they relate and are time apportioned. During the year ended 28 April 2018, we have performed an impact assessment, which has included reviewing submissions from each

Note 1 IFRS accounting policies (continued)

(ii) IFRS 15 Revenue from Contracts with Customers – effective for year beginning on 29 April 2018 (continued)

division and inspecting selected contracts. The Directors do not expect IFRS 15 to have a material impact on the consolidated financial statements, however we would anticipate the reclassification of certain customer compensation amounts which are currently treated as operating costs. Under IFRS 15, customer compensation is treated as a reduction in revenue, and for the year ended 28 April 2018, we expect that applying IFRS 15 would have resulted in a decrease in revenue of £15.6m, offset by an equivalent reduction in operating costs.

In the UK, the Group receives concessionary revenue from public bodies, such as local authorities, for transporting disabled and older people free of charge to the passenger. Although the revenue is received from a party other than the person receiving the service, the Group will account for such revenue in accordance with IFRS 15 with the performance obligation being the provision of the free travel to those eligible.

(iii) IFRS 16 Leases – effective for year beginning on 28 April 2019

IFRS 16 Leases replaces IAS 17 Leases, and establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and depreciation of lease assets separately from interest.

The Directors expect the application of IFRS 16 to have a material effect on the consolidated financial statements. In particular, the accounting for the Group's rolling stock operating lease commitments will be affected by the application of the new standard.

On adopting IFRS 16, the Group expects to recognise substantial new assets and new liabilities in respect of those leases currently classified as operating leases.

The Group's assessment of the impact of this standard is ongoing and it intends to adopt the new standard for the financial year ending 2 May 2020.

- **Critical accounting judgements and key sources of estimation uncertainty**

Preparation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union requires directors to make judgements and estimates that affect the reported amounts in the consolidated financial statements and accompanying notes. The Directors believe that the judgements and key sources of estimation uncertainty discussed below represent those that require the greatest exercise of judgement.

The discussion below should be read in conjunction with the full statement of accounting policies.

(a) Judgements

Paragraph 122 of International Accounting Standard 1 requires disclosure of significant judgements made in applying an entity's accounting policies. Following correspondence with the Financial Reporting Council on the Group's accounting for its participation in the Railways Pension Scheme ("RPS"), the Directors have determined that they should disclose the related judgements applied.

Accounting for participation in Railways Pension Scheme

As disclosed in note 23, the Group applies a "franchise adjustment" to the amounts recorded in the balance sheet for the RPS. This represents the remaining element of the franchisee's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Group is required to fund (or surplus it is entitled to recover) over the remaining franchise period. This adjustment can give rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the franchise. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the franchise, and therefore upon the expiry of each of the Group's rail franchises, there will be no pension asset (or liability) remaining. This judgement is consistent with the industry-wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005. An alternative assessment of the RPS may conclude that such a net pension asset does not give rise to any economic benefits under IAS 19, on the basis that no refund is available from the RPS and there will not be any reduction in future contributions to the RPS. Adopting this alternative assessment would result in such an asset being restricted to £Nil under the asset ceiling under IFRIC 14. This would have an impact on the amounts recognised in the Group's consolidated balance sheet, with £4.2m relating to net RPS assets (2017: £45.1m) out of total net pension liabilities of £142.2m (2017: £232.5m) based on the Group's application of its existing accounting treatment.

(b) Key sources of estimation uncertainty

Paragraph 125 of International Accounting Standard 1 requires disclosure of key sources of estimation uncertainty. The Directors consider the following to be the most significant sources of estimation uncertainty.

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.

Pensions

As in previous years, 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. 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.

The pensions assumptions may vary due to actual changes in market conditions following the balance sheet date but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the balance sheet date. The pensions assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined.

Note 23(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

North America 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 value in use (being the net present value of the expected future cash flows) of the relevant asset or 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 asset or 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 involve 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.

The Directors consider that the greatest source of estimation uncertainty in this area relates to the non-current assets of the North America Division. The financial performance of that Division has been less favourable than was assumed in estimating its value in use as at 29 April 2017. On the other hand, the Division has growth plans in place that are reflected in its forecast cash flows from 29 April 2018 and since 29 April 2017, the corporate tax rate in the

Note 1 IFRS accounting policies (continued)

North America impairment (continued)

US has been reduced. The value in use as at 28 April 2018 has been estimated to exceed the net realisable value and the carrying value of the Division's non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below the carrying value. The most critical estimates relate to the forecast growth in the Division's earnings before interest, tax, depreciation and amortisation over the next few years, the discount rate and the long-term growth in the Division's net cash flows. The carrying value of non-current assets as at 28 April 2018 was US$501.7m and the estimated value in use was US$689.0m but alternative assumptions could result in a material impairment loss and it is possible that such a loss could arise within the next year. Note 11 provides information on the sensitivity of the value in use calculation and related assumptions.

Rail contractual positions

The Group's current and former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. Consistent with the sector, these contractual arrangements can be often complex and be open to legal interpretation. These include arrangements with the Department for Transport, Network Rail, Transport for London and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements. The degree of estimation uncertainty has increased since 29 April 2017 due to increased uncertainty arising from the end of the South West Trains franchise in August 2017 and the end of the Virgin Trains East Coast franchise in June 2018, and the Directors have therefore added rail contractual positions to the disclosure of key estimation uncertainties.

The Directors estimate that the carrying value of the net payables in respect of rail contractual positions as at 28 April 2018 could require adjustment by up to £15m in the year ending 27 April 2019, which due to unrecognised contingent assets is more likely to result in a future gain rather than a loss.

Uncertain tax positions

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.

Tax accounting judgements have been made in respect of tax losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas (i.e. non-UK) operations and losses incurred by overseas operations in the ordinary course of business. In particular, a potential tax asset of £33.8m has not been recognised in respect of accumulated tax losses relating to Virgin Trains East Coast as at 28 April 2018 because the contractual arrangements with government in relation to Virgin Trains East Coast give rise to significant doubt over the Group's ability to access and utilise these losses. In addition, potential tax assets of £106.7m as at 28 April 2018 have not been recognised in respect of accumulated losses of overseas businesses due to significant uncertainty on the extent to which sufficient taxable profits will be available against which to utilise those losses in a manner acceptable to the relevant tax authorities. The Directors consider those to represent the most significant estimation uncertainties in respect of uncertain tax positions.

Further information on uncertain tax positions is provided in note 8.

Insurance provisions

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 to settle claims for incidents occurring prior to the balance sheet date. 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 eventual settlements on such claims may differ from the amounts provided for at the balance sheet date.

Given the varying factors that ultimately determine the cost of a claim, it is difficult to provide precise sensitivity analysis on the amount of the insurance provision. However, based on analysis undertaken by independent actuaries and an analysis of the historic volatility of estimates of claims costs, the Group considers it unlikely that the estimated insurance provision as at 28 April 2018 will require adjustment in the year ending 27 April 2019 by more than £10m.

(c) Others

The Directors considered whether other judgements and estimates made in preparing the financial statements represent critical judgements or key sources of estimation uncertainty. In particular, the Directors considered the significant issues or judgements examined by the Audit Committee (see section 5.4.1 of this Annual Report), the areas of key audit focus (see section 5.4.2 of this Annual Report) and the risks of material misstatement that the auditors identified as having the greatest effect on their overall audit strategy (see section 10 of this Annual Report). While matters of audit and Audit Committee focus are not necessarily limited to critical judgements or key sources of estimation uncertainty, they do overlap.

- **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings and joint ventures made up to a period broadly one year in length that ends on the Saturday nearest to 30 April.

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 interest represents the portion of earnings and equity attributable to a third party shareholder 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. Where a business is acquired, the purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of the 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 non-controlling interest in respect of Virgin Trains East Coast is shown in the consolidated balance sheet at 10% of the carrying value of the related assets and liabilities, and was initially recognised at 10% of the acquisition-date fair values of the assets acquired and liabilities assumed.

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

Note 1 IFRS accounting policies (continued)

- **Subsidiaries and joint ventures (continued)**

(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 venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

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

- **Presentation of income statement and exceptional items**

Where applicable, income statement information has been presented in a columnar format, which separately highlights non-software intangible asset amortisation and exceptional items. This is intended to enable users of the financial statements to determine more readily the impact of non-software intangible asset amortisation and exceptional items on the results of the Group, improve comparability of the Group's results with those of peer companies and respond to analysts who have requested reporting on that basis.

Exceptional items are defined in note 33.

- **Revenue**

The Group has a number of revenue streams, as set out as part of the description of the Group's business model in section 1.4.1 of the Strategic report contained in this Annual Report.

Revenue presented in the income statement represents gross revenue and excludes payments received on account. Revenue is recognised at the fair value of the consideration received or receivable. Where appropriate, amounts are shown net of discounts, rebates, VAT and other sales taxes.

Revenue that is receivable from individuals or groups of individuals to travel on our transport services is accounted for with the objective that the revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travelcard income is generally recorded on a straight-line basis over the applicable period.

In UK Rail, travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Furthermore, certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, our UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage. Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of our UK bus and tram businesses participate. Procedures exist to allow operators to challenge the appropriateness of revenue allocation – where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which we are made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to the Group.

Amounts that are receivable from government bodies in respect of travel by individuals on our transport services is also recognised in the income statement in the period in which the related travel occurs. Such amounts are included in revenue because they represent payments for transport services provided. This can involve some estimation – for example, revenue receivable in respect of UK concessionary travel schemes can involve some negotiation with relevant public authorities on the amount of revenue due and/or be subject to adjustment based on the levels of concessionary travel across a number of operators. Revenue is recognised based on the Group's best estimates of the amounts receivable in respect of travel prior to the balance sheet date.

Revenue receivable from government bodies and others as payment to us for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to the Group.

Franchise payments payable to or receivable from the UK Department for Transport under rail franchise agreements are recognised as operating costs or other operating income in the income statement. Further details on the recognition of such amounts are included below under the section headed "Government grants".

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 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.

Other subsidies we receive from government bodies to financially support the operation of transport services they consider to be socially desirable is included in revenue and recognised in the income statement in the period that the subsidy relates to. This includes tender revenue receivable to financially support certain bus services the Group operates in the UK.

Note 1 IFRS accounting policies (continued)

- **Revenue (continued)**

Revenue that is incidental to the Group's principal activity of providing transport services is reported as miscellaneous income. Such income is recognised as the income is earned and may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling advertising space on vehicles and premises we operate;
- access income for others to use railway stations and depots that we operate;
- selling fuel to other transport operators;
- property rental; and
- Network Rail in respect of UK railway operating performance regimes – see "performance incentive payments" section below.

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.

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

- **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 the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company can choose to settle awards under the Long Term Incentive Plan in either cash or equity, although it generally expects to settle such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it generally expects to settle such awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-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**

Consolidated 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.

Where a change in accounting policy requires adjustment of prior year amounts, the taxation effects of the change of accounting policy are treated as part of the prior year adjustment. Where a change in accounting policy in a subsidiary's own financial statements (for example, on a transition from UK Generally Accepted Accounting Policies to International Financial Reporting Standards) materially affects the tax amounts recognised in the consolidated financial statements, the change is treated as a prior year adjustment and is not included as a component of the current period's tax expense.

- **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 90.

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

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.

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

	2018	2017
US Dollar:		
Year end rate	**1.3797**	1.2937
Average rate	**1.3380**	1.2937
Canadian Dollar:		
Year end rate	**1.7745**	1.7689
Average rate	**1.7072**	1.7036

- **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.

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 equity.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. The non-current assets of 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 non-current assets is less than their carrying amount, 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 at acquisition 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, and is recorded in operating costs in the income statement. Amortisation of intangible assets relating to customer 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.

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, 3 years and 5 months from October 2015 to March 2019 for East Midland Trains franchise and previously 8 years and 1 month from March 2015 to March 2023 for Virgin Trains East Coast franchise until fully impaired as at 29 April 2017)
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.

- **Contract provisions**

A provision is recognised in the consolidated balance sheet for any 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 that contract. Determining the amount of any contract provision necessitates forecasting future financial performance and applying an appropriate discount rate to determine a net present value.

The recognition of a contract provision (other than a provision arising from a business combination) is charged to the consolidated income statement. Losses that subsequently arise on that contract are treated as a utilisation of the provision to the extent they have been provided for.

Note 1 IFRS accounting policies (continued)

- **Contract provisions (continued)**

The amount of any contract provision (or potential contract provision) is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the consolidated income statement.

- **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. In general, costs incurred in bidding for a UK rail franchise prior to the signing of a franchise agreement are expensed because until an agreement is signed, the Directors do not consider a franchise award to be probable. Costs incurred after an agreement is signed, but before the franchise period commences, are generally capitalised as intangible assets.

- **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.

- **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 provision 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. Life expectancies are considered when retirement benefit obligations are calculated.

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.

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 available for sale investments, cash and cash equivalents, accrued income, trade receivables, other receivables 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:

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

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. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

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

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, loans from joint ventures, loans from non-controlling interest, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss: Financial liabilities classified as held for trading and derivative liabilities that are not designated as hedging instruments are classified as financial liabilities at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.

Other: All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

Fair values

The fair value of quoted investments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using pricing models and discounted cash flow analysis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability;
- Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Hedges of net investment in a foreign entity.

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

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

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

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

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

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

Note 1 IFRS accounting policies (continued)

Derivative financial instruments (continued)

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 accounting 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 in 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 purchases its own ordinary shares, 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 five operating segments, being UK Bus (regional operations), megabus Europe, UK Bus (London), North America and UK Rail. During the year ended 29 April 2017, the Group exited the operations of its megabus Europe Division. The Group's accounting policies are applied consistently, where appropriate, to each segment.

The segmental information provided in this note is on the basis of the five operating segments as follows:

Segment name	*Service operated*	*Country of operation*
UK Bus (regional operations)	Coach and bus operations	United Kingdom
megabus Europe	Coach operations	United Kingdom and 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 two material joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). During the year ended 29 April 2017, the Group sold its interest in the Twin America joint venture. The results of these joint ventures are shown separately in notes 2(c) and 2(g).

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (i.e. United Kingdom, mainland Europe or North America) is the same in all cases except in respect of an immaterial amount of revenue for services previously operated by megabus Europe 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:

	2018	2017
	£m	£m
Continuing operations		
UK Bus (regional operations)	**1,012.5**	1,015.7
megabus Europe	**–**	20.2
UK Bus (London)	**251.8**	263.4
North America	**470.9**	488.8
Total bus operations	**1,735.2**	1,788.1
UK Rail	**1,495.2**	2,160.7
Total Group revenue	**3,230.4**	3,948.8
Intra-Group revenue – UK Bus (regional operations)	**(3.6)**	(7.6)
Reported Group revenue	**3,226.8**	3,941.2

(b) Operating profit

Operating profit split by segment was as follows:

	2018			2017 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Continuing operations						
UK Bus (regional operations)	**112.9**	**–**	**112.9**	117.0	3.9	120.9
megabus Europe	**–**	**–**	**–**	(4.3)	–	(4.3)
UK Bus (London)	**13.3**	**–**	**13.3**	18.4	–	18.4
North America	**21.0**	**1.2**	**22.2**	18.2	–	18.2
Total bus operations	**147.2**	**1.2**	**148.4**	149.3	3.9	153.2
UK Rail	**24.9**	**(49.0)**	**(24.1)**	28.5	(128.9)	(100.4)
	172.1	**(47.8)**	**124.3**	177.8	(125.0)	52.8
Group overheads	**(15.3)**	**–**	**(15.3)**	(14.1)	–	(14.1)
Intangible asset amortisation (exc software)	**–**	**–**	**–**	–	(9.1)	(9.1)
Restructuring costs	**(4.0)**	**–**	**(4.0)**	(4.8)	(3.7)	(8.5)
Total operating profit of continuing Group companies	**152.8**	**(47.8)**	**105.0**	158.9	(137.8)	21.1
Share of joint ventures' profit after finance costs, finance income and taxation	**27.1**	**–**	**27.1**	26.2	–	26.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**179.9**	**(47.8)**	**132.1**	185.1	(137.8)	47.3

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:

	2018	2017
	£m	£m
Virgin Rail Group (UK Rail)		
Operating profit	**30.0**	31.5
Finance income (net)	**0.4**	0.5
Taxation	**(4.5)**	(7.2)
	25.9	24.8
Citylink (UK Bus, regional operations)		
Operating profit	**1.5**	1.8
Taxation	**(0.3)**	(0.4)
	1.2	1.4
Share of profit of joint ventures after finance costs, finance income and taxation	**27.1**	26.2

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Non-current assets		2018			2017		
	2018	2017	Gross assets	Gross liabilities	Net assets/ (liabilities)	Gross assets	Gross liabilities	Net assets/ (liabilities)
	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations) and megabus Europe	**880.9**	886.6	**945.2**	**(271.4)**	**673.8**	959.6	(368.4)	591.2
UK Bus (London)	**59.1**	60.9	**68.5**	**(117.3)**	**(48.8)**	69.1	(176.7)	(107.6)
North America	**363.6**	387.4	**404.9**	**(143.9)**	**261.0**	429.5	(144.7)	284.8
UK Rail	**58.2**	104.9	**192.8**	**(427.4)**	**(234.6)**	426.2	(704.3)	(278.1)
	1,361.8	1,439.8	**1,611.4**	**(960.0)**	**651.4**	1,884.4	(1,394.1)	490.3
Central functions	**2.9**	1.2	**22.9**	**(45.2)**	**(22.3)**	38.1	(43.5)	(5.4)
Joint ventures	**25.2**	25.7	**25.2**	**–**	**25.2**	25.7	–	25.7
Borrowings and cash	**–**	–	**238.2**	**(643.8)**	**(405.6)**	313.3	(733.5)	(420.2)
Taxation	**–**	14.4	–	**(67.0)**	**(67.0)**	14.7	(36.6)	(21.9)
Total	**1,389.9**	1,481.1	**1,897.7**	**(1,716.0)**	**181.7**	2,276.2	(2,207.7)	68.5

Central assets and liabilities include 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 and interest receivable.

(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.

	2018	2017
	£m	£m
UK Bus (regional operations)	**81.1**	113.6
UK Bus (London)	**3.7**	1.5
North America	**38.9**	40.7
UK Rail	**11.8**	43.7
	135.5	199.5

Note 2 Segmental information (continued)

(f) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill) is shown below.

	2018	2017
	£m	£m
UK Bus (regional operations)	**5.0**	12.6
North America	**2.8**	0.2
UK Rail	**8.2**	5.0
	16.0	17.8

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

The results of each segment are further analysed below:

	Year ended 28 April 2018									
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation and impairment expense	Software amortisation and impairment expense	Operating profit pre intangibles (exc software) and exceptional items	Intangible asset (exc software) amortisation	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	197.3	–	197.3	(78.3)	(6.1)	112.9	–	–	(0.7)	112.2
UK Bus (London)	20.0	–	20.0	(6.7)	–	13.3	–	–	–	13.3
North America	64.4	–	64.4	(42.5)	(0.9)	21.0	–	1.2	(0.8)	21.4
UK Rail – subsidiaries	40.5	–	40.5	(9.1)	(6.5)	24.9	–	(49.0)	(2.2)	(26.3)
UK Rail – joint venture (Virgin Rail Group)	30.0	(4.1)	25.9	–	–	25.9	–	–	–	25.9
UK Bus – joint venture (Citylink)	1.5	(0.3)	1.2	–	–	1.2	–	–	–	1.2
Group overheads	(15.3)	–	(15.3)	–	–	(15.3)	–	–	(0.3)	(15.6)
Restructuring costs	(4.0)	–	(4.0)	–	–	(4.0)	–	–	4.0	–
	334.4	(4.4)	330.0	(136.6)	(13.5)	179.9	–	(47.8)	–	132.1

	Year ended 29 April 2017 (restated)									
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation and impairment expense	Software amortisation and impairment expense	Operating profit pre intangibles (exc software) and exceptional items	Intangible asset (exc software) amortisation	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	197.6	–	197.6	(76.5)	(4.1)	117.0	(0.2)	3.9	(0.7)	120.0
megabus Europe	(2.5)	–	(2.5)	(1.8)	–	(4.3)	–	–	–	(4.3)
UK Bus (London)	24.1	–	24.1	(5.7)	–	18.4	–	–	–	18.4
North America	63.0	–	63.0	(43.7)	(1.1)	18.2	(0.4)	(3.7)	–	14.1
UK Rail – subsidiaries	48.7	–	48.7	(17.7)	(2.5)	28.5	(8.5)	(128.9)	(4.1)	(113.0)
UK Rail – joint venture (Virgin Rail Group)	31.5	(6.7)	24.8	–	–	24.8	–	–	–	24.8
UK Bus – joint venture (Citylink)	1.8	(0.4)	1.4	–	–	1.4	–	–	–	1.4
Group overheads	(14.0)	–	(14.0)	(0.1)	–	(14.1)	–	–	–	(14.1)
Restructuring costs	(4.8)	–	(4.8)	–	–	(4.8)	–	–	4.8	–
	345.4	(7.1)	338.3	(145.5)	(7.7)	185.1	(9.1)	(128.7)	–	47.3

Notes to the consolidated financial statements

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2018	2017
	£m	£m
Miscellaneous revenue (see explanation below)	**192.9**	259.4
Rail franchise premia (see explanation below)	**(606.4)**	(958.0)
Rail revenue support (see explanation below)	**105.0**	264.6
Materials and consumables	**(362.9)**	(396.4)
Staff costs (note 7)	**(1,284.2)**	(1,436.8)
Depreciation on property, plant and equipment (note 13)	**(132.9)**	(145.5)
Gain on disposal of property, plant and equipment	**3.2**	11.4
Repairs and maintenance expenditure on property, plant and equipment	**(33.6)**	(35.3)
Amortisation of intangible assets (note 12)	**(12.7)**	(16.8)
Network Rail charges, including electricity for traction	**(171.9)**	(291.4)
Operating lease rentals payable	**(215.3)**	(300.6)
Other external charges	**(594.5)**	(818.2)
Impairment	**(4.5)**	(48.0)
Restructuring costs	**(4.0)**	(8.5)
Total operating costs and other operating income	**(3,121.8)**	(3,920.1)

Miscellaneous revenue comprises other operating income incidental to the Group's principal activities. It includes amounts receivable from Network Rail under performance regimes, commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income.

Under the Schedules 4 and 8 possessions and performance regimes, amounts may be payable or receivable by the Group's UK Rail Division to/from Network Rail. Schedule 4 compensates train operators for the impact of planned service disruption and Schedule 8 compensates rail industry participants for the impact of unplanned service disruption. The amounts payable or receivable reflect our own operational performance as well as Network Rail's and other train operators'. The amounts are intended to cover the wider effects of disruption on our and others' revenue and costs, such as those associated with the impact on customer demand for train services and the costs of managing disruption. Any compensation received from Network Rail is not therefore intended to correspond to the refunds that might be payable to train passengers. £50.5m (2017: £121.3m) is included in respect of these possessions and performance regimes in the overall miscellaneous revenue of £192.9m (2017: £259.4m) shown above.

Rail franchise premia is the amount of financial premia and profit share 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 or where defined macroeconomic indices are below target.

Fees payable to the Company's auditors were as follows:

	2018	2017
	£m	£m
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	**0.4**	0.4
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.5
Total audit fees	**0.9**	0.9
Other assurance services	**0.1**	0.1
Non-audit fees	**0.1**	0.1
Total fees payable by the Group to its auditors	**1.0**	1.0

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 amortisation

The Group highlights amounts before non-software intangible asset amortisation and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are defined in note 33.

The items shown in the column headed "Intangibles (exc software) and exceptional items" on the face of the consolidated income statement for the year ended 28 April 2018 and for the prior year comparatives can be further analysed as follows:

	2018			2017 (restated)		
	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items
	£m	£m	£m	£m	£m	£m
Operating costs and other operating income						
Gain on disposal of property at UK Bus (regional operations)	**–**	**–**	**–**	7.1	–	7.1
Impairment of assets at UK Bus (regional operations)	**–**	**–**	**–**	(3.2)	–	(3.2)
North America restructuring costs	**–**	**–**	**–**	(3.7)	–	(3.7)
Reduction in liability for North America legal claims	**1.2**	**–**	**1.2**	–	–	–
Impairment of Virgin Trains East Coast intangible asset	**–**	**–**	**–**	(44.8)	–	(44.8)
Onerous contract provision and adjustments to asset and liability carrying values regarding Virgin Trains East Coast	**(49.0)**	**–**	**(49.0)**	(84.1)	–	(84.1)
Intangible asset amortisation (exc software)	**–**	**–**	**–**	–	(9.1)	(9.1)
	(47.8)	**–**	**(47.8)**	(128.7)	(9.1)	(137.8)
Non-operating exceptional items						
UK Bus (regional operations) business closure	**(1.7)**	**–**	**(1.7)**	–	–	–
megabus Europe disposal	**–**	**–**	**–**	(6.9)	–	(6.9)
Twin America disposal	**–**	**–**	**–**	11.6	–	11.6
Non-operating exceptional items	**(1.7)**	**–**	**(1.7)**	4.7	–	4.7
Intangible asset amortisation (exc software) and exceptional items	**(49.5)**	**–**	**(49.5)**	(124.0)	(9.1)	(133.1)
Tax effect	**(13.6)**	**–**	**(13.6)**	18.8	0.7	19.5
Intangible asset amortisation (exc software) and exceptional items after taxation	**(63.1)**	**–**	**(63.1)**	(105.2)	(8.4)	(113.6)

The following exceptional items were recognised in the year ended 28 April 2018:

- A pre-tax exceptional gain of £1.2m was recognised in respect of a reassessment of liabilities for North America legal claims.
- An exceptional pre-tax expense of £81.9m has been recorded in respect of the Virgin Trains East Coast franchise. Of the total expenses, £49.0m has been recognised in the consolidated income statement, with the remaining £32.9m recognised in the consolidated statement of comprehensive income, as it represents the actuarial loss arising on the pension asset previously recognised. Further details are provided in notes 15 and 22.
- A pre-tax exceptional loss of £1.7m was recognised in respect of the closure of our Norfolk Green business within the UK Bus (regional operations) Division. Due to the non-recurring nature of business disposals, we present any such gains or losses as exceptional items to allow a proper understanding of the Group's financial performance.

The impairment of Virgin Trains East Coast intangible asset is considered to be both an exceptional item and an intangible asset expense. It is presented as an exceptional item in the table above.

Notes to the consolidated financial statements

Note 5 Restatement of adjusted earnings per share

As explained in section 1.6.12 of the Annual Report, adjusted earnings per share are now reported inclusive of software amortisation, and the effect on previously reported amounts of including these costs within adjusted earnings is set out below:

(a) Consolidated income statement – restatement of adjusted amounts

For the year ended 29 April 2017	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	2017 previously reported	Include software amortisation	2017 restated	2017 previously reported	Remove software amortisation	2017 restated
	£m	£m	£m	£m	£m	£m
Revenue	3,941.2	–	3,941.2	–	–	–
Operating costs and other operating income	(3,774.6)	(7.7)	(3,782.3)	(145.5)	7.7	(137.8)
Operating profit of Group companies	166.6	(7.7)	158.9	(145.5)	7.7	(137.8)
Share of profit of joint ventures after finance income and taxation	26.2	–	26.2	–	–	–
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	192.8	(7.7)	185.1	(145.5)	7.7	(137.8)
Non-operating exceptional items	–	–	–	4.7	–	4.7
Profit before interest and taxation	192.8	(7.7)	185.1	(140.8)	7.7	(133.1)
Finance costs	(35.6)	–	(35.6)	–	–	–
Finance income	1.5	–	1.5	–	–	–
Profit before taxation	158.7	(7.7)	151.0	(140.8)	7.7	(133.1)
Taxation	(20.7)	1.4	(19.3)	20.9	(1.4)	19.5
Profit from continuing operations and profit after taxation for the year	**138.0**	**(6.3)**	**131.7**	**(119.9)**	**6.3**	**(113.6)**
Attributable to:						
Equity holders of the parent	139.7	(6.2)	133.5	(107.9)	6.2	(101.7)
Non-controlling interest	(1.7)	(0.1)	(1.8)	(12.0)	0.1	(11.9)
	138.0	**(6.3)**	**131.7**	**(119.9)**	**6.3**	**(113.6)**

(b) Segmental operating profit – restatement of adjusted amounts

For the year ended 29 April 2017	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	2017 previously reported	Include software amortisation	2017 restated	2017 previously reported	Remove software amortisation	2017 restated
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	121.1	(4.1)	117.0	3.9	-	3.9
megabus Europe	(4.3)	-	(4.3)	-	-	-
UK Bus (London)	18.4	-	18.4	-	-	-
North America	19.3	(1.1)	18.2	-	-	-
Total bus operations	154.5	(5.2)	149.3	3.9	-	3.9
UK Rail	31.0	(2.5)	28.5	(128.9)	-	(128.9)
	185.5	(7.7)	177.8	(125.0)	-	(125.0)
Group overheads	(14.1)	-	(14.1)	-	-	-
Intangible asset expenses	-	-	-	(16.8)	7.7	(9.1)
Restructuring costs	(4.8)	-	(4.8)	(3.7)	-	(3.7)
Total operating profit of Group companies	166.6	(7.7)	158.9	(145.5)	7.7	(137.8)
Share of profit of joint ventures after finance costs, finance income and taxation	26.2	-	26.2	-	-	-
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**192.8**	**(7.7)**	**185.1**	**(145.5)**	**7.7**	**(137.8)**

Note 6 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:

	2018	2017
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	**0.7**	1.2
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	**0.8**	0.3
Finance income	**1.5**	1.5
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	**(3.8)**	(4.7)
– Interest payable on hire purchase and finance leases	**(1.5)**	(1.7)
– Interest payable and other finance costs on bonds	**(21.8)**	(22.0)
Other finance costs		
– Unwinding of discounts on provisions	**(3.5)**	(3.5)
– Interest charge on defined benefit pension schemes	**(6.0)**	(3.7)
Finance costs	**(36.6)**	(35.6)
Net finance costs	**(35.1)**	(34.1)

Note 7 Staff costs

Total staff costs were as follows:

	2018	2017
	£m	£m
Staff costs		
Wages and salaries	**1,094.8**	1,225.4
Social security costs	**101.5**	117.1
Pension costs, excluding interest on net liability (note 23)	**84.6**	91.5
Share based payment costs (excluding social security costs)		
– Equity-settled	**1.2**	1.9
– Cash-settled	**2.1**	0.9
	1,284.2	1,436.8

The total amount shown for staff costs above includes an amount of £0.3m (2017: £0.2m) 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:

	2018	2017
	number	number
UK operations	**27,712**	31,270
UK administration and supervisory	**3,791**	3,852
North America	**4,484**	4,444
Mainland Europe	**–**	157
	35,987	39,723

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

	2018	2017
	number	number
UK Bus (regional operations)	**19,836**	20,212
megabus Europe	**–**	157
UK Bus (London)	**4,004**	4,165
North America	**4,484**	4,444
UK Rail	**7,533**	10,638
Central	**130**	107
	35,987	39,723

Notes to the consolidated financial statements

Note 8 Taxation

(a) Analysis of charge in the year

	2018			2017 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Current tax:						
UK corporation tax at 19.0% (2017: 19.9%)	**27.8**	**(0.9)**	**26.9**	32.1	(1.3)	30.8
Prior year over provision for corporation tax	**(7.0)**	**–**	**(7.0)**	(7.5)	–	(7.5)
Foreign tax (current year)	**1.7**	**–**	**1.7**	1.1	–	1.1
Total current tax	**22.5**	**(0.9)**	**21.6**	25.7	(1.3)	24.4
Deferred tax:						
Origination and reversal of temporary differences	**1.9**	**–**	**1.9**	(4.1)	(18.2)	(22.3)
Utilisation of previously unrecognised losses	**(8.4)**	**–**	**(8.4)**	–	–	–
Change in tax rates	**–**	**–**	**–**	(3.3)	–	(3.3)
Adjustments in respect of prior years	**1.9**	**14.5**	**16.4**	1.0	–	1.0
Total deferred tax (note 21)	**(4.6)**	**14.5**	**9.9**	(6.4)	(18.2)	(24.6)
Total tax on profit	**17.9**	**13.6**	**31.5**	19.3	(19.5)	(0.2)

(b) Factors affecting tax charge for the year

	2018	2017
	£m	£m
Profit before taxation	**95.3**	17.9
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.0% (2017: 19.9%)	**18.1**	3.6
Effects of:		
Non-deductible intangible asset amortisation	**–**	1.4
Impact of initial recognition exemption on property, plant and equipment	**0.8**	0.8
Impact of initial recognition exemption on defined benefit pension schemes	**2.0**	0.8
Non-deductible/non-taxable exceptional loss – Virgin Trains East Coast	**9.3**	–
Non-taxable exceptional gain – Twin America disposal	**–**	(2.3)
Non-deductible exceptional loss – impairment of intangible asset	**–**	8.3
Non-deductible/non-taxable exceptional gains/losses – other	**–**	(0.9)
Non-deductible element of share based payment expense	**0.2**	0.3
Other non-deductible expenditure	**0.2**	1.2
Other non-taxable income	**(2.1)**	(0.9)
Effect of higher tax rates applying to non-UK profit	**1.8**	1.7
Transition tax	**5.4**	–
Utilisation of previously unrecognised losses	**(8.4)**	–
Tax effect of share of results of joint ventures	**(5.2)**	(5.2)
Adjustments to tax charge in respect of prior years:		
– prior year adjustments	**(5.1)**	(6.5)
– exceptional write off of tax balances in respect of Virgin Trains East Coast	**14.5**	–
Changes in UK corporation tax rate	**–**	(2.5)
Total taxation (note 8a)	**31.5**	(0.2)

(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 £596.9m (2017: £522.9m) have not been recognised due to restrictions in the availability of their use.

This includes £178.0m of accumulated tax losses at Virgin Trains East Coast which have not been recognised as an asset in the consolidated financial statements due to significant doubt over the Group's ability to access and utilise these losses. This also includes £410.6m of accumulated tax losses in North America which have not been recognised as an asset in the consolidated financial statements due to the uncertainty on the Group's ability to utilise these losses in the foreseeable future. Of these losses, £81.3m expire before 27 April 2019.

The deferred tax balances have been calculated with reference to the enacted UK corporation tax rates of 19% from 1 April 2017 and 17% from 1 April 2020 (2017: as 2018 except for 20% to 31 March 2017) and a combined US federal and state tax rate of 26%.

Note 8 Taxation (continued)

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

On 22 December 2017 the Tax Cuts and Jobs Act was enacted in the US. This made a number of changes to the US tax code including reducing the US federal tax rate from 35% to 21% from 1 January 2018. There is minimal impact on the Group's financial statements for the year to 28 April 2018 as the US deferred tax balances requiring to be restated to the new rate are minimal. The mandatory deemed repatriation of certain deferred foreign earnings (the "transition tax") arises in 2018 and those deemed earnings, provisionally estimated at US$38m, have been sheltered by losses not previously recognised in deferred tax.

Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to expected corporate tax rates or laws in the UK, the US and Canada, the Group expects its future effective tax rate (excluding exceptional items) to be between 17% and 20%.

The areas where the Group sees uncertainty around the amount of tax that is payable relate to tax losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas (i.e. non-UK) operations and losses incurred by overseas operations in the ordinary course of business. In particular, a potential tax asset of £33.8m has not been recognised in respect of accumulated tax losses relating to Virgin Trains East Coast as at 28 April 2018 because the contractual arrangements with government in relation to Virgin Trains East Coast give rise to significant doubt over the Group's ability to access and utilise those losses. In addition, potential tax assets of £106.7m as at 28 April 2018 have not been recognised in respect of accumulated losses of overseas businesses due to significant uncertainty on the extent to which sufficient taxable profits will be available against which to utilise those losses in a manner acceptable to the relevant tax authorities. The Directors consider those to represent the most significant estimation uncertainties in respect of tax positions.

(d) Tax on other comprehensive income

The components of tax on other comprehensive income are shown in the consolidated statement of comprehensive income on page 77.

To the extent that the deferred tax balances relate to the pension deficit, any rate change impact has been recognised in the consolidated statement of comprehensive income.

Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2018	2017	**2018**	2017
	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	**8.1**	7.9	**46.5**	45.3
Interim dividend in respect of the current year	**3.8**	3.8	**21.8**	21.8
Amounts recognised as distributions to equity holders in the year	**11.9**	11.7	**68.3**	67.1
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	**3.9**	8.1	**22.4**	46.5

Note 10 Earnings per share

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

	2018	2017
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	**573.4**	573.6
Dilutive ordinary shares		
– Executive Participation Plan	**2.7**	2.3
Diluted weighted average number of ordinary shares	**576.1**	575.9

Adjusted EPS is calculated by adding back non-software intangible asset amortisation and exceptional items (after taking account of taxation and the non-controlling interest) as shown on the consolidated income statement. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The reconciliation of net profit for the basic EPS calculation to net proft for the adjusted EPS calculation is shown below.

	2018	2017 (restated)
	£m	£m
Net profit attributable to equity holders of the parent (for basic EPS calculation)	**70.5**	31.8
Intangible asset amortisation (exc software) before tax (see note 4)	**–**	9.1
Exceptional items before tax (see note 4)	**49.5**	124.0
Tax effect of intangible asset amortisation (exc software) and exceptional items (see note 4)	**13.6**	(19.5)
Non-controlling interest in intangible asset amortisation (exc software)	**–**	(0.7)
Non-controlling interest in exceptional items	**(5.6)**	(11.2)
Profit for adjusted EPS calculation	**128.0**	133.5

Note 11 Goodwill

The movements in goodwill were as follows:

	2018	2017
	£m	£m
Cost and net book value		
At beginning of year	**148.2**	136.9
Foreign exchange movements	**(6.1)**	11.3
At end of year	**142.1**	148.2

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 services in the United Kingdom. The North America cash generating unit operates coach and bus services 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	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	**47.5**	47.5	**3.6**	3.6	**91.0**	97.1
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	**4 years**	5 years
Pre-tax discount rate applied to cash flow projections	**8.7%**	8.6%	**8.7%**	8.6%	**9.4%**	10.1%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.4%**	2.1%	**2.4%**	2.1%	**3.9%**	3.7%
Difference between above growth rate and long-term average growth rate for market in which unit operates	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and in the case of UK Bus (London), the number of new contracts won and the 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 1.4.5 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 1.4.5. 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 28 April 2018 at 7.1% (2017: 6.9%).

The pre-tax discount rate for each CGU has been determined by adjusting the Group's WACC for the risk profile and effects of tax on each of the relevant CGUs.

North America impairment is identified in note 1 as a key source of estimation uncertainty.

The financial performance of the North America Division has been less favourable than was assumed in estimating its value in use as at 29 April 2017. On the other hand, the Division has growth plans in place that are reflected in its forecast cash flows from 29 April 2018 and since 29 April 2017, the pre-tax discount rate applied to the cash flow projections has been reduced to reflect that the corporate tax rate in the US has been decreased. The value in use as at 28 April 2018 has been estimated to exceed the carrying value of the Division's non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below carrying value. The most critical estimates relate to the forecast growth in the Division's earnings before interest, tax, depreciation and amortisation over the next few years, the discount rate and the rate of long-term growth in the Division's net cash flows. The carrying value of non-current assets as at 28 April 2018 was £363.6m (US$501.7m) and the estimated value in use was £499.4m (US$689.0m) but alternative assumptions could result in a material impairment loss and it is possible that such a loss could arise within the next year. As at 28 April 2018, the value in use of the North America Division exceeds its carrying amount by £135.8m. Our sensitivity analysis indicates that this headroom would be eliminated if the assumed long-term growth rate fell by more than 290 basis points, or if the discount rate were to increase by more than 220 basis points.

The Directors believe that there is no impairment to any of the CGUs.

Note 12 Other intangible assets

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

The movements in other intangible assets, all of which are assumed to have finite useful lives, were as follows:

Year ended 28 April 2018	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m
Cost				
At beginning of year	22.6	73.1	67.4	163.1
Additions	–	–	16.0	16.0
Disposals	(19.9)	(11.7)	(9.9)	(41.5)
Foreign exchange movements	(0.6)	–	(0.4)	(1.0)
At end of year	2.1	61.4	73.1	136.6
Accumulated amortisation				
At beginning of year	(22.6)	(73.1)	(22.4)	(118.1)
Amortisation charged to income statement	–	–	(12.7)	(12.7)
Impairment charged to income statement	–	–	(0.8)	(0.8)
Disposals	19.9	11.7	6.8	38.4
Foreign exchange movements	0.6	–	0.4	1.0
At end of year	(2.1)	(61.4)	(28.7)	(92.2)
Net book value at beginning of year	–	–	45.0	45.0
Net book value at end of year	–	–	44.4	44.4

Year ended 29 April 2017	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m
Cost				
At beginning of year	20.4	73.1	49.4	142.9
Additions	–	–	17.8	17.8
Disposals	–	–	(0.5)	(0.5)
Foreign exchange movements	2.2	–	0.7	2.9
At end of year	22.6	73.1	67.4	163.1
Accumulated amortisation				
At beginning of year	(19.6)	(20.0)	(14.6)	(54.2)
Amortisation charged to income statement	(0.8)	(8.3)	(7.7)	(16.8)
Impairment charged to income statement	–	(44.8)	–	(44.8)
Disposals	–	–	0.5	0.5
Foreign exchange movements	(2.2)	–	(0.6)	(2.8)
At end of year	(22.6)	(73.1)	(22.4)	(118.1)
Net book value at beginning of year	0.8	53.1	34.8	88.7
Net book value at end of year	–	–	45.0	45.0

Notes to the consolidated financial statements

Note 13 Property, plant and equipment

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

Year ended 28 April 2018	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	358.5	1,556.6	263.1	2,178.2
Additions	14.3	98.2	23.0	135.5
Disposals	(22.0)	(40.1)	(74.7)	(136.8)
Foreign exchange movements	(3.5)	(29.7)	(0.2)	(33.4)
At end of year	347.3	1,585.0	211.2	2,143.5
Depreciation				
At beginning of year	(84.8)	(717.7)	(185.4)	(987.9)
Depreciation charged to income statement	(9.7)	(108.2)	(15.0)	(132.9)
Impairment charged to income statement	–	(3.7)	–	(3.7)
Disposals	15.5	34.2	51.6	101.3
Foreign exchange movements	1.1	15.7	–	16.8
At end of year	(77.9)	(779.7)	(148.8)	(1,006.4)
Net book value at beginning of year	273.7	838.9	77.7	1,190.3
Net book value at end of year	269.4	805.3	62.4	1,137.1
Included in the above net book value at end of year are:				
Assets on hire purchase	–	35.2	–	35.2
Assets on finance leases	–	57.4	–	57.4
Long leasehold land and buildings	46.2	–	–	46.2

Included in the net book value of property, plant and equipment is £Nil (2017: £13.4m) 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 29 April 2017	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	341.2	1,463.8	244.4	2,049.4
Additions	20.5	127.7	51.3	199.5
Disposals	(9.9)	(89.7)	(33.4)	(133.0)
Reclassifications	–	(0.2)	0.2	–
Foreign exchange movements	6.7	55.0	0.6	62.3
At end of year	358.5	1,556.6	263.1	2,178.2
Depreciation				
At beginning of year	(77.1)	(638.7)	(168.4)	(884.2)
Depreciation charged to income statement	(9.8)	(112.8)	(22.9)	(145.5)
Impairment charged to income statement	–	(3.2)	–	(3.2)
Disposals	4.4	62.8	6.3	73.5
Reclassifications	–	0.2	(0.2)	–
Foreign exchange movements	(2.3)	(26.0)	(0.2)	(28.5)
At end of year	(84.8)	(717.7)	(185.4)	(987.9)
Net book value at beginning of year	264.1	825.1	76.0	1,165.2
Net book value at end of year	273.7	838.9	77.7	1,190.3
Included in the above net book value at end of year are:				
Assets on hire purchase	–	62.1	–	62.1
Assets on finance leases	–	88.8	–	88.8
Long leasehold land and buildings	46.6	–	–	46.6

Note 14 Interests in joint ventures

During the year ended 28 April 2018, the Group had two significant joint ventures as summarised below. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in both its 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 make 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 (applying its own accounting policies) of no less than £22.5m (2017: £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) 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 make 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.

(c) Movements in carrying values

The movements in the carrying values of interests in joint ventures were as follows:

	Virgin Rail Group	**Citylink**	**Total 2018**	Total 2017
	£m	£m	£m	£m
Net book value				
At beginning of year	**19.8**	**5.9**	**25.7**	22.4
Share of recognised profit	**25.9**	**1.2**	**27.1**	26.2
Share of actuarial (losses)/gains on defined benefit pension schemes, net of tax	**(0.6)**	**–**	**(0.6)**	2.5
Share of other comprehensive income on cash flow hedges, net of tax	**0.2**	**–**	**0.2**	2.7
Dividends received in cash	**(24.1)**	**(3.1)**	**(27.2)**	(28.1)
At end of year	**21.2**	**4.0**	**25.2**	25.7

A loan payable to Citylink of £1.7m (2017: £1.7m) is reflected in note 19.

Note 14 Interests in joint ventures (continued)

(d) 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 the Saturday nearest to 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 joint ventures is below:

Joint venture	Latest statutory financial year-end closest to 28 April 2018	Balance sheet date of management accounts
Virgin Rail Group	31 March 2018	28 April 2018
Citylink	31 December 2017	30 April 2018

(e) Summarised financial information of joint ventures

The consolidated balance sheets of each of the Group's joint ventures are summarised below:

As at 28 April 2018	Virgin Rail Group	Citylink	Total 2018
	£m	£m	£m
Non-current assets	–	0.3	
Cash and cash equivalents	112.7	1.8	
Other current assets	106.1	8.8	
Current liabilities	(175.4)	(6.9)	
Net assets	**43.4**	**4.0**	
Non-controlling interest	(0.2)	–	
Shareholders' funds	**43.2**	**4.0**	
Group share	49%	35%	
Group share of net assets	**21.2**	**1.4**	**22.6**
Goodwill	–	2.6	2.6
Group interest in joint ventures	**21.2**	**4.0**	**25.2**

As at 29 April 2017	Virgin Rail Group	Citylink	Total 2017
	£m	£m	£m
Non-current assets	–	0.1	
Cash and cash equivalents	80.5	6.8	
Other current assets	99.9	8.4	
Current liabilities	(139.7)	(5.9)	
Net assets	**40.7**	**9.4**	
Non-controlling interest	(0.2)	–	
Shareholders' funds	**40.5**	**9.4**	
Group share	49%	35%	
Group share of net assets	**19.8**	**3.3**	**23.1**
Goodwill	–	2.6	2.6
Group interest in joint ventures	**19.8**	**5.9**	**25.7**

Note 14 Interests in joint ventures (continued)

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

The assets and liabilities shown above include the following financial assets and financial liabilities (excluding cash, cash equivalents, trade receivables, other receivables, trade payables and other payables):

	2018	2017
	£m	£m
Virgin Rail Group		
Current assets – derivative instruments at fair value	**0.9**	1.3
Citylink		
Current assets – loan to Stagecoach Group	**1.7**	1.7

The financial performance of each of the Group's joint ventures is summarised below:

Year ended 28 April 2018	**Virgin Rail Group**	**Citylink**
	£m	£m
Revenue	1,171.4	38.1
Other operating expenses	(1,110.2)	(33.7)
Operating profit	**61.2**	**4.4**
Finance income	0.8	–
Taxation	(9.1)	(0.8)
Profit after tax	**52.9**	**3.6**
Other comprehensive income	(1.0)	–
Total comprehensive income	**51.9**	**3.6**

Year ended 29 April 2017	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	1,136.3	39.0	50.1
Other operating expenses	(1,072.0)	(33.8)	(50.1)
Operating profit	**64.3**	**5.2**	**–**
Finance income	1.0	–	–
Taxation	(14.7)	(1.1)	–
Profit after tax	**50.6**	**4.1**	**–**
Other comprehensive income	10.7	–	–
Total comprehensive income	**61.3**	**4.1**	**–**

Note 15 Subsidiary and related undertakings

(a) Inter City Railways Limited

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, which in turn holds 100% of the equity and voting rights in East Coast Main Line Company Limited, which traded as Virgin Trains East Coast. 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 previously received a royalty fee from East Coast Main Line Company Limited that varied 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 company, and has the power to direct its activities. The Group therefore accounts for Inter City Railways Limited and East Coast Main Line Company Limited as subsidiaries.

The loss for the year ended 28 April 2018 allocated to the non-controlling interest is shown on the consolidated income statement. The accumulated non-controlling interest as at 28 April 2018 is shown on the consolidated balance sheet and the movement in that interest in the year is shown in the consolidated statement of changes 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.

The consolidated balance sheet of Inter City Railways Limited as at 28 April 2018 and its financial performance for the year ended 28 April 2018 are summarised below. The amounts shown below are determined in accordance with the Group's accounting policies before inter-company eliminations.

Note 15 Subsidiary and related undertakings

(a) Inter City Railways Limited (continued)

	2018	2017
	£m	£m
Non-current assets	44.4	35.8
Current assets	172.3	183.3
Current liabilities	(386.6)	(156.5)
Non-current liabilities	–	(152.7)
Net liabilities	**(169.9)**	(90.1)
Revenue	777.0	749.7
Expenses	(776.0)	(767.3)
Operating profit/(loss)	**1.0**	(17.6)
Management recharge	(0.2)	(0.2)
Intangible asset amortisation	–	(9.4)
Impairment of intangible fixed assets	–	(44.8)
Provision for onerous contract	(24.0)	(84.1)
Restructuring costs	(1.6)	(3.3)
Finance costs (net)	(2.7)	(1.3)
Taxation	(21.9)	27.1
Loss after tax	**(49.4)**	(133.6)
Other comprehensive (expense)/income	(30.4)	25.1
Total comprehensive expense	**(79.8)**	(108.5)

(b) Termination of Virgin Trains East Coast franchise

On 16 May 2018, the Secretary of State for Transport announced his decision to transfer responsibility for operating the InterCity East Coast train services from Virgin Trains East Coast to a publically owned company, noting that he considered Virgin Trains East Coast to be in default of its rail franchise agreement. The Virgin Trains East Coast rail franchise agreement was terminated on 24 June 2018 and its business, together with certain assets and liabilities, were transferred to a public sector company. The decision is consistent with the Secretary of State for Transport's statement in the House of Commons on 5 February 2018, where he intimated that he was considering two options for the continued operation of the InterCity East Coast services.

An onerous contract provision in respect of Virgin Trains East Coast was first recognised in the consolidated balance sheet as at 29 April 2017, when the Group determined that losses at Virgin Trains East Coast would not be fully recovered over the original franchise term unless new commercial terms were agreed with the Department for Transport. The provision of £84.1m at 29 April 2017 was determined based on the Group's forecast of the extent to which the unavoidable costs under the franchise would exceed the future economic benefits to be derived from the franchise. While the Group expected to conclude new commercial terms with the Department, the existing franchise was considered to be onerous as defined in International Accounting Standard 37 ("IAS 37"), Provisions, Contingent Liabilities and Contingent Assets. The onerous contract provision as at 29 April 2017 was estimated on the assumption that Stagecoach Group plc, the parent company, would fund its entire £165.0m loan commitment to Virgin Trains East Coast and that no amount of that loan would be recovered. The estimate of the onerous contract provision has been updated as at 28 April 2018 to take account of actual losses arising since 29 April 2017 and forecast to arise after 28 April 2018. The £59.1m onerous contract provision as at 28 April 2018 has been determined based on the amount by which the forecast unavoidable costs from 29 April 2018 of meeting the obligations under the contracts (i.e. the Virgin Trains East Coast franchise agreement and related contracts) exceed the expected economic benefits to be received. This has resulted in an additional expense included in the exceptional items shown in note 4.

The Department for Transport notified Virgin Trains East Coast prior to 28 April 2018 that it was in default of its franchise agreement. Accordingly, the onerous contract provision of £59.1m as at 28 April 2018 includes an amount of £21.0m that the Group expects to pay in respect of the Virgin Trains East Coast performance bond.

The Group has also reviewed the carrying values of Virgin Trains East Coast's other assets and liabilities as at 28 April 2018 (including taking account of the estimated amounts payable and receivable to the public sector company in respect of the transfer of assets and liabilities under the agreed terms of the transfer of the business) and made appropriate adjustments to those carrying values. The effect of those adjustments on profit is in the exceptional items shown in note 4.

Provision has also been made as at 28 April 2018 for the amount of the Virgin Trains East Coast performance bond, given that the Department for Transport had notified Virgin Trains East Coast prior to 28 April 2018 that Virgin Trains East Coast was in default of its rail franchise agreement. The effect of that on profit is in the exceptional items shown in note 4.

While the terms of the transfer of the business, as well as certain assets and liabilities, to the public sector company have been agreed, the transfer values have not yet been agreed for all of the individual items. Estimating the amount of the onerous contract provision, and the carrying values of assets and liabilities, therefore involves some judgement. However, based on its agreements with the Department for Transport and the new operator, the Group does not currently expect a material change to arise in respect of that in the year ending 27 April 2019. Under the terms agreed for the transfer of the business, as well as certain assets and liabilities, any residual net assets of Virgin Trains East Coast are payable to the Department for Transport, consistent with the Group's accounting for Virgin Trains East Coast as at 28 April 2018. As explained in note 29, no additional liability has been recorded as at 28 April 2018 in respect of possible further claims by the Department against Virgin Trains East Coast on the basis that the Directors consider the likelihood of such claims to be remote and all Virgin Train East Coast's residual net assets are assumed to be payable to the Department in any event.

As explained in notes 30(b) and 30(c), lease commitments and Network Rail commitments of Virgin Trains East Coast were assumed by the new operator with effect from 24 June 2018 and Virgin Trains East Coast has no further such commitments from that date.

A potential tax asset of £33.8m has not been recognised in respect of accumulated tax losses relating to Virgin Trains East Coast as at 28 April 2018 because the contractual arrangements with government in relation to Virgin Trains East Coast give rise to significant doubt over the Group's ability to access and utilise these losses.

Note 16 Inventories

Inventories were as follows:

	2018	2017
	£m	£m
Parts and consumables	**22.9**	25.2

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

	2018	2017
	£m	£m
At beginning of year	**(3.7)**	(3.9)
Charged to income statement	**(0.4)**	(0.3)
Amount utilised	**0.8**	0.5
At end of year	**(3.3)**	(3.7)

Note 17 Trade and other receivables

Trade and other receivables were as follows:	2018	2017
	£m	£m
Non-current:		
Prepayments	**3.6**	4.7
Other receivables	**0.2**	0.2
	3.8	4.9
Current:		
Trade receivables	**108.3**	256.9
Less: provision for impairment	**(3.1)**	(2.5)
Trade receivables – net	**105.2**	254.4
Other receivables	**12.0**	39.4
Prepayments	**44.0**	55.2
Accrued income	**45.4**	54.0
VAT and other government receivables	**28.7**	46.0
	235.3	449.0

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

	2018	2017
	£m	£m
At beginning of year	**(2.5)**	(2.5)
Impairment losses in year charged to income statement	**(1.7)**	(0.7)
Reversal of impairment losses credited to income statement	**0.4**	0.2
Amounts utilised	**0.7**	0.5
At end of year	**(3.1)**	(2.5)

Further information on credit risk is provided in note 24.

Note 18 Cash and cash equivalents

	2018	2017
	£m	£m
Cash at bank and in hand	**238.2**	313.3

The cash amounts shown above include £17.0m on 12 month deposit maturing by December 2018. (2017: £17.0m on 12 month deposit maturing by December 2017, £35.0m on 6 month deposit maturing by May 2017, £5.0m on 5 month deposit maturing by July 2017, £20.0m on 5 month deposit maturing by August 2017, £10.0m on 3 month deposit maturing by May 2017, and £15.0m on 2 month deposit maturing by May 2017). The remaining amounts are accessible to the Group within one day (2017: one day). The deposits with an original maturity in excess of 3 months are held within train operating companies. They relate to cash balances that are not expected to be required by the train operating companies during the deposit period. The deposits can be accessed prior to the end of the deposit period without incurring material break costs.

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 £238.2m (2017: £313.3m) above included the net balance on these offset accounts of £8.5m (2017: £28.9m), which comprised £191.m (2017: £179.8m) of positive bank balances less £182.6m (2017: £150.9m) of bank overdrafts.

Note 19 Trade and other payables

Trade and other payables were as follows:	2018	2017
	£m	£m
Current		
Trade payables	**129.7**	270.0
Accruals	**340.8**	436.7
Deferred income	**101.1**	96.6
Cash-settled share based payment liability	**0.1**	0.2
Deferred grant income	**2.2**	4.7
Loan from joint venture	**1.7**	1.7
Loan from non-controlling interest	**16.5**	5.8
PAYE and NIC payable	**22.1**	31.9
VAT and other government payables	**0.4**	0.4
	614.6	848.0
Non-current		
Deferred grant income	**19.2**	20.2
Cash-settled share based payment liability	**0.7**	0.3
PAYE and NIC payable	**0.3**	0.2
Deferred income	**0.2**	15.1
	20.4	35.8

Note 20 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:	2018	2017
	£m	£m
On demand or within 1 year		
Loan notes	**18.4**	18.6
Hire purchase and lease obligations	**18.5**	21.9
	36.9	40.5
Within 1-2 years		
Hire purchase and lease obligations	**16.0**	15.2
Within 2-5 years		
Bank loans	**40.0**	121.8
Hire purchase and lease obligations	**37.2**	34.9
US Dollar 4.36% Notes	**108.7**	–
	185.9	156.7
Over 5 years		
Sterling 4.00% Notes	**405.0**	405.2
US Dollar 4.36% Notes	**–**	115.9
	405.0	521.1
Total borrowings	**643.8**	733.5
Less current maturities	**(36.9)**	(40.5)
Non-current portion of borrowings	**606.9**	693.0

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 1.50% (2017: 0.40% and 1.50%) 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 28 April 2018 averaged 1.9% per annum (2017: 1.8%). Interest terms on bank loans are at LIBOR plus margin ranging from 0.40% to 1.10% (2017: 0.40% to 1.10%).

Interest on loan notes are at three months LIBOR. Loan notes amounting to £18.4m (2017: £18.6m) 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:	2018	2017
	£m	£m
Not later than one year	**19.7**	22.9
Later than one year but not more than five years	**54.7**	51.5
	74.4	74.4
Future finance costs on hire purchase and finance leases	**(2.7)**	(2.4)
Carrying value of hire purchase and finance lease liabilities	**71.7**	72.0

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 4.00% Notes

On 29 September 2015, the Group issued £400m of 4.00% Notes. Interest is paid annually in arrears and the Notes are due to be redeemed at their principal amount on 29 September 2025.

The Notes were issued at 98.979% of their principal amount. The consolidated carrying value of the Notes at 28 April 2018 was £405.0m (2017: £405.2m) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

(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 28 April 2018 was £108.7m (2017: £115.9m) after taking account of accrued interest and issue costs.

Note 21 Deferred tax

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

	2018	2017
	£m	£m
Due after more than one year:		
At beginning of year	**14.4**	(25.6)
Credited to income statement	**(9.9)**	24.6
(Charged)/credited to equity	**(29.7)**	15.4
At end of year	**(25.2)**	14.4

Deferred taxation is analysed as follows:

	2018			2017		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	–	(89.3)	(89.3)	–	(105.5)	(105.5)
Pension temporary difference	24.9	–	24.9	44.4	–	44.4
Other temporary differences:						
– Employee remuneration and share based payments	3.5	–	3.5	2.8	–	2.8
– Accrued expenses deductible when paid	24.5	–	24.5	49.5	–	49.5
– Fuel derivatives	5.1	–	5.1	–	(3.1)	(3.1)
– Cash flow hedge reserve	–	(7.1)	(7.1)	1.8	–	1.8
– Deferred interest expense	–	–	–	2.2	–	2.2
– US losses	9.5	–	9.5	19.5	–	19.5
– Other timing differences	4.6	(0.9)	3.7	2.9	(0.1)	2.8
	72.1	**(97.3)**	**(25.2)**	123.1	(108.7)	14.4

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

	2018	2017
	£m	£m
Accelerated capital allowances	**16.4**	(5.4)
Pension temporary differences	**1.0**	0.7
Other temporary differences	**(27.3)**	29.3
	(9.9)	24.6

Information on uncertain tax positions is provided in notes 1 and 8(c).

Note 22 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	2.8	156.8	3.6	0.4	88.6	252.2
Provided during year (after discounting)	–	46.7	–	2.4	63.9	113.0
Unused amounts credited to income statement	(0.5)	(3.6)	–	–	(0.2)	(4.3)
Unwinding of discount	–	3.5	–	–	–	3.5
Utilised in the year	–	(45.7)	(0.2)	(0.4)	(91.0)	(137.3)
Arising on sale of tokens during year	0.3	–	–	–	–	0.3
Redemption of tokens	(0.4)	–	–	–	–	(0.4)
Foreign exchange movements	–	(3.9)	(0.1)	–	(0.1)	(4.1)
End of year	2.2	153.8	3.3	2.4	61.2	222.9
28 April 2018:						
Current	2.2	51.3	2.2	2.4	59.6	117.7
Non-current	–	102.5	1.1	–	1.6	105.2
	2.2	153.8	3.3	2.4	61.2	222.9
29 April 2017:						
Current	0.6	49.4	1.5	0.4	66.7	118.6
Non-current	2.2	107.4	2.1	–	21.9	133.6
	2.8	156.8	3.6	0.4	88.6	252.2

Note 22 Provisions (continued)

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 the year-end 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. Information on estimation uncertainty regarding insurance provisions is included in note 1.

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 anticipated 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.

Of the onerous contract provision as at 28 April 2018, £59.1m (2017: £84.1m) relates to the subsidiary, East Coast Main Line Company Limited, which traded as Virgin Trains East Coast. Further details on this are provided in note 15.

Note 23 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom funded schemes

The Group participates in a number of pension schemes. The principal defined benefit schemes are as follows:

	Date as at which last scheme valuation was prepared
• The Stagecoach Group Pension Scheme (“SPS”);	30 April 2014
• The South West Trains section of the Railways Pension Scheme (“RPS”) (until August 2017);	31 December 2013
• The Island Line section of the Railways Pension Scheme (“RPS”) (until August 2017);	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”) (until June 2018); and	31 December 2013
• A number of UK Local Government Pension Schemes (“LGPS”).	31 March 2016

The Stagecoach Group Pension Scheme is comprised of two sections, the main section and a separate East London and Selkent section. The Stagecoach Group Pension Scheme and the Local Government Pension Schemes are closed to new members from the Group. The main section of the Stagecoach Group Pension Scheme closed to future accrual in April 2017. The East London and Selkent section is closed to new entrants but is open to future accrual for the existing remaining members. All relevant sections of the Railways Pension Schemes are open to new members.

For the defined benefit schemes, benefits are related to length of service and pensionable salary. Pensionable salary for the Stagecoach Group Pension Scheme is subject to capped increases. The weighted average duration as at 28 April 2018 of the expected benefit payments across all UK defined benefit schemes is estimated at 16 years (2017: 20 years).

The Directors believe that separate consideration should be given to the RPS as the Group has no rights or obligations in respect of the relevant sections of the scheme following expiry of the related rail franchises. In addition, under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of the RPS. The employees’ share of the deficit (or surplus) is reflected as an adjustment to the RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of the RPS reflects that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The 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 directors consider that the accounting policy for the Group's participation in the RPS involves significant accounting judgements as explained in note 1.

The Group is a participant in the Omnibus section of the RPS and this section is not open to new members. The Group’s obligations to the Omnibus section are not time-limited in the way explained above for other sections of the RPS. In the tables in this note 23, the Omnibus section is included within the figures for “Other” schemes.

United Kingdom funded schemes

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 1.3% (2017: 1.2%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 10.4% (2017: 7.6%) of the gross present value of pension obligations as at 28 April 2018 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. There is no right for the Group to receive any surplus in the schemes, although there is an obligation on the Group to fully fund the benefits. To reflect this, the Group would only recognise existing surpluses relating to these schemes, to the extent that these surpluses could be recouped through the reduction of future contributions. The contributions schedules for the LGPS include deficit contributions and the present value of these contributions are reflected in the net deficit shown on the balance sheet for the Group's participation in the LGPS.

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.

Note 23 Retirement benefits (continued)

(a) Description of retirement benefit arrangements (continued)

North America funded schemes

The Group participates in one small funded defined benefit scheme in North America, which is 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 provides benefits under 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, as no contributions are made to any scheme, but the Group has set aside assets to meet its obligations under the schemes. In the case of the EFRBS, the scheme may hold 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 28 April 2018 was £7.2m (2017: £6.5m).

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.

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 28 April 2018 and 29 April 2017 are shown below:

	2018	2017
Discount rate	**2.8%**	2.8%
Retail Prices inflation assumption	**3.2%**	3.4%
Consumer Prices inflation assumption	**2.0%**	2.1%
Rate of increase in pensionable salaries		
SPS	**0.5%***	0.5%*
Others	**2.5%**	2.6%
Rate of increase of pensions in payment		
SPS	**3.1%**	3.3%
Others	**2.0%**	2.1%
Life expectancies in years		
Current pensioners at 65 – male	**20.6**	20.5
Current pensioners at 65 – female	**22.8**	22.7
Future pensioners at 65 aged 45 now – male	**22.0**	21.9
Future pensioners at 65 aged 45 now – female	**24.4**	24.3

* Future accrual is limited to participation in the East London and Selkent section of SPS, where annual increases in pensionable salaries are capped at 0.5%.

The Directors consider pension assumptions, such as those summarised above, to be a key source of estimation uncertainty as explained in note 1.

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 life expectancy 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 life expectations.

Note 23 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £4.6m (2017: £45.6m) and retirement benefit obligations of £146.8m (2017: £278.1m), resulting in the net liability of £142.2m (2017: £232.5m) analysed below.

The amounts recognised in the balance sheet were as follows:

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded plans	Total
As at 28 April 2018	£m	£m	£m	£m	£m	£m
Equities – quoted	957.0	457.4	239.0	9.5	–	1,662.9
Bonds – quoted	221.0	113.2	30.7	4.3	–	369.2
Total quoted investments	1,178.0	570.6	269.7	13.8	–	2,032.1
Private Equity – unquoted	43.2	141.2	24.6	–	–	209.0
Bonds – unquoted	–	–	21.6	–	–	21.6
Cash – unquoted	84.3	90.7	20.3	1.1	–	196.4
Infrastructure – unquoted	–	14.2	–	–	–	14.2
Property – unquoted	88.9	86.8	25.2	0.1	–	201.0
Total unquoted investments	216.4	332.9	91.7	1.2	–	642.2
Fair value of scheme assets	1,394.4	903.5	361.4	15.0	–	2,674.3
Present value of obligations	(1,520.0)	(1,193.7)	(317.6)	(18.9)	(4.0)	(3,054.2)
– adjustment for members' share of RPS deficit (40%)	–	116.0	–	(0.3)	–	115.7
– franchise adjustment	–	178.4	–	–	–	178.4
(Deficit)/surplus in the scheme	(125.6)	4.2	43.8	(4.2)	(4.0)	(85.8)
Asset ceiling	–	–	(55.8)	(0.6)	–	(56.4)
Pension (liability)/asset before tax	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
As at 29 April 2017	£m	£m	£m	£m	£m	£m
Equities	840.0	823.5	231.3	4.5	–	1,899.3
Private equity	51.3	234.5	23.8	–	–	309.6
Infrastructure	–	54.0	–	–	–	54.0
Bonds	331.6	165.3	51.6	2.0	–	550.5
Cash	50.9	214.9	15.0	1.1	–	281.9
Property	124.0	162.0	27.0	–	–	313.0
Fair value of scheme assets	1,397.8	1,654.2	348.7	7.6	–	3,408.3
Present value of obligations	(1,649.6)	(2,267.1)	(325.1)	(11.6)	(4.3)	(4,257.7)
– adjustment for members' share of RPS deficit (40%)	–	245.1	–	–	–	245.1
– franchise adjustment	–	412.9	–	–	–	412.9
(Deficit)/surplus in the scheme	(251.8)	45.1	23.6	(4.0)	(4.3)	(191.4)
Asset ceiling	–	–	(41.1)	–	–	(41.1)
Pension (liability)/asset before tax	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)

At 28 April 2018, 83% (2017: 80%) of scheme assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The LGPS assets are not sectionalised and so assets are effectively co-mingled with other participating employers. Therefore, the Company's asset value is a notional value based on a share of fund calculation which is undertaken by the LGPS Fund Actuary.

The vast majority of assets held by the LGPS arrangements are invested in pooled funds with a quoted market price. We have therefore allocated our holdings between the various asset categories in proportion to that of the overall LGPS funds in which we participate.

Note 23 Retirement benefits (continued)

(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 Group Pension Scheme 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 life expectancy risk.

There are particular funding risks with the Local Government Pension Schemes to which the Group contributes. The Group has limited ability to influence the funding strategy of these schemes. Furthermore, the contributions that the Group is required to make to the schemes are determined by the schemes, which tend to take a cautious approach in setting contribution rates for non-government employers. This can result in the Group being required to make higher levels of contributions than it believes is necessary or desirable. Known future contribution levels are taken account of in determining the reported deficit or surplus in each scheme in these consolidated financial statements.

As explained in section 1.6.8.3 of this Annual Report, the Directors are focused on maintaining an investment grade credit rating and the three main credit rating agencies continue to assign investment grade credit ratings to the Group. Each of the credit rating agencies include pension amounts as "debt" in assessing the Group's credit worthiness and consider pensions funding risks as part of their wider risk assessment.

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 in 2015, and showed that as at 5 April 2013, the scheme was 100% funded on the Trustees' technical provisions basis. The 5 April 2013 valuation was the final valuation for the scheme prior to its merger with the Stagecoach Group Pension Scheme. 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 2016 with deficit contributions payable. The actuarial valuation for the Stagecoach Group Pension Scheme showed that as at 30 April 2014, the scheme was 111% funded on the Trustees' technical provisions basis. The Group forecasts to contribute £18.9m (forecast at 29 April 2017 for year ended 28 April 2018: £42.1m) to its defined benefit schemes in the financial year ending 27 April 2019.

(e) Changes in net retirement benefit obligations

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

	Funded schemes					
Year ended 28 April 2018	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)
Expense charged to consolidated income statement	(12.0)	(41.7)	(1.2)	(2.2)	(0.1)	(57.2)
Recognised in the consolidated statement of comprehensive income	134.7	(27.8)	(0.9)	0.5	0.2	106.7
Employers' contributions and settlements	3.5	28.6	7.6	0.9	0.2	40.8
At end of year – (liability)/asset	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)

	Funded schemes					
Year ended 29 April 2017	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)
Expense charged to consolidated income statement	(22.5)	(48.6)	(1.1)	(1.7)	(0.1)	(74.0)
Recognised in the consolidated statement of comprehensive income	(135.3)	28.8	(19.9)	(0.5)	(0.7)	(127.6)
Employers' contributions and settlements	16.2	40.5	7.8	1.0	0.3	65.8
At end of year – (liability)/asset	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)

Note 23 Retirement benefits (continued)

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

The measurement of the defined benefit obligations 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 £20.2m decrease in the net pension liabilities as at 28 April 2018 (2017: £28.3m). A 10 basis points decrease in the discount rate would result in a £19.4m increase in the net pension liabilities as at 28 April 2018 (2017: £28.9m).
- The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases, pensionable salary increases and deferred revaluations. A 10 basis points increase in the inflation rate would result in a £21.5m increase in the net pension liabilities as at 28 April 2018 (2017: £22.2m). A 10 basis points decrease in the inflation rate would result in a £21.3m decrease in the net pension liabilities as at 28 April 2018 (2017: £21.9m).
- A 10 basis point increase in the rate of increase in pensionable salaries would result in a £1.0m increase in the net pension liabilities as at 28 April 2018 (2017: £1.8m). A 10 basis point decrease in the rate of increase in pensionable salaries would result in a £1.0m decrease in the net pension liabilities as at 28 April 2018 (2017: £1.8m).
- A 10 basis point increase in the rate of increase of pensions in payment would result in a £12.0m increase in the net pension liabilities as at 28 April 2018 (2017: £12.0m). A 10 basis point decrease in the rate of increase of pensions in payment would result in a £12.0m decrease in the net pension liabilities as at 28 April 2018 (2017: £12.0m).
- The life expectancy assumptions adopted are a best estimate of the life expectancies of scheme members both during and after employment, and are based on the most recent life expectancy 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 £52.4m in the net pension liabilities as at 28 April 2018 (2017: £56.5m). If life expectancy of the relevant individuals was to decrease by one year, this would result in a decrease of £52.4m in the net pension liabilities as at 28 April 2018 (2017: £56.3m).

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 balance sheet 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 28 April 2018	£m	£m	£m	£m	£m	£m
Current service cost	(4.5)	(42.4)	(1.1)	(1.9)	–	(49.9)
Administration expenses	(0.9)	(0.4)	–	–	–	(1.3)
Defined contribution costs	–	–	–	–	(33.4)	(33.4)
Included in operating profit	(5.4)	(42.8)	(1.1)	(1.9)	(33.4)	(84.6)
Net interest (expense)/income	(6.6)	(7.2)	1.0	(0.3)	(0.1)	(13.2)
Interest expense on asset ceiling	–	–	(1.1)	–	–	(1.1)
Unwinding of franchise adjustment	–	8.3	–	–	–	8.3
	(12.0)	(41.7)	(1.2)	(2.2)	(33.5)	(90.6)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded and DC Schemes	Total
Year ended 29 April 2017	£m	£m	£m	£m	£m	£m
Current service cost	(17.9)	(48.9)	(0.8)	(1.4)	–	(69.0)
Administration expenses	(0.8)	(0.5)	–	–	–	(1.3)
Defined contribution costs	–	–	–	–	(21.2)	(21.2)
Included in operating profit	(18.7)	(49.4)	(0.8)	(1.4)	(21.2)	(91.5)
Net interest (expense)/income	(3.8)	(6.3)	1.1	(0.3)	(0.1)	(9.4)
Interest expense on asset ceiling	–	–	(1.4)	–	–	(1.4)
Unwinding of franchise adjustment	–	7.1	–	–	–	7.1
	(22.5)	(48.6)	(1.1)	(1.7)	(21.3)	(95.2)

Current service costs and administration costs are recognised in operating costs and net interest (expense)/income, interest on asset ceiling and unwinding of franchise adjustment are recognised in net finance costs.

Note 23 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					
Year ended 28 April 2018	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
Actual return on scheme assets higher than the discount rate	16.4	63.2	11.7	6.4	–	97.7
Changes in financial assumptions	20.0	23.2	5.1	0.3	0.2	48.8
Experience on benefit obligations	98.3	(34.2)	(4.1)	(5.6)	–	54.4
Changes in asset ceiling (net of interest)	–	–	(13.6)	(0.6)	–	(14.2)
Change in franchise adjustment	–	(80.0)	–	–	–	(80.0)
	134.7	(27.8)	(0.9)	0.5	0.2	106.7

	Funded schemes					
Year ended 29 April 2017	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
Actual return on scheme assets higher than the discount rate	147.0	219.3	12.3	0.5	–	379.1
Changes in financial assumptions	(303.0)	(535.3)	(65.6)	(1.7)	(0.7)	(906.3)
Changes in demographic assumptions	20.3	26.4	2.1	0.1	–	48.9
Experience on benefit obligations	0.4	103.7	33.1	0.6	–	137.8
Changes in asset ceiling (net of interest)	–	–	(1.8)	–	–	(1.8)
Change in franchise adjustment	–	214.7	–	–	–	214.7
	(135.3)	28.8	(19.9)	(0.5)	(0.7)	(127.6)

(i) Benefit obligations

Changes in the present value of the defined benefit obligations (net of franchise adjustments and members' share of RPS deficit) are analysed as follows.

	Funded schemes					
Year ended 28 April 2018	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,649.6	1,609.1	325.1	11.6	4.3	3,599.7
Rail franchise changes	–	(827.6)	–	–	–	(827.6)
Current service cost	4.5	42.4	1.1	1.9	–	49.9
Interest on benefit obligations	45.4	26.0	8.9	0.7	0.1	81.1
Unwinding of franchise adjustment	–	(8.3)	–	–	–	(8.3)
Benefits paid	(61.7)	(36.7)	(16.7)	(0.2)	(0.2)	(115.5)
Contributions by employees	0.5	3.4	0.2	0.1	–	4.2
Actuarial losses/(gains) due to:						
– Changes in financial assumptions	(20.0)	(23.2)	(5.1)	(0.3)	(0.2)	(48.8)
– Experience on benefit obligations	(98.3)	34.2	4.1	5.6	–	(54.4)
– Change in franchise adjustment	–	80.0	–	–	–	80.0
Foreign exchange movements	–	–	–	(0.2)	–	(0.2)
At end of year	1,520.0	899.3	317.6	19.2	4.0	2,760.1

	Funded schemes					
Year ended 29 April 2017	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,366.5	1,389.5	299.2	8.5	3.8	3,067.5
Current service cost	17.9	48.9	0.8	1.4	–	69.0
Interest on benefit obligations	49.5	37.6	11.0	0.5	0.1	98.7
Unwinding of franchise adjustment	–	(7.1)	–	–	–	(7.1)
Benefits paid	(67.4)	(55.7)	(16.6)	–	(0.3)	(140.0)
Contributions by employees	0.8	5.4	0.3	–	–	6.5
Actuarial losses/(gains) due to:						
– Changes in demographic assumptions	(20.3)	(26.4)	(2.1)	(0.1)	–	(48.9)
– Changes in financial assumptions	303.0	535.3	65.6	1.7	0.7	906.3
– Experience on benefit obligations	(0.4)	(103.7)	(33.1)	(0.6)	–	(137.8)
– Change in franchise adjustment	–	(214.7)	–	–	–	(214.7)
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,649.6	1,609.1	325.1	11.6	4.3	3,599.7

Note 23 Retirement benefits (continued)

(j) Scheme assets

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

Year ended 28 April 2018	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,397.8	1,654.2	348.7	7.6	–	3,408.3
Rail franchise changes	–	(827.6)	–	–	–	(827.6)
Administration costs	(0.9)	(0.4)	–	–	–	(1.3)
Interest income	38.8	18.8	9.9	0.4	–	67.9
Employer contributions	3.5	28.6	7.6	0.9	0.2	40.8
Contributions by employees	0.5	3.4	0.2	0.1	–	4.2
Benefits paid	(61.7)	(36.7)	(16.7)	(0.2)	(0.2)	(115.5)
Remeasurements						
– Return on assets excluding amounts included in net interest	16.4	63.2	11.7	6.4	–	97.7
Foreign exchange movements	–	–	–	(0.2)	–	(0.2)
At end of year	1,394.4	903.5	361.4	15.0	–	2,674.3

Year ended 29 April 2017	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,256.3	1,413.9	332.8	5.7	–	3,008.7
Administration costs	(0.8)	(0.5)	–	–	–	(1.3)
Interest income	45.7	31.3	12.1	0.2	–	89.3
Employer contributions	16.2	40.5	7.8	1.0	0.3	65.8
Contributions by employees	0.8	5.4	0.3	–	–	6.5
Benefits paid	(67.4)	(55.7)	(16.6)	–	(0.3)	(140.0)
Remeasurements						
– Return on assets excluding amounts included in net interest	147.0	219.3	12.3	0.5	–	379.1
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,397.8	1,654.2	348.7	7.6	–	3,408.3

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2018	2017
	£m	£m
At beginning of year	**(41.1)**	(37.9)
Interest expense	**(1.1)**	(1.4)
Remeasurements	**(14.2)**	(1.8)
At end of year	**(56.4)**	(41.1)

(l) Franchise adjustment

The movement in the franchise adjustment is shown below:

	2018	2017
	£m	£m
At beginning of year	**412.9**	191.1
Rail franchise changes	**(162.8)**	–
Amounts recognised in income statement:		
– Unwinding of franchise adjustment	**8.3**	7.1
Remeasurements:		
– Change in franchise adjustment	**(80.0)**	214.7
At end of year	**178.4**	412.9

Note 24 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:

		2018	2017	**2018**	2017
		Carrying value	Carrying value	Fair value	Fair value
	Note	£m	£m	£m	£m
Financial assets					
Available for sale investments		**2.7**	–	**2.7**	–
Loans and receivables					
– Non-current assets					
– Other receivables	17	**0.2**	0.2	**0.2**	0.2
– Current assets					
– Accrued income	17	**45.4**	54.0	**45.4**	54.0
– Trade receivables, net of impairment	17	**105.2**	254.4	**105.2**	254.4
– Other receivables	17	**12.0**	39.4	**12.0**	39.4
– Cash and cash equivalents	18	**238.2**	313.3	**238.2**	313.3
Total financial assets		**403.7**	661.3	**403.7**	661.3
Financial liabilities					
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Borrowings	20	**(606.9)**	(693.0)	**(636.6)**	(737.0)
– Current liabilities					
– Trade payables	19	**(129.7)**	(270.0)	**(129.7)**	(270.0)
– Accruals	19	**(340.8)**	(436.7)	**(340.3)**	(436.7)
– Loan from joint venture	19	**(1.7)**	(1.7)	**(1.7)**	(1.7)
– Loan from non-controlling interest	19	**(16.5)**	(5.8)	**–**	(5.8)
– Borrowings	20	**(36.9)**	(40.5)	**(36.9)**	(40.5)
Total financial liabilities		**(1,132.5)**	(1,447.7)	**(1,145.2)**	(1,491.7)
Net financial liabilities		**(728.8)**	(786.4)	**(741.5)**	(830.4)

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 24(g).

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

- The carrying value of £2.7m (29 April 2017: £Nil) of an available for sale investment is measured at cost, which based on recent transactions is considered to be a reasonable approximation of fair value.
- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, accruals and loan from joint venture 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.
- Contractual arrangements in place regarding the £16.5m loan from a non-controlling interest and related accrued interest of £0.5m mean that the Directors considered as at 28 April 2018 that it was very unlikely that the counterparty would be able to recover any portion of the loan or that the Group would be required to repay that loan. Since 28 April 2018, any loan amounts owed by the Group to the non-controlling interest have been waived by the non-controlling interest.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.

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 £21.6m (2017: £26.1m).

Note 24 Financial instruments (continued)

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

Fair value estimation

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

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

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

Level 3 – Inputs for the assets or liabilities 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 28 April 2018.

	Note	**Level 2 £m**	**Level 3 £m**	**Total**
Assets				
Derivatives used for hedging	24(g)	**41.4**	**–**	**41.4**
Available for sale financial assets				
Equity securities		**–**	**2.7**	**2.7**
Total assets		**41.4**	**2.7**	**44.1**
Liabilities				
Derivatives used for hedging	24(g)	**(0.5)**	**–**	**(0.5)**

The "Level 3" financial asset was acquired in the year ended 28 April 2018 and represents an investment in equity securities of an unlisted company that do not trade on a recognised market. The Group does not intend to dispose of these assets in the foreseeable future. These assets are measured at cost, which based on recent transactions is considered a reasonable approximation of fair value.

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 29 April 2017.

	Note	**Level 2 & Total £m**
Assets		
Derivatives used for hedging	24(g)	**14.3**
Liabilities		
Derivatives used for hedging	24(g)	**(23.5)**

The following table presents the Group's financial liabilities that are not measured at fair value but for which the fair value disclosed in the table on the previous page differs from book value:

	Carrying value Level 1 & Total		Fair value Level 1 & Total	
	2018	2017	**2018**	2017
	£m	£m	£m	£m
Accruals	**(0.5)**	(0.1)	**–**	(0.1)
Loan from non-controlling interest	**(16.5)**	(5.8)	**–**	(5.8)
Borrowings: fixed-rate notes	**(405.0)**	(405.2)	**(434.7)**	(449.2)

(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 28 April 2018. 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 1.6.8.3 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 24 Financial instruments (contnued)

(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. A US$150.0m bond issued in October 2012 has 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:

	2018	2017
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**217.5**	243.3
– Cash	**25.8**	22.9
– Borrowings	**(165.8)**	(224.3)
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**18.6**	23.0
– Cash	**2.4**	2.1
Net exposure	**98.5**	67.0

The amounts shown above are the carrying values of all US and Canadian dollar 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 US and Canadian dollar translation exposures is illustrated below:

	2018	2017
US dollar		
US dollar balance sheet foreign exchange rate	**1.3797**	1.2937
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.2417**	1.1643
– Increase in consolidated equity (£m)	**8.6**	4.7
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.5177**	1.4231
– Decrease in consolidated equity (£m)	**(7.0)**	(3.8)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	**1.7745**	1.7689
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.5971**	1.5920
– Increase in consolidated equity (£m)	**2.3**	2.8
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.9520**	1.9458
– Decrease in consolidated equity (£m)	**(1.9)**	(2.3)

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 24 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:

	2018	2017 (Restated)
	£m	£m
US dollars		
– US$ element of North American operating profit	**17.2**	13.8
– Intangible asset amortisation	**–**	(0.4)
– Redundancy/restructuring costs	**(0.8)**	–
– Exceptional items	**1.2**	7.9
– Net finance costs	**(8.9)**	(9.3)
– Net tax credit	**0.3**	3.6
Canadian dollars		
– C$ element of North American operating profit	**4.1**	4.5
– Net tax charge	**(1.3)**	(1.5)
Net exposure	**11.8**	18.6

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:

	2018	2017 (Restated)
	£m	£m
US$ element of North American operating profit shown above	**17.2**	13.8
C$ element of North American operating profit shown above	**4.1**	4.5
Share based payment adjustment denominated in sterling	**(0.3)**	(0.1)
Operating profit shown in segmental information	**21.0**	18.2

The Group's consolidated income statement exposures to foreign currency translation risk is not material in respect of reasonably probable changes in foreign exchange rates. That 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.
- 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.

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 28 April 2018 there were £Nil net transactional foreign currency exposures (2017: £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 122.

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.

Note 24 Financial instruments (continued)

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

(i) Market risk (continued)

At 28 April 2018, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	189.5	305.0	494.5	4.0	7.4
US Dollar	–	165.8	165.8	3.4	3.9
Gross interest bearing financial liabilities	189.5	470.8	660.3	3.8	6.2

At 29 April 2017, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	209.1	305.9	515.0	4.0	8.4
US Dollar	61.8	162.5	224.3	3.6	4.8
Gross interest bearing financial liabilities	270.9	468.4	739.3	3.9	7.2

The above figures take into account the effect of £100m (notional value) of interest rate derivatives which effectively swap £100m of the £400m Notes maturing September 2025 from fixed to floating rate debt for a period of two years to December 2018.

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 20(a).

The Group's financial assets on which floating interest is receivable include cash deposits and cash in hand of £238.2m (2017: £313.3m) and the Group's financial asset on which fixed interest is receivable is a loan receivable of £1.0m (2017: £Nil). As at 28 April 2018, the Group had no other financial assets on which fixed interest is receivable (2017: £Nil).

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

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 28 April 2018 consume approximately 385m litres of diesel fuel per annum. As a result, the Group's future profit and cash flows are 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.

Note 24 Financial instruments (continued)

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

(i) Market risk (continued)

At 28 April 2018 and 29 April 2017, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2018	2017
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	**(49.7)**	(64.0)
– UK Bus (London)	**(4.5)**	(9.1)
– UK Rail	**(14.2)**	(14.2)
– North America	**(16.5)**	(17.9)
	(84.9)	(105.2)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(3.7)**	(0.3)
– UK Bus (London)	**(7.6)**	(2.5)
– UK Rail	**(11.3)**	(10.6)
– North America	**(12.6)**	(9.8)
	(35.2)	(23.2)
Total	**(120.1)**	(128.4)

The figures in the above table are after taking account of derivatives and applying the fuel prices and foreign exchange rates as at the balance sheet date.

After taking account of financial derivatives, the projected fuel costs for the next twelve months are not materially exposed to movements in fuel prices.

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 17.

The table below shows the financial assets exposed to credit risk at the balance sheet date:

	Gross	**Impairment**	**Net exposure**	Gross	Impairment	Net exposure
	2018	**2018**	**2018**	2017	2017	2017
	£m	£m	£m	£m	£m	£m
Trade receivables	**108.3**	**(3.1)**	**105.2**	256.9	(2.5)	254.4
Loans, other receivables and accrued income	**57.6**	**–**	**57.6**	93.6	–	93.6
Cash and cash equivalents – pledged as collateral	**18.5**	**–**	**18.5**	18.6	–	18.6
Cash and cash equivalents – other	**219.7**	**–**	**219.7**	294.7	–	294.7
Excluding derivative financial instruments	**404.1**	**(3.1)**	**401.0**	663.8	(2.5)	661.3
Derivatives used for hedging	**41.4**	**–**	**41.4**	14.3	–	14.3
Total exposure to credit risk	**445.5**	**(3.1)**	**442.4**	678.1	(2.5)	675.6

Note 24 Financial instruments (continued)

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

(ii) Credit risk (continued)

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.

The Group's total net exposure to credit risk by geographic region is analysed below:

	2018	2017
	£m	£m
United Kingdom & Europe	**386.4**	628.8
North America	**56.0**	46.8
	442.4	675.6

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

	2018	2017
	£m	£m
Sterling & Euros	**377.5**	621.7
US dollars	**61.6**	51.2
Canadian dollars	**3.3**	2.7
	442.4	675.6

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:

	2018	2017
	£m	£m
Amounts 1 to 90 days overdue	**12.6**	10.0
Amounts 91 to 180 days overdue	**1.0**	1.2
Amounts 181 to 365 days overdue	**0.4**	1.3
Amounts more than 365 days overdue	**0.1**	0.8
	14.1	13.3

The Group does not hold any collateral in respect of its credit risk exposures set out above (2017: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 28 April 2018 (2017: £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 28 April 2018, the Group's credit facilities were £1,043.4m (2017: £1,130.5m), £362.4m (2017: £648.3m) 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:

	2018	2017
	£m	£m
Expiring within one year	**196.5**	160.3
Expiring beyond two years	**484.5**	321.9
	681.0	482.2

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.

Note 24 Financial instruments (continued)

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

(iii) Liquidity risk (continued)

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					
– 2021	510.0	(40.0)	(70.5)	–	399.5
– 2020	106.0	–	(21.0)	(85.0)	–
– 2019	23.5	–	(22.2)	(1.3)	–
– 2018	108.7	–	(73.4)	(35.3)	–
	748.2	(40.0)	(187.1)	(121.6)	399.5
LOCAL & SHORT-TERM FACILITIES					
– Various	47.5	–	(13.5)	–	34.0
	795.7	(40.0)	(200.6)	(121.6)	433.5

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 28 April 2018	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	(513.7)	(655.5)	(20.7)	(20.7)	(166.1)	(448.0)
Finance lease liabilities	(57.1)	(59.5)	(14.2)	(12.9)	(32.4)	–
Hire purchase liabilities	(14.6)	(14.9)	(5.5)	(3.8)	(5.6)	–
Loan notes payable	(18.4)	(18.4)	(18.4)	–	–	–
Trade and other payables	(488.7)	(488.7)	(488.7)	–	–	–
Bank loans	(40.0)	(40.0)	–	–	(40.0)	–
	(1,132.5)	(1,277.0)	(547.5)	(37.4)	(244.1)	(448.0)
Derivative financial liabilities:						
Derivatives used for hedging	(0.5)	(0.5)	(0.4)	(0.1)	–	–
	(1,133.0)	(1,277.5)	(547.9)	(37.5)	(244.1)	(448.0)

As at 29 April 2017	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	(521.1)	(688.0)	(21.1)	(21.1)	(63.3)	(582.5)
Finance lease liabilities	(46.5)	(48.3)	(11.7)	(10.4)	(26.2)	–
Hire purchase liabilities	(25.5)	(26.1)	(11.2)	(5.5)	(9.4)	–
Loan notes payable	(18.6)	(18.6)	(18.6)	–	–	–
Trade and other payables	(714.2)	(714.2)	(714.2)	–	–	–
Bank loans	(121.8)	(121.9)	(0.1)	–	(121.8)	–
	(1,447.7)	(1,617.1)	(776.9)	(37.0)	(220.7)	(582.5)
Derivative financial liabilities:						
Derivatives used for hedging	(23.5)	(23.5)	(16.6)	(3.0)	(3.9)	–
	(1,471.2)	(1,640.6)	(793.5)	(40.0)	(224.6)	(582.5)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the 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 24 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 and restricted cash

Included within the cash and cash equivalents balance of £238.2m as at 28 April 2018 (2017: £313.3m) are £18.5m (2017: £18.6m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.1m (2017: £18.2m) has been pledged by the Group as collateral for £18.1m (2017: £18.2m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £0.4m (2017: £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 28 April 2018 and 29 April 2017.

In addition, cash includes train operating company cash of £171.2m (2017: £219.4m) of which £25.8m (2017: £28.3m) is cash held by Virgin Trains East Coast that may only be used for innovation projects approved by the UK Department for Transport. Under the terms of the franchise agreements, other than with the Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach any franchise liquidity ratios.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 28 April 2018 and 29 April 2017 and no loans payable were in default as at 28 April 2018 and 29 April 2017. The Group was in compliance with all bank loan covenants as at 28 April 2018 and as at 29 April 2017.

(g) Hedge accounting

A summary of the Group's current hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2018	2017
	£m	£m
Non-current assets		
Interest rate derivatives	**–**	2.0
Fuel derivatives	**30.0**	5.0
	30.0	7.0
Current assets		
Interest rate derivatives	**2.3**	1.2
Fuel derivatives	**9.1**	6.1
	11.4	7.3
Current liabilities		
Interest rate derivatives	**–**	(0.7)
Fuel derivatives	**(0.4)**	(15.9)
	(0.4)	(16.6)
Non-current liabilities		
Fuel derivatives	**(0.1)**	(6.9)
Total		
Interest rate derivatives	**2.3**	2.5
Fuel derivatives	**38.6**	(11.7)
	40.9	(9.2)

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 28 April 2018 (2017: None) which were separately accounted for.

Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions.

The movements in the fair value of fuel derivatives in the year were as follows:

	2018	2017
	£m	£m
Fuel derivatives		
Fair value at start of year	**(11.7)**	(54.9)
Changes in fair value during year taken to cash flow hedging reserve	**50.3**	17.6
Cash paid during the year	**–**	25.6
Fair value at end of year	**38.6**	(11.7)

Note 24 Financial instruments (continued)

(g) Hedge accounting (continued)

Cash flow hedges - fuel (continued)

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

	Assets	Liabilities
	£m	£m
As at 28 April 2018		
Within one year	9.1	(0.4)
1 to 2 years	23.9	(0.1)
2 to 3 years	5.6	–
More than 3 years	0.5	–
	39.1	(0.5)
As at 29 April 2017		
Within one year	6.1	(15.9)
1 to 2 years	5.0	(3.0)
2 to 3 years	–	(3.8)
More than 3 years	–	(0.1)
	11.1	(22.8)

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 28 April 2018		
Sterling denominated – UK Bus (regional operations)	29.4	657.8
Sterling denominated – UK Bus (London)	1.7	53.8
Sterling denominated – UK Rail	3.3	51.8
US dollar denominated – North America	4.2	105.3
	38.6	868.7
As at 29 April 2017		
Sterling denominated – UK Bus (regional operations)	(6.6)	624.2
Sterling denominated – UK Bus (London)	(1.2)	81.2
Sterling denominated – UK Rail	(1.1)	164.0
US dollar denominated – North America	(2.8)	125.4
	(11.7)	994.8

Fair value hedges - interest

The Group entered into £100m (notional value) of interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from December 2016 on expiry of US dollar-denominated fair value hedges.

	Fair value hedges	
	2018	2017
	£m	£m
Interest rate derivatives		
Fair value at start of year	**2.5**	0.7
Changes in fair value reflected in carrying value of hedged item	**(1.0)**	0.6
Interest income on fair value hedges	**0.8**	0.3
Cash paid during the year	**–**	0.9
Fair value at end of year	**2.3**	2.5

The fair value of the interest rate derivatives split by maturity as at 28 April 2018 was as follows::

	Assets
	£m
As at 28 April 2018	
Within one year	2.3

Note 24 Financial instruments (continued)

(g) Hedge accounting (continued)

Fair value hedges - interest (continued)

The fair value of the interest rate derivatives split by maturity as at 29 April 2017 was as follows:

	Assets	Liabilities
	£m	£m
As at 29 April 2017		
Within one year	1.2	(0.7)
1 to 2 years	2.0	–
	3.2	(0.7)

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:

	Fuel derivatives
	£m
Cash flow hedging reserve at 30 April 2016	(40.3)
Changes in fair value during the year taken to cash flow hedging reserve	17.6
Cash flow hedges reclassified and reported in profit for year	21.0
Tax effect of cash flow hedges	(7.3)
Cash flow hedging reserve at 29 April 2017	(9.0)
Changes in fair value during the year taken to cash flow hedging reserve	50.3
Cash flow hedges reclassified and reported in profit for year	(2.0)
Tax effect of cash flow hedges	(9.2)
Cash flow hedging reserve at 28 April 2018	30.1
Cash flow hedging reserve before tax	37.1
Tax to be charged to income statement in future periods	(7.0)
Cash flow hedging reserve after tax	30.1

Except for an immaterial over-hedge of anticipated UK bus fuel consumption, there have been no instances during the year ended 28 April 2018 (2017: 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 28 April 2018 is explained on page 120.

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:

	2018	2017
	£m	£m
US$ 4.36% notes		
Fair value at start of year	**115.9**	102.4
Changes in fair value during the year	**(7.2)**	13.5
Fair value at end of year	**108.7**	115.9
US$ bank loans		
Fair value at start of year	**61.8**	54.6
Loans repaid during the year	**(61.8)**	–
Changes in fair value during the year	**–**	7.2
Fair value at end of year	**–**	61.8

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

Note 25 Share capital

The allotted, called-up and fully paid ordinary share capital was:

	2018		2017	
	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 2,756,662 (2017: 2,467,204) 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.

Note 26 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 7, share based payment charges of £3.3m (2017: £2.8m) 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 2014	December 2014	June 2015	December 2015	June 2016	December 2016	August 2017	December 2017
Share price at time of grant/award (£)	3.8000	3.7920	4.1700	3.0470	2.2650	2.1100	1.7450	1.7800
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	2.70%	2.71%	2.72%	3.72%	5.44%	5.84%	7.37%	7.22%
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to the performance conditions explained in the Directors' remuneration report. 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.

Long Term Incentive Plan

The movements in the LTIP Incentive Units during the year to 28 April 2018 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)	Outstanding at end of year (Incentive Units)	Fair value per LTIP unit at grant* £	Fair value per LTIP unit at 28 April 2018 £	TSR ranking at 28 April 2018**	Vesting date
26 June 2014	733,263	–	(733,263)	–	–	2.5999	–	–	28 June 2017
11 Dec 2014	724,452	–	(758,126)	33,674	–	2.5945	–	–	11 Dec 2017
25 June 2015	709,205	–	(23,006)	52,496	738,695	2.8531	0.8723*	211	25 Jun 2018
10 Dec 2015	1,020,855	–	(30,548)	75,767	1,066,074	2.0847	0.8626*	218	10 Dec 2018
30 June 2016	1,438,554	–	(51,330)	106,139	1,493,363	1.5497	0.8587*	221	30 Jun 2019
8 Dec 2016	1,526,515	–	(53,102)	112,739	1,586,152	1.4437	0.8694*	213	8 Dec 2019
25 Aug 2017	–	1,977,404	(76,583)	149,231	2,050,052	1.1939	0.9550	217	25 Aug 2020
7 Dec 2017	–	1,866,897	–	50,517	1,917,414	1.2179	0.8824	211	7 Dec 2020
	6,152,844	3,844,301	(1,725,958)	580,563	8,851,750				

*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.

Note 26 Share based payments (continued)

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Shares 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 £
26 June 2014	629,723	–	(616,129)	(13,594)	–	–	28 June 2017	2,497,467	3.8100
25 June 2015	488,754	–	–	(33,532)	35,668	490,890	25 June 2018	2,165,756	4.1960
10 Dec 2015	28,113	–	–	–	2,141	30,254	10 Dec 2018	79,993	2.9800
30 June 2016	1,147,399	–	–	(69,856)	83,452	1,160,995	30 June 2019	2,725,336	2.3110
29 June 2017	–	1,131,387	–	(38,414)	85,894	1,178,867	29 June 2020	2,162,081	1.9110
	2,293,989	1,131,387	(616,129)	(155,396)	207,155	2,861,006			

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 28 April 2018 there were 6,065 (2017: 8,645) participants in the BAYE scheme to which were attributed 6,539,549 (2017: 7,387,315) shares that they purchased, 2,226,934 (2017: 2,328,648) matching shares that the Company contributed and 1,109,571 shares (2017: 868,247) 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 27 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 79.

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 (2017: £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 25. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 28 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:

	2018	2017
	£m	£m
Operating profit of Group companies	**105.0**	21.1
Intangible asset amortisation	**12.7**	16.8
Depreciation	**132.9**	145.5
Impairment of property, plant and equipment	**3.7**	–
Impairment of intangible assets	**0.8**	–
Exceptional items	**47.8**	128.7
EBITDA of Group companies before exceptional items	**302.9**	312.1
Cash effect of exceptional items	**–**	(3.7)
Gain on disposal of property, plant and equipment	**(3.2)**	(4.3)
Equity-settled share based payment expense	**1.2**	1.9
Operating cashflows before working capital movements	**300.9**	306.0
Decrease in inventories	**4.5**	2.7
Decrease/(increase) in receivables	**203.2**	(59.8)
(Decrease)/increase in payables	**(226.4)**	1.6
Decrease in provisions	**(84.7)**	(2.7)
Differences between employer pension contributions and pension expense in operating profit	**10.4**	4.5
Cash generated by operations	**207.9**	252.3

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

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

	2018	2017
	£m	£m
Decrease in cash and cash equivalents	**(73.9)**	(72.3)
Cash flow from movement in borrowings	**108.0**	133.5
	34.1	61.2
New hire purchase and finance leases	**(27.2)**	(47.8)
Foreign exchange movements	**7.6**	(22.7)
Other movements	**(0.9)**	(0.8)
Decrease/(increase) in net debt	**13.6**	(10.1)
Opening net debt (as defined in note 33)	**(409.4)**	(399.3)
Closing net debt (as defined in note 33)	**(395.8)**	(409.4)

(c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 33. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

			Non-cash movements			
	Opening	Cashflows	New hire purchase/ finance leases	Foreign exchange movements	Other/ Charged to income statement	Closing
	£m	£m	£m	£m	£m	£m
Cash	294.7	(73.8)	–	(1.2)	–	219.7
Cash collateral (see note 24(e))	18.6	(0.1)	–	–	–	18.5
Hire purchase and finance lease obligations	(72.0)	26.0	(27.2)	1.5	–	(71.7)
Bank loans and loan notes	(140.4)	82.0	–	–	–	(58.4)
Bonds	(510.3)	–	–	7.3	(0.9)	(503.9)
Net debt	(409.4)	34.1	(27.2)	7.6	(0.9)	(395.8)
Accrued interest on bonds	(9.5)	20.9	–	0.1	(21.0)	(9.5)
Effect of fair value hedges on carrying value of borrowings	(1.3)	–	–	–	1.0	(0.3)
Net borrowings (IFRS)	(420.2)	55.0	(27.2)	7.7	(20.9)	(405.6)

The cash amounts shown above include term deposits as explained in note 18 and cash held by train operating companies as explained in notes 24(e) and 29(i).

Note 28 Consolidated cash flows (continued)

(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 £27.2m (2017: £56.6m). After taking account of deposits paid up front and other financing transactions, new hire purchase and finance lease liabilities of £27.2m (2017: £47.8m) were recognised.

Note 29 Contingencies

Contingent liabilities

(i) 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 UK Department for Transport has notified the Company's subsidiary, East Coast Main Line Company Limited (trading as Virgin Trains East Coast), that it considers that subsidiary to be in default of the Virgin Trains East Coast franchise agreement. That could, in certain circumstances, give the Department for Transport the right to claim against East Coast Main Line Company Limited (and its immediate parent company, Inter City Railways Limited) including in respect of future premia payments foregone. As at 28 April 2018, liabilities have been recorded for amounts payable to the Department for Transport in lieu of the outstanding performance bond relating to Virgin Trains East Coast and any residual net assets of Virgin Trains East Coast. No further liability has been recorded in the consolidated financial statements in relation to potential claims by the Department for Transport in respect of default of the franchise agreement, because the Directors currently do not expect further amounts to be payable.

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. 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 28 April 2018, the capital at risk of the Group in this respect was:

	Virgin Trains East Coast	East Midlands Trains	Total
	£m	£m	£m
Actual liabilities recorded on the consolidated balance sheet			
Performance bonds	21.0	–	**21.0**
Contingent liabilities			
Season ticket bonds	5.1	7.2	**12.3**
Performance bonds	–	15.0	**15.0**
Parent company guarantees to suppliers	6.7	3.0	**9.7**
Undrawn committed loan facilities	–	25.0	**25.0**
Capital at risk as at 28 April 2018	32.8	50.2	**83.0**
Cash			
Cash in train operating companies	84.5	86.7	**171.2**
Pro forma impact on net debt	117.3	136.9	**254.2**

Deferred income in respect of season tickets sold by train operating companies is recognised as liabilities in the consolidated balance sheet. The season ticket bond amounts shown above relate to bonds issued by financial institutions in favour of the Department for Transport. The parent company, Stagecoach Group plc, has indemnified the financial institutions in respect of those season ticket bonds. The season ticket bonds are intended to provide cover for the deferred income. No liability has been recorded in the consolidated balance sheet in respect of the season ticket bonds because the deferred income has already been recognised as liabilities and it is not expected that the Group would be required to satisfy both the deferred income liabilities and the bond amounts. Notwithstanding the termination of the Virgin Trains East Coast franchise, the accounting for Virgin Trains East Coast season ticket deferred income and season ticket bonds is as described here.

To the extent that any of the above liabilities and contingent liabilities in respect of Virgin Trains East Coast crystallise 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.

Except for the Virgin Trains East Coast performance bond, the Group considers the likelihood of the capital at risk items crystallising as being low.

However, if all of the liabilities and contingent liabilities had crystallised and the franchises terminated at 28 April 2018, the Group would have needed to have financed £83.0m (2017: £384.5m) and, subject to any amounts it recovered from Virgin Holdings Limited, its net 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.

Under the terms of the franchise agreements, other than with the UK Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach the financial covenants specified in applicable contracts.

Note 29 Contingencies (continued)

Contingent liabilities (continued)

(ii) At 28 April 2018, the following rail bonds and bank guarantees were in place relating to amounts for which liabilities have not been recognised in the consolidated balance sheet:

	2018	2017
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**–**	40.3
– East Midlands Trains	**15.0**	15.0
– Virgin Trains East Coast	**–**	20.0
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**–**	60.2
– East Midlands Trains	**7.2**	7.1
– Virgin Trains East Coast	**5.1**	4.8
Shareholder loan commitment backed by bank facilities		
– Virgin Trains East Coast	**–**	82.5

These contingent liabilities are not expected to crystallise.

(iii) 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.

(iv) 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 28 April 2018, the accruals in the consolidated financial statements for such claims total £2.7m (2017: £0.6m). In addition, certain of the claims intended to be covered by the insurance provisions (see note 22) are subject to or might become subject to litigation against the Group and/or the Company.

Note 30 Guarantees and other financial commitments

(a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2018	2017
	£m	£m
Contracted for but not provided:		
For delivery within one year	**61.2**	115.2

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 28 April 2018 including all commitments in respect of the Virgin Trains East Coast franchise:

As at 28 April 2018	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 27 April 2019	17.9	21.4	159.8	7.3	206.4
Year ending 2 May 2020	14.9	15.0	295.4	5.5	330.8
Year ending 1 May 2021	12.3	10.2	329.2	4.8	356.5
Year ending 30 April 2022	11.7	5.1	329.1	4.4	350.3
Year ending 29 April 2023	10.1	1.9	309.5	3.8	325.3
30 April 2023 and thereafter	25.8	0.1	–	–	25.9
	92.7	53.7	1,423.0	25.8	1,595.2

The Group's subsidiary, East Coast Main Line Company Limited, traded as Virgin Trains East Coast. On 24 June 2018, responsibility for the train services operated by Virgin Trains East Coast, along with certain of its assets, liabilities and commitments transferred to a publically owned company. Of the total minimum contractual lease payments of £1,595.2m at 28 April 2018, £1,433.2m related to Virgin Trains East Coast under its original franchise agreement which was scheduled to run until March 2023. The minimum contractual lease payments in respect of Virgin Trains East Coast up to 24 June 2018, the date of transfer of services to the publically owned company, were £29.7m. The £1,403.5m remaining Virgin Trains East Coast lease commitments were assumed by the publically owned company on 24 June 2018 and the Group has no further liability in this regard.

Note 30 Guarantees and other financial commitments

(b) Operating lease commitments (continued)

The following were the future minimum contractual lease payments due under unexpired operating leases as at 29 April 2017:

As at 29 April 2017	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 28 April 2018	17.7	19.5	109.8	7.7	154.7
Year ending 27 April 2019	14.2	16.9	122.3	6.0	159.4
Year ending 2 May 2020	12.0	11.3	288.7	4.9	316.9
Year ending 1 May 2021	10.3	7.0	329.3	4.3	350.9
Year ending 30 April 2022	10.0	2.2	329.1	4.0	345.3
1 May 2022 and thereafter	31.1	0.1	309.5	3.6	344.3
	95.3	57.0	1,488.7	30.5	1,671.5

The amounts shown above do not include Network Rail charges, which are shown separately in note 30(c).

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). 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 28 April 2018 are as shown below.

	2018
	£m
Year ending 27 April 2019	**79.5**

The Group's subsidiary, East Coast Main Line Company Limited, traded as Virgin Trains East Coast. On 24 June 2018, responsibility for the train services operated by Virgin Trains East Coast, along with certain of its assets, liabilities and commitments transferred to a publically owned company. Of the total £79.5m Network Rail commitments shown above as at 28 April 2018, £54.1m related to Virgin Trains East Coast in respect of the remainder of the current Network Rail regulatory control period to 31 March 2019. The commitment of Virgin Trains East Coast up to 24 June 2018, the date of transfer of services to the publically owned company, was £9.0m. The £45.1m remaining Virgin Trains East Coast commitments were assumed by the publically owned company on 24 June 2018 and the Group has no further liability in this regard.

Commitments for payments under these contracts as at 29 April 2017 were as follows:

	2017
	£m
Year ending 28 April 2018	**47.3**
Year ending 27 April 2019	**53.7**
	101.0

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below is based on the latest statutory financial statements of the relevant companies:

	2018	2017
	£m	£m
Annual commitments under non-cancellable operating leases	**66.4**	65.8
Franchise performance bonds	**10.3**	10.3
Season ticket bonds	**3.2**	3.0

Note 31 Related party transactions

Details of major related party transactions during the year ended 28 April 2018 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 28 April 2018, the Group earned fees of £60,000 (2017: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 28 April 2018, the Group had £60,000 (2017: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see note 31(i)). In the year ended 28 April 2018, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2017: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were immaterial (2017: immaterial). The outstanding amounts payable as at 28 April 2018 and 29 April 2017 were immaterial.

During the year ended 28 April 2018, Stagecoach South Western Trains Limited (a subsidiary of the Group) sold services of £0.1m (2017: £0.3m) to West Coast Trains Limited and as at year-end had £Nil receivable in respect of this (2017: £Nil).

(iii) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2017: 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% (2017: 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 28 April 2018, the Group purchased £63.5m (2017: £75.2m) of vehicles from Alexander Dennis Limited and £13.9m (2017: £9.4m) of spare parts and other services. As at 28 April 2018, the Group had £0.5m (2017: £0.5m) payable to Alexander Dennis Limited, along with outstanding orders of £28.9m (2017: £56.7m).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 23.

(v) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2017: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 28 April 2018. The Group earned £18.0m in the year ended 28 April 2018 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2017: £18.2m). The Group also collected revenue of £18.0m on behalf of Scottish Citylink Coaches Limited in the year ended 28 April 2018 (2017: £19.3m). As at 28 April 2018, the Group had a net £0.4m (2017: £1.6m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) Twin America LLC

In the period from 1 May 2016 to 15 February 2017 (the date the Group disposed of its interest in Twin America LLC), the Group's joint venture, Twin America LLC, sold travel of £2.3m for tour services operated by the Group.

(vii) 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 entered into various arm's length transactions with other Group companies. In the year ended 28 April 2018, other Group companies earned £20.1m (2017: £19.2m) 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 receivable from East Coast Main Line Company Limited of £1.5m as at 28 April 2018 (2017: £4.5m payable), which principally relates to VAT payments.

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £165.0m as at 28 April 2018 (2017: £57.5m) in respect of loans to East Coast Main Line Company Limited. The interest receivable for the year ended 28 April 2018 was £3.4m (2017: £1.8m) and the accrued interest outstanding as at 28 April 2018 was £4.9m (2017: £1.5m). Related to that, the Group had an outstanding payable of £16.5m (2017: £5.8m) in respect of a loan from Virgin Holdings Limited and accrued interest outstanding of £0.5m (2017: £0.1m). As at 28 April 2018, the loan from Stagecoach Group plc to East Coast Main Line Company Limited, and the related accrued interest, was not expected to be recovered by Stagecoach Group plc and full provision has been made against the receivables in the separate financial statements of the parent company. Under the contractual arrangements between Stagecoach Group plc and Virgin Holdings Limited, the loan from Virgin Holdings Limited to Stagecoach Group plc, and the related accrued interest, was only repayable to the extent of 10% of any repayments of the loan (and accrued interest) from Stagecoach Group plc to East Coast Main Line Company Limited. Since 28 April 2018, the loan from Stagecoach Group plc to East Coast Main Line Company Limited and any loan amounts owed by the Group to Virgin Holdings Limited have been waived.

Note 32 Post balance sheet events

On 16 May 2018, the Secretary of State for Transport announced his decision to transfer responsibility for operating the InterCity East Coast train services from Virgin Trains East Coast to a publically owned company. See note 15 for further details.

Details of the final dividend proposed are given in note 9.

Notes to the consolidated financial statements

Note 33 Definitions

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 28 April 2018 and for comparative amounts shown in this document for prior years.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding non-software intangible asset amortisation and exceptional items, by the basic weighted average number of shares in issue in the period.

For the year ended 28 April 2018 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance pre intangibles (exc software) and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 10 to the consolidated financial statements.

Like-for-like amounts

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.

Like-for-like revenue growth for the year ended 28 April 2018 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each segment is shown in note 2(a) to the financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

Year ended 28 April 2018

		Reported revenue	Exclude effect of business closed	Exclude expired rail franchise	Exclude effect of foreign exchanges	Like-for-like revenue
UK Bus (regional operations)	£m	1,012.5	(0.2)	–	–	1,012.3
UK Bus (London)	£m	251.8	–	–	–	251.8
North America	US$m	630.0	–	–	(1.3)	628.7
UK Rail	£m	1,495.2	–	(311.5)	–	1,183.7

Year ended 29 April 2017

		Reported revenue	Exclude effect of business closed	Exclude expired rail franchise	Normalise for no. of days	Like-for-like revenue
UK Bus (regional operations)	£m	1,015.7	(1.9)	–	–	1,013.8
UK Bus (London)	£m	263.4	–	–	–	263.4
North America	US$m	632.3	–	–	(1.7)	630.6
UK Rail	£m	2,160.7	–	(1,018.1)	–	1,142.6

Operating profit

Operating profit for the Group as a whole is profit before non-operating exceptional items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group's share of joint ventures' profit/loss after taxation. Both total operating profit and operating profit from Group companies are shown on the face of the consolidated income statement.

Operating profit (or loss) for a particular business unit or division within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, non-software intangible asset amortisation, exceptional items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from note 2(b) of the financial statements.

Operating margin

Operating margin for a particular business unit or division within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from notes 2(a) and 2(b) of the financial statements. The revenue, operating profit (or loss) and operating margin for each segment are also shown on page 2 of this Annual Report.

Pre-exceptional EBITDA

Pre-exceptional EBITDA is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items.

A reconciliation of pre-exceptional EBITDA for the year ended 28 April 2018, and the comparative prior year, to the financial statements is shown in section 1.6.1 of this Annual Report.

EBITDA from Group companies before exceptional items

EBITDA from Group companies before exceptional items is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit from joint ventures).

EBITDA from Group companies before exceptional items is directly identifiable from note 28(a) of the financial statements.

Note 33 Definitions (continued)

(a) Alternative performance measures (continued)

Net finance charges

Net finance charges are finance costs less finance income, each as shown on the face of the consolidated income statement.

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest and the effect of fair value hedges on the carrying value of borrowings.

The components of gross debt are shown in note 28(c) to the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net debt

Net debt (or net funds) is the net of cash/cash equivalents and gross debt (see above).

The components of net debt are shown in note 28(c) to the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment on net debt. Its reconciliation to the consolidated financial statements is explained in section 1.6.6 of this Annual Report.

(b) Other definition

The following other definition is also used in this document:

Exceptional items

Exceptional items means items which individually or, if of a similar type, in aggregate, need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.

12. Separate financial statements of the parent company, Stagecoach Group plc

Company balance sheet

As at 28 April 2018

	Notes	2018 £m	2017 £m
ASSETS:			
Non-current assets			
Intangible assets	2	**–**	0.2
Property, plant and equipment	3	**0.2**	0.1
Investments	4	**1,037.6**	1,035.1
Derivative instruments at fair value	8	**30.0**	7.0
		1,067.8	1,042.4
Current assets			
Other receivables	5	**535.1**	581.8
Deferred tax asset	7	**2.1**	1.2
Derivative instruments at fair value	8	**8.1**	4.1
Cash and cash equivalents		**18.2**	35.5
		563.5	622.6
Total assets		**1,631.3**	1,665.0
LIABILITIES:			
Current liabilities			
Trade and other payables	6	**(423.7)**	(309.3)
Derivative instruments at fair value	8	**(0.4)**	(16.7)
		(424.1)	(326.0)
Non-current liabilities			
Other payables	6	**(553.7)**	(642.9)
Derivative instruments at fair value	8	**(0.1)**	(6.9)
Retirement benefit obligations	9	**(7.5)**	(7.1)
		(561.3)	(656.9)
Total liabilities		**(985.4)**	(982.9)
Net assets		**645.9**	682.1
EQUITY:			
Ordinary share capital	10	**3.2**	3.2
Share premium account	11	**8.4**	8.4
Retained earnings	11	**249.5**	284.7
Capital redemption reserve	11	**422.8**	422.8
Own shares	11	**(38.0)**	(37.0)
Total equity		**645.9**	682.1

In accordance with the concession granted under section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company has not been separately presented in these financial statements. The profit of the Company was £31.9m (2017: £22.4m loss).

These financial statements were approved for issue by the Board of Directors on 28 June 2018. The accompanying notes form an integral part of this balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Company statement of changes in equity

	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Total equity
	£m	£m	£m	£m	£m	£m
Balance at 30 April 2016	**3.2**	**8.4**	**372.3**	**422.8**	**(34.3)**	**772.4**
Loss for the year and total comprehensive expense	–	–	(22.4)	–	–	(22.4)
Own ordinary shares purchased	–	–	–	–	(2.7)	(2.7)
Credit in relation to equity-settled share based payments	–	–	1.9	–	–	1.9
Dividends paid on ordinary shares	–	–	(67.1)	–	–	(67.1)
Balance at 29 April 2017	**3.2**	**8.4**	**284.7**	**422.8**	**(37.0)**	**682.1**
Profit for the year and total comprehensive expense	–	–	31.9	–	–	31.9
Own ordinary shares purchased	–	–	–	–	(1.0)	(1.0)
Credit in relation to equity-settled share based payments	–	–	1.2	–	–	1.2
Dividends paid on ordinary shares	–	–	(68.3)	–	–	(68.3)
Balance at 28 April 2018	**3.2**	**8.4**	**249.5**	**422.8**	**(38.0)**	**645.9**

Notes to the Company financial statements

Note 1 Parent company accounting policies

These financial statements are presented in respect of Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth, Perthshire, PH1 5TW.

The Company financial statements are prepared in accordance with Financial Reporting Standard 101 "Reduced DIsclosure Framework" ("FRS 101").

- **Basis of preparation**

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

- **Intangible assets**

Intangible assets, consisting of software, are shown at their original historic cost net of amortisation 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.

Amortisation is charged on a straight-line basis over the estimated useful economic life of each asset, typically between 2 to 5 years.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

- **Property, plant and equipment**

Property, plant and equipment 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 its estimated useful life, 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 impairment 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.

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 with in the income statement.

- **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.

- **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 income statement.

For the principal rates of exchange used, see the Group accounting policies on page 86.

- **Share based payments**

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 income statement to the extent that the amount is not recharged to each subsidiary company.

Note 1 Parent company accounting policies (continued)

- **Share based payments (continued)**

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 Company'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. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved.

Changes in the carrying amount of the liability are recognised in the income statement for the period. Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

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).

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it currently expects to settle all such awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-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.

- **Financial instruments**

Financial instruments are accounted for in accordance with IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial instruments: Recognition and measurement", and IFRS 7 "Financial instruments: Disclosures" which is the same as the accounting policy for the Group. Therefore, for details of the Company's accounting policy for financial instruments refer to pages 88 to 90.

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 are accounted in the Company financial statements at fair value through profit or loss.

- **Investment in own shares**

Own shares held in treasury by the Company have also been classified as deductions from equity.

- **Interest bearing loans and borrowings**

Borrowings are recognised initially as 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 income statement over the period of the borrowings. The carrying value of borrowings takes account of accrued interest, issue costs and the effect of fair value hedges.

- **Retirement benefit obligations**

During the year ended 28 April 2018, the Company was confirmed as the "principal employer" of the main section of the Stagecoach Group Pension Scheme ("SPS"). Where other participating employers are unable to meet their liabilities to the SPS, the company is liable for the remaining liabilities. No liability has been recognised in the Company's financial statements for that as the participating employers are expected to meet their liabilities to SPS. The Company has no employees and is therefore not liable for a share in any of the other Group defined benefit schemes that are disclosed in note 23 to the consolidated financial statements. It does have unfunded liabilities in respect of former employees and these are reflected in the balance sheet.

Note 2 Intangible assets

The movements in intangible assets were as follows:

	2018
	£m
Cost	
At beginning and end of year	0.7
Accumulated amortisation	
At beginning of year	(0.5)
Amortisation charged to income statement	(0.2)
At end of year	(0.7)
Net book value at beginning of year	0.2
Net book value at end of year	–

Notes to the Company financial statements

Note 3 Property, plant and equipment

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

	£m
Cost	
At beginning of year	1.9
Additions	0.1
Disposals	(0.1)
At end of year	1.9
Depreciation	
At beginning of year	(1.8)
Depreciation charged to income statement	0.0
Disposals	0.1
At end of year	(1.7)
Net book value at beginning of year	0.1
Net book value at end of year	0.2

Note 4 Investments

The movements in investments were as follows:

	Subsidiary undertakings
	£m
Cost and net book value	
At beginning of year	1,035.1
Additions	1.2
Foreign exchange movements	1.3
At end of year	1,037.6

Note 5 Other receivables

Other receivables were as follows:

	2018	2017
	£m	£m
Current:		
Amounts owed by Group undertakings	**678.9**	598.8
Less: provision for impairment	**(170.1)**	(59.0)
Amounts owed by Group undertakings – net	**508.8**	539.8
Other receivables	**26.2**	41.9
Prepayments and accrued income	**0.1**	0.1
	535.1	581.8

Of amounts owed by Group undertakings of £73.2m (2017: £46.3m) accrue no interest and are repayable on demand. The remaining £605.7m (2017: £552.5m) owed by Group undertakings accrue interest at 6 month LIBOR plus margins ranging from 2.5% to 3.5%. These are all repayable on demand except for £170.0m (2017: £59.1m) for which repayment is subject to rail franchise contractual arrangements.

Note 6 Payables

Trade and other payables were as follows:

	2018	2017
	£m	£m
Current:		
Bank overdrafts	**109.0**	56.8
Loan notes	**18.4**	18.6
Amounts owed to Group undertakings	**254.7**	214.2
Accruals and deferred income	**25.1**	13.9
Loan from non-controlling investor in subsidiary	**16.5**	5.8
	423.7	309.3
Non-current:		
Sterling 4.00% Notes	**405.0**	405.2
US Dollar 4.36% Notes	**108.7**	115.9
Bank loans	**40.0**	121.8
	553.7	642.9

Of amounts owed to Group undertakings of £78.7m (2017: £150.8m) accrue no interest and are repayable on demand. The remaining £176.0m owed to Group undertakings (2017: £63.4m) accrue interest at 6 month LIBOR or bank rate plus a margin of 1.5%. These are all repayable on demand.

Note 6 Payables (continued)

Borrowings are repayable as follows:	2018 £m	2017 £m
On demand or within 1 year		
Bank overdraft	**109.0**	56.8
Loan notes	**18.4**	18.6
Repayable after 2 years, but within 5 years		
Bank loans	**40.0**	121.8
US Dollar 4.36% Notes	**108.7**	–
Repayable after 5 years		
US Dollar 4.36% Notes	**–**	115.9
Sterling 4.00% Notes	**405.0**	405.2
Total borrowings	**681.1**	718.3

Note 7 Deferred tax

The movement in the deferred tax asset during the year was as follows:	2018 £m	2017 £m
At beginning of year	**1.2**	0.9
Credit to the income statement	**0.9**	0.3
At end of year	**2.1**	1.2

Deferred taxation is calculated as follows:	2018 £m	2017 £m
Pension temporary differences	**1.3**	1.2
Short-term timing differences	**0.1**	(0.1)
Accelerated capital allowances	**0.7**	0.1
At the end of year	**2.1**	1.2

Note 8 Financial instruments

The fair values of derivative financial instruments, none of which are intra-Group, are set out below:	2018 £m	2017 £m
Non-current assets		
Interest rate derivatives	**–**	2.0
Fuel derivatives	**30.0**	5.0
	30.0	7.0
Current assets		
Interest rate derivatives	**2.3**	1.2
Fuel derivatives	**5.8**	2.9
	8.1	4.1
Current liabilities		
Interest rate derivatives	**–**	(0.7)
Fuel derivatives	**(0.4)**	(16.0)
	(0.4)	(16.7)
Non-current liabilities		
Fuel derivatives	**(0.1)**	(6.9)

In accordance with IAS 39, "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 (2017: None).

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 9 Retirement benefit obligations

	2018 £m	2017 £m
Retirement benefit obligations	**7.5**	7.1

The Company no longer has any employees but has unfunded retirement benefit liabilities in respect of former employees which are shown above. See note 23 to the consolidated financial statements for more details on retirement benefits.

Note 10 Share capital

Information on share capital is provided in note 25 to the consolidated financial statements.

Notes to the Company financial statements

Note 11 Equity reserves

The profit of £31.9m (2017: loss of £22.4m) shown in the statement of changes in equity is consolidated in the results of the Group. Details of dividends paid, declared and proposed during the year are given in note 9 to the consolidated financial statements.

The retained earnings are distributable but the other components of equity shown in the statement of changes in equity 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 12 Share based payments

For details of share based payment awards and fair values see note 26 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £1.2m (2017: £1.9m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2017: Nil) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment credit for the year of £0.7m (2017: £0.6m credit) by recording an adjustment to the 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 income statement.

Note 13 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £228.2m (2017: £283.7m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £92.7m (2017: £342.4m) 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 29(iv) to the consolidated financial statements.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2018	2017
	£m	£m
Contracted for but not provided:		
For delivery in one year	**37.8**	67.8

(c) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 28 April 2018:

As at 28 April 2018	Land and buildings	Other	Total
	£m	£m	£m
Lease payments in respect of:			
Year ending 27 April 2019	0.1	0.1	0.2
Year ending 2 May 2020	0.1	0.1	0.2
Year ending 1 May 2021	0.1	–	0.1
Year ending 30 April 2022	0.1	–	0.1
Year ending 29 April 2023	0.1	–	0.1
30 April 2023 and thereafter	0.1	–	0.1
	0.6	0.2	0.8

The following were the future minimum contractual lease payments due under unexpired operating leases as at 29 April 2017:

As at 29 April 2017	Land and buildings	Other	Total
	£m	£m	£m
Lease payments in respect of:			
Year ending 28 April 2018	0.1	0.1	0.2
Year ending 27 April 2019	0.1	0.1	0.2
Year ending 2 May 2020	0.1	0.1	0.2
Year ending 1 May 2021	0.1	–	0.1
Year ending 30 April 2022	0.1	–	0.1
1 May 2022 and thereafter	0.2	–	0.2
	0.7	0.3	1.0

Note 14 Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions entered into between two or more members of a group. Related party disclosures provided by the Group can be found in note 31 to the consolidated financial statements.

Note 15 Employees

The Company has no (2017: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

13. Subsidiary and related undertakings

The Company owns the following subsidiary and related undertakings. The Company indirectly owns 100% of each undertaking through its holding of the stated class or classes of share or other interest unless otherwise stated.

Company	Country of registration	Class of shares/other interest	Registered office address
3329003 Canada Inc	Canada	A Shares	5550 Monk Blvd, Montreal, QC H4C 3R8
3376249 Canada Inc	Canada	Common shares and Dividend Access shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
349 First Street Urban Renewal Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
4216849 Canada Inc	Canada	Common stock	5550 Monk Blvd, Montreal, QC H4C 3R8
A1 Service Limited	Scotland	Guarantor	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
AA Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Aberdare Bus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Airport Supersaver, Inc.	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago, IL 60604
All West Coachlines Inc	United States	Common Stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
American Coach Lines of Atlanta Inc	United States	Common Stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
American New York Tours Corporation	United States	Common A and Common B non-voting	111 Eighth Avenue, 13th Floor, New York, NY 10011
American Tour Connection Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Atlanta Airport Shuttle Inc	United States	Common stock	289 S Culver Street, Lawrenceville, Georgia 30046-4805
B&B Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Barclay Airport Service Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Barclay Transportation Services Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Bayline Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Bluebird Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Busways Travel Services (1986) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Busways Trustee (No.1) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Busways Trustee (No.2) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Butler Motor Transit Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
CAM Leasing LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Cambus Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Cape Transit Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Central Cab Company Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Central Charters & Tours Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Central Jersey Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628

13. Subsidiary and related undertakings

Company	Country of registration	Class of shares/other interest	Registered office address
Century Airline Services Inc	Canada	Common stock	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Cheltenham District Traction Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Chenango Valley Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Chesterfield Transport PST Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Cisko Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Cleveland Transit Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Cleveland Transit Trustee (No.1) Ltd	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Clinton Avenue Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Coach Leasing Inc	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago, IL 60604
Coach USA Administration Inc	United States	Common stock	701 S. Carson Ste 200, Carson City NV 89701
Coach USA Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Coach USA Investment Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Coach USA MBT LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Coach USA Tours - Las Vegas Inc	United States	Common stock	701 S. Carson Ste 200, Carson City NV 89701
Colonial Coach Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Commodore Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Bus Lines Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Coach Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Transit Lines Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Community Transportation Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Cumberland Motor Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Devon General Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Dillon's Bus Service Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Douglas Braund Investments Limited	Canada	Class A, Common and preference shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Dragon Bus LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
E&A Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628

Company	Country of registration	Class of shares/other interest	Registered office address
East Coast Main Line Company Limited (90%)	England	Ordinary shares	East Coast House, 25 Skeldergate, York, North Yorkshire YO1 6DH
East Kent Coaches Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
East Kent Road Car Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
East London Bus and Coach Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
East London Bus Group Property Investments Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
East London Bus Ltd.	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
East Midlands Trains Limited	England	Ordinary shares	Prospect House, No1 Prospect Place, Millennium Way, Derby, Derbyshire DE24 8HG
Elizabeth Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
ELKO Inc	United States	Common stock	1908 Thomes Ave, Cheyenne, WY 82001-3527
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Formia Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Frenchwood Holdings Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Friedman Transportation Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
G&G Travel Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Gad About Tours Inc	United States	Common stock	1300 East Ninth Street, Cleveland, OH 44114
Generic Holding Inc	United States	Common stock	7770 E. Arapahoe Road, Suite 220, Centennial, CO 80112
Gilsam Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
GL Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Glenvale Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Glossopdale Bus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
GM Buses South (E.B.T.) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Go West Travel Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Gray Line Air Shuttle Inc	United States	Class A and Class B stock	820 Bear Tavern Road, West Trenton, NJ 08628
Greater Manchester Buses South Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Grimsby Cleethorpes Transport Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW

13. Subsidiary and related undertakings

Company	Country of registration	Class of shares/other interest	Registered office address
Halliday-HartleTravel (1988) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
HAML Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Hartlepool Transport (1993) Limited	England	Ordinary B and Preference shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Hartlepool Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Hastings and District Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
High Adventure Tours Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Highland Country Buses Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Hudson Transit Corporation	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Hudson Transit Lines Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Independent Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Inter City Railways Limited (90%)	England	A Shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
International Bus Services Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
J&J Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
J&J Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
J&L Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
JW Coaches Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Kaunas Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Kerrville Bus Company	United States	Common stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234,
KHCT (ESOP) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
KHCT (Holdings) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
KILT of CT Inc	United States	Class A and Class B Common stock	67 Burnside Ave, East Hartford, Connecticut 06108-3408
KILT of RI Inc	United States	Common stock	10 Weybosset Street, Providence, RI 02903
Kingston Upon Hull City Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Lakefront Lines Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Leisure Time Tours	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Lenzner Tours Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Lenzner Tours, Ltd	United States	Partnership interest	116 Pine Street, Suite 320, Harrisburg, PA 17101
Lenzner Transit Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101

Company	Country of registration	Class of shares/other interest	Registered office address
Lenzner Transportation Group Inc	United States	Common stock	701 S. Carson Ste 200, Carson City, NV 89701
LER Transportation Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Liberty Bell Taxi Company Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Limousine Rental Service Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Lincoln City Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Lincolnshire Road Car Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
M&J Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Massachusetts Bay Transportation Services LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Meadowlands Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Megabus Acquisition LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Northeast LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Philadelphia LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Southeast LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus Southwest LLC	United States	LLC Units	450 Veterans Memorial Parkway, Suite 7A, East Providence, RI 02914
Megabus USA LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Megabus West LLC	United States	LLC Units	5601 South 59th Street, Lincoln, NE 68516
Megabus.com (UK) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Megabus.com SAS	France	Ordinary shares	34 Avenue des Champs Elysees, 75008, Paris
Planet Coach SRL	Italy	Ordinary shares	Piazza della Stazione n.2, Commune di Firenze
Megacity Limited (35%)	Scotland	Ordinary shares	Buchanan Bus Station, Kellermont Street, Glasgow, G2 3NP
Midland Red (South) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SWW
Midtown Bus Terminal New York Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Mini Coach of Boston Inc	United States	Common stock	155 Federal Street, Suite 700, Boston, MA 02110
Minsol Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Minsol Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Mister Sparkle Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Mountaineer Coach Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
New Delaware Coach Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
New York Splash Tours Inc LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Niagara Scenic Bus Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011

13. Subsidiary and related undertakings

Company	Country of registration	Class of shares/other interest	Registered office address
Nicecon Limited (50%)	Scotland	Ordinary shares	395 King Street, Aberdeen, AB24 5RP
North Shore Dispatch Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Olympia Trails Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Orange, Newark, Elizabeth Bus Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
P. Phythian and Son Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Pacific Coast Sightseeing Tours and Charters Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
Paramus Northeast Mgt Co. LLC	United States	LLC Units	820 Bear Tavern Road, West Trenton, NJ 08628
Parfitts Motor Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
PCSTC Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Penn-Mall Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Pennsylvania Transportation Systems Inc	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
Perfect Body Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Phantom Cab Company Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Planet Coach BVBA	Belgium	Ordinary shares	Koningsstraat 97, 1000 Brussel
Planet Coach GmbH	Germany	Ordinary shares	Prinzregentenstrasse 48, c/o Heuking Kuhn Luer Wojtek, 80538 Munchen
Powder River Transportation Services Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Precis (1628) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
PSV Claims Bureau Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
R&W Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
R&W Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Charter Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Enterprises Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Transportation Systems Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red and Tan Unlimited Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Red & White Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Rhondda Buses Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Rhondda Valley Buses Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Ribble Motor Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Road Runner Tours Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628

Company	Country of registration	Class of shares/other interest	Registered office address
Rockland Coaches Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Rockland Transit Corporation	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Route 17 North Realty LLC	United States	LLC Units	820 Bear Tavern Road, West Trenton, NJ 08628
RTI Stagecoach Limited	England	Ordinary-A shares, Ordinary-B shares and Preference shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Sam Van Galder Inc	United States	A and B Common stock	8020 Excelsior Drive, Suite 200, Madison, WI 53717
Schoolbus Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
SCOTO Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
SCOTO US Subsidiary Limited LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Scottish Citylink Coaches Limited (35%)	Scotland	Ordinary shares	Buchanan Bus Station, Killermont Street, Glasgow, G2 3NP
SCUSI Limited	England	Ordinary, A and B shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
SCUSI US Subsidiary Limited LLC	United States	LLC Units	1209 Orange Street, Wilmington, DE 19801
Seven Bus Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
SGP Group Finance Sarl *	Luxembourg	Ordinary shares	6, Rue Henri M Schnadt, 2nd Floor Luxembourg
Sharpton Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
SHM Transit Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Short Line Terminal Agency Inc	United States	Common stock and preferred stock	820 Bear Tavern Road, West Trenton, NJ 08628
Skipburn Limited	Canada	Ordinary shares	791, Webber Avenue, Peterborough, Ontario K9J 8N3
SL Capital Corporation	United States	Class A voting and Class B non-voting shares	111 Eighth Avenue, 13th Floor, New York, NY 10011
South East London & Kent Bus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
South Orange Avenue Bus Association Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
South Orange Avenue Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
South Yorkshire Supertram Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
South Yorkshire Supertram Operating Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Southdown Motor Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Sporran AWC Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran FL Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GBL Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GCBS Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran GCTC Inc	United States	Common stock	1999 Bryan Street, Suite 900, Dallas, TX 75201-4234

13. Subsidiary and related undertakings

Company	Country of registration	Class of shares/other interest	Registered office address
Sporran GLS Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran RTI Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Sporran TI Inc	United States	Common stock	701 S. Carson Ste 200, Carson City, NV 89701
Stagecoach (North West) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach (South) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Devon Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Glasgow Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stage-coach International Services Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach East Midlands Trains Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach QUEST Trustee Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Rail Operations Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Rail North America, LLC	United States	LLC units	1209 Orange Street, Wilmington, DE 19801
Stagecoach Rail Passenger Services LLC	United States	LLC units	1209 Orange Street, Wilmington, DE 19801
Stagecoach Rail Projects Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Rail Replacement (South) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Rail Replacement Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach (Scotland) Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach Services Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach South Eastern Trains Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach South West Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach South Western Trains Limited	England	Ordinary shares	Friars Bridge Court, 41-45 Blackfriars Road, London, SE1 8NZ
Stagecoach Supertram Maintenance Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW

Company	Country of registration	Class of shares/other interest	Registered office address
Stagecoach Technology Limited	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stagecoach West Coast Trains Ltd	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Stagecoach Transport Holdings Limited *	Scotland	Ordinary shares	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Suburban Management Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Suburban Trails Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Suburban Transit Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
SuperCAM Limited	England	A and B shares	Daw Bank, Stockport, Cheshire, SK3 0DU
Superior Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Swindon and District Bus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Syracuse and Oswego Coach Lines Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
Tanport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Tees Valley Limited	England	Ordinary and A-Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Thames Transit Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
The Barnsley & District Traction Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
The Bus Exchange Inc	United States	Common stock	111 Eighth Avenue, 13th Floor, New York, NY 10011
The Hudson Bus Transportation Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
The Mexborough and Swinton Traction Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
The Valleys Bus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
The Yorkshire Traction Company (Trustee) Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
The Yorkshire Traction Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Trans Maintenance Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Trans-Hudson Express Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
The Yorkshire Traction Group (LLCS) Limited	England	Guarantor	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Transit Advertising Ltd	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Transportation Management Services Inc	United States	Common stock	116 Pine Street, Suite 320, Harrisburg, PA 17101
Trentway-Wagar (Properties) Inc	Canada	Class A and class B Common shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Trentway-Wagar Inc	Canada	Common stock and first preference shares	66 Wellington Street West, Ste 4100, Toronto ON M5K 1B7 Canada
Tri State Coach Lines, Inc	United States	Common stock	251 East Ohio Street, Suite 1100, Indianapolis, IN 46204

13. Subsidiary and related undertakings

Company	Country of registration	Class of shares/other interest	Registered office address
TRT Transportation Inc	United States	Common stock	208 South LaSalle Street, Suite 814, Chicago,IL 60604
Twenty-Four Corporation	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Tyburn Limited	United States	Common stock	1209 Orange Street, Wilmington, DE 19801
TravelHero Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Tyne and Wear Omnibus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
United Counties Omnibus Company Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Vailsburg Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Van Nortwick Bros Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Virgin Rail Group Holdings Limited (49%)	England	B shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Rail Group Limited (49%)	England	Ordinary and Preference shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Rail Projects Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Trains Sales Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Virgin Trains Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
Welcome Passenger Transport Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
West Coast Partnership Limited (50%)	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
West Coast Trains Limited (49%)	England	Ordinary shares	The Battleship Building, 179 Harrow Road, London, W2 6NB
West Coast Trains Partnership Limited (50%)	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
West Sussex Buses Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Western Buses Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Whites World Travel Limited	England	Ordinary shares	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Wisconsin Coach Lines Inc	United States	Common stock	8020 Excelsior Drive, Suite 200, Madison, WI 53717
WJB Bus Company Inc	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
Wohlgemuth Bus Company	United States	Common stock	820 Bear Tavern Road, West Trenton, NJ 08628
XYZ-JP Taxi Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
XYZ-PBT Inc	United States	Common stock	1200 South Pine Island Road, Plantation, FL 33324
Yellow Cab Leasing Company of San Diego	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017
Yellow Cab of San Diego Inc	United States	Common stock	818 West Seventh Street, Suite 930, Los Angeles, CA 90017

* Companies are directly held by Stagecoach Group plc

All subsidiary undertakings are included in these consolidated financial statements.

14. Shareholder information

Shareholder enquiries

Link 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).
Email: StagecoachGroup@linkgroup.co.uk.

Online share administration

You can access your share account online using the Signal Shares share portal service at www.signalshares.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;
- reinvesting dividends to buy more shares;
- registering proxy votes online; and
- buying and selling shares.

Using the online share portal reduces the need for paperwork and provides 24 hour access.

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. Phone and online dealing services are provided by Link Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services register for online share administration as above and choose the option to buy and sell shares. Alternatively, go to www.linksharedeal.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.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. 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.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares. Shareholders can opt to reinvest dividends using the online share administration services referred to above. Shareholders who would like further information should telephone the Company's registrars, Link 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@linkgroup.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.

To find out more about these “boiler room scams”, or how to report a potential scam, visit the Financial Conduct Authority website at **www.fca.org.uk/consumers/scams/investment-scams/**

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. Treat all unexpected calls, emails and text messages with caution. Don’t assume they’re genuine, even if the person seems to know some basic information about you.
2. Don’t be pressured into acting quickly. A genuine bank or financial services firm won’t mind waiting if you want time to think.
3. Get the name of the person and organisation contacting you.
4. Check the FCA Register at **www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/** to ensure they are authorised.
5. Use the details on the FCA Register to contact the firm.
6. 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.
7. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
8. **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 calendar

Corporate Information

Company Secretary
Mike Vaux

Registered Office
10 Dunkeld Road
Perth PH1 5TW

Telephone	+44 (0) 1738 442 111
Facsimile	+44 (0) 1738 643 648
Email	info@stagecoachgroup.com

Company Number
SC100764

Calendar

Annual General Meeting
31 August 2018

Final Dividend
3 October 2018

Interim Dividend
March 2019

www.stagecoach.com

Registered Office:
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T: 01738 442111 | F: 01738 643648 | E: info@stagecoachgroup.com

Registered in Scotland | Number: SC100764