Stagecoach Group Annual Report
and Financial Statements 2016

STAGECOACH GROUP
greener smarter travel

Understanding our customers

Stagecoach Group overview

Stagecoach Group is a leading international public transport company with bus and rail operations in the UK, mainland Europe and North America. We employ around 40,000 people and run around 13,000 buses and trains.

UK Bus (regional operations)	UK Bus (London)	megabus Europe	UK Rail	North America
21,000 employees	4,000 employees	400 employees	10,000 employees	5,000 employees
7,200 buses and coaches	1,300 buses and coaches	100 buses and coaches	2,300 train services a day	2,300 buses and coaches
690m journeys a year	314m journeys a year	2m journeys a year	295m journeys a year	140m vehicle miles a year

Note: all figures shown above are approximate.

Highlights

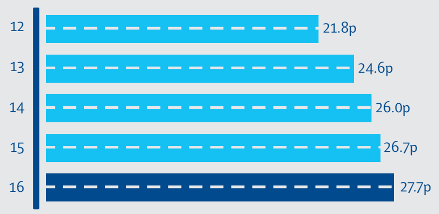
- Adjusted earnings per share*† up 3.7% to 27.7 pence (2015: 26.7 pence)
- Dividend per share up 8.6% to 11.4 pence (2015: 10.5 pence)
- £187.0m (2015: £140.9m) net capital investment from strong cash generation
  - Investing in further enhancing customer experience on bus and rail to drive future growth
- Sale of "retail" part of megabus Europe to FlixBus
- Actions to stimulate growth in UK Bus: low fares strategy, digital improvements and continued investment
- One of two shortlisted bidders for new South West Trains rail franchise
- Strong financial position - successful re-financing of £400m bonds
- No significant change to our expected 2016/17 adjusted earnings per share

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

† See reconciliation to GAAP earnings in note 9 to the consolidated financial statements.

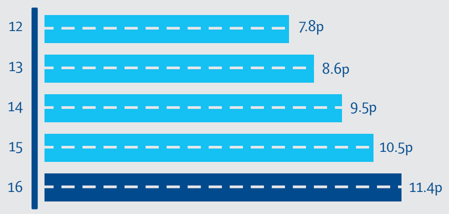
Adjusted earnings per share

(Year ended 30 April)



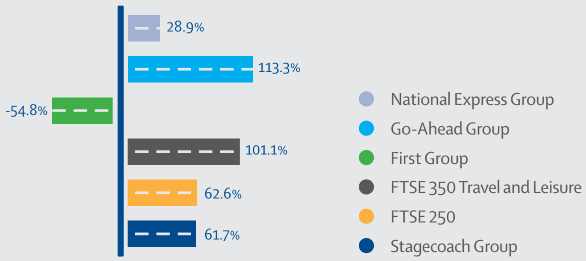
Dividend per ordinary share

(Year ended 30 April)



Total shareholder return

(Five year comparative performance to 30 April 2016)



Notes

1. **Adjusted earnings per share:**
   See Note 9 to the consolidated financial statements.
2. **Dividend per ordinary share:**
   See Note 8 to the consolidated financial statements.
3. **Total shareholder return:**
   The graph compares the performance of the Stagecoach Group Total Shareholder Return ('TSR')(share value movement plus reinvested dividends) over the 5 years to 30 April 2016 compared with that of First Group, Go-Ahead Group, National Express Group, the FTSE 350 Travel and Leisure All-Share Index, and the FTSE 250 Index.

Contents

Financial summary

Year ended 30 April	Results excluding intangible asset expenses and exceptional items* 2016	2015	Reported results 2016	2015
Revenue (£m)	**3,871.1**	3,204.4	**3,871.1**	3,204.4
Total operating profit (£m)	**228.8**	227.1	**171.1**	217.9
Non-operating exceptional items (£m)	**–**	–	**(2.0)**	(10.6)
Net finance charges (£m)	**(41.4)**	(42.1)	**(64.7)**	(42.1)
Profit before taxation (£m)	**187.4**	185.0	**104.4**	165.2
Earnings per share (pence)	**27.7p**	26.7p	**17.1p**	24.3p
Proposed final dividend per share (pence)	**7.9p**	7.3p	**7.9p**	7.3p
Full year dividend per share (pence)	**11.4p**	10.5p	**11.4p**	10.5p

* see definitions in note 35 to the consolidated financial statements

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 30 April 2016.

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

1.2 Cautionary statement

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

1.3 Overview of the year ended 30 April 2016

We are pleased to report a solid set of underlying results for the year ended 30 April 2016.

Our priority remains delivering safe, high quality and value-for-money travel for our customers.

Our bus and rail businesses across the UK, mainland Europe and North America have experienced more challenging trading conditions over the last six to twelve months. However, we have achieved further revenue and underlying profit growth during the year, while the investment and management actions we are taking now should help ensure we have a strong, sustainable business for the long-term.

Revenue for the year was up over 20% at £3,871.1m (2015: £3,204.4m). Total operating profit (before intangible asset expenses and exceptional items) was up 0.7% at £228.8m (2015: £227.1m). Earnings per share before intangible asset expenses and exceptional items were 3.7% higher at 27.7p (2015: 26.7p). The results include the contribution from Virgin Trains East Coast, which began operating the East Coast rail franchise in March 2015.

The Directors are proposing a final dividend for the year of 7.9p per share (2015: 7.3p) which, if approved, would give a total dividend for the year up 8.6% to 11.4p per share (2015: 10.5p). The proposed final dividend would be payable on 5 October 2016 to shareholders on the register at 2 September 2016.

A core part of our strategy is ongoing investment in new vehicles, technology and other assets to deliver a better experience for our customers. In the year ended 30 April 2016, net capital expenditure was £187.0m (2015: £140.9m). Across all of our divisions, we are prioritising investment in measures which will make our bus and rail services more attractive, easier to use and generate future growth.

Our locally-managed bus companies in the UK have strong partnerships with local authorities. We believe this approach will continue to offer the best and most sustainable bus networks in the future, particularly against a backdrop of tight public sector funding. In light of that, we are cautious regarding the proposals on the Bus Services Bill, which the UK Government introduced in May 2016, and we will maintain our engagement with Government to discourage it from introducing measures that would hinder the continued development of bus services.

Revenue growth in the UK Bus (regional operations) Division over the last year has been low. In light of that, we have kept recent fare increases to a minimum and are seeking to stimulate demand through those low fare increases, enhanced marketing and the further development and promotion of our digital offering.

In the trading update we published in April 2016, we noted that the outlook for the UK rail industry was more challenging than it was a year ago and that the overall industry rate of revenue growth had slowed. We are working hard to deliver on our franchise obligations and to improve the financial prospects of the Division. We have taken and will take further steps to mitigate the effects of lower revenue growth, focusing on cost control and additional initiatives to grow revenue. We continue to work constructively with the Department for Transport and other industry partners to meet our obligations, manage contract changes and ensure the continued stability and growth of our rail businesses.

We have confirmed the sale of our megabus.com inter-city coach retailing operations for journeys involving mainland Europe. That retailing business has been sold to FlixBus, a retailer of inter-city coach services across a number of countries in Europe. The Group will continue to operate a number of inter-city coach services on behalf of FlixBus and we look forward to building on that new partnership. The Group's megabus.com services within the UK and North America are not part of the sale.

In North America, we have taken steps to match our megabus.com inter-city coach services to changing patterns of demand and are well placed to expand our networks as conditions improve.

After almost nine years on the Board, Garry Watts has stepped down as the Company's Deputy Chairman and Senior Independent Director and will leave the Board on 31 July 2016. Non-Executive Director, Will Whitehorn, has assumed the role of Deputy Chairman and Senior Independent Director. Helen Mahy stepped down from the Board to become a non-executive director of SSE plc, while Phil White has resigned from the Board to reduce his public company directorships and to pursue other interests. The Board would like to thank Garry, Helen and Phil for their valuable service over several years. We are pleased to have welcomed James Bilefield and Karen Thomson to the Board as non-executive directors. Both have a strong background in digital businesses, as well as broader business expertise, and will be great assets as we deliver on our strategy to transform our customers' experience and harness the significant potential of new technology to help grow our business. We are also pleased to have announced the proposed election of Ray O'Toole as a non-executive director effective from 1 September 2016. Ray will bring further, extensive experience of the transport sector to the Board and it is planned that he will chair the Health, Safety and Environmental Committee.

We note the result of the recent referendum in favour of the UK leaving the European Union. As with other businesses, we are closely following developments in this area. Although we have little business in Europe outside the UK, we acknowledge the referendum result may lead to continuing economic, consumer and political uncertainty.

We remain proud of the commitment and professionalism of our employees across the Group. They make a significant contribution to the high levels of passenger satisfaction at our companies and our efforts as a responsible business to deliver on our sustainability targets around carbon, water and waste.

We have made a satisfactory start to the year ending 30 April 2017, although it is still early in the year. While trading remains challenging, we have not significantly changed our expectation of adjusted earnings per share for the year ending 30 April 2017. We remain positive on the strong long-term prospects for public transport. Public transport can help address the challenges and secure the opportunities presented by population growth, greater urbanisation, rising road congestion, environmental concerns and advances in technology. What is important, therefore, is that we continue to manage the Group in view of those longer term prospects and take the right actions in these more challenging times to ensure the Group is best positioned to capitalise on the longer term opportunities.

1.3 Overview of the year ended 30 April 2016 (continued)

Revenue by division is summarised below:

REVENUE

Year to 30 April	**2016 £m**	2015 £m	Functional currency	**2016** Functional currency (m)	2015 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	**1,032.8**	1,036.3	£	**1,032.8**	1,036.3	(0.3)%
megabus Europe	**18.4**	9.2	£	**18.4**	9.2	100.0%
UK Bus (London)	**267.1**	260.6	£	**267.1**	260.6	2.5%
North America	**430.9**	425.4	US$	**647.7**	680.1	(4.8)%
UK Rail	**2,129.1**	1,478.4	£	**2,129.1**	1,478.4	44.0%
Intra-Group revenue	**(7.2)**	(5.5)	£	**(7.2)**	(5.5)	
Group revenue	**3,871.1**	3,204.4				

Operating profit by division is summarised below:

OPERATING PROFIT

Year to 30 April	**2016 £m**	% margin	2015 £m	% margin	Functional currency	**2016** Functional currency (m)	2015 Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	**137.3**	13.3%	145.3	14.0%	£	**137.3**	145.3
megabus Europe	**(24.1)**	(131.0)%	(4.2)	(45.7)%	£	**(24.1)**	(4.2)
UK Bus (London)	**20.2**	7.6%	26.3	10.1%	£	**20.2**	26.3
North America	**18.9**	4.4%	22.1	5.2%	US$	**28.4**	35.3
UK Rail	**66.7**	3.1%	26.9	1.8%	£	**66.7**	26.9
Group overheads	**(11.9)**		(13.9)				
Restructuring costs	**(3.1)**		(0.8)				
	204.0		201.7				
Joint ventures – share of (loss)/profit after tax							
Virgin Rail Group	**24.2**		22.3				
Citylink	**1.4**		1.1				
Twin America	**(0.8)**		2.0				
Total operating profit before intangible asset expenses and exceptional items	**228.8**		227.1				
Intangible asset expenses	**(15.8)**		(11.9)				
Exceptional items	**(41.9)**		2.7				
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	**171.1**		217.9				

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

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, mainland Europe, the United States and Canada. The Group employs around 40,000 people and operates bus, coach, train and tram services. The Group has five main divisions – UK Bus (regional operations), megabus Europe, UK Bus (London), North America and UK Rail.

We are committed to conducting business in a socially responsible way and we believe this to be consistent with our business objectives and strategy. Indeed, by taking a responsible approach towards the environment and the wider community, we believe we will enhance our objective to deliver organic growth.

The Group aims to maintain an entrepreneurial culture, reflecting its 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 1.8.1 of this Annual Report.

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

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

In the remaining parts of this section 1.4, we:

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

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

Group strategy
The key elements of 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 7,200 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates 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) 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 11% 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. So, 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) is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 23% of the UK Bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that in 2014, there was an average of 921 trips per person per year. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 5%, rail trips accounted for 10% and walking, cycling and other modes accounted for 7%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to the NTS, around 25% of bus journeys are for shopping, 20% for leisure, 19% for education, 20% for commuting and business, 12% are for personal business (e.g. visits to services such as banks, medical consultations etc.) and the balance are for other purposes.
Macroeconomic factors	The UK Bus (regional operations) have performed well during more challenging macroeconomic conditions. Although revenue is not immune to macroeconomic changes, it is less exposed than in many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) face competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publically quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn. New, potential, sources of competition are emerging, often enabled by digital developments. Potential new 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 Group is therefore gradually becoming less reliant on Government and a greater proportion of its revenue is coming directly from passengers. The Division does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.6. Technological developments present both opportunities and threats to growing passenger volumes. There are positive long-term conditions for further growth in demand for UK Bus services created by 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)

megabus Europe	
Description	The megabus Europe Division operates megabus.com inter-city coach services within mainland Europe and between the UK and mainland Europe. The Division's revenue is principally derived from the sale of inter-city coach journeys via its own websites. The European megabus.com business was formerly a component of the UK Bus (regional operations) Division but for reporting purposes, is now treated as a separate division. The megabus Europe Division operates a fleet of around 100 coaches and serves destinations in the UK, France, Germany, Italy, the Netherlands, Belgium and Spain.
Regulatory environment	The regulatory environment for inter-city coach services in Europe varies by country. The principal countries served by the Division are the UK, France, Germany and Italy. Each of those countries permits commercially operated inter-city coach services but some require specific route authorisations to be held.
Strategy and market opportunity	As noted in section 1.3 of this Annual Report, the Group has now sold the retailing part of the megabus Europe Division to FlixBus. The Group will continue to operate a number of inter-city megabus.com services involving mainland Europe under contract to FlixBus. The Group aims to build on its new partnership with FlixBus.
Macroeconomic factors	Following the sale of the retailing part of the megabus Europe Division to FlixBus, the Division is less exposed to short-term macroeconomic changes because the business receives a fee from FlixBus 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 FlixBus offers might be affected by the macroeconomy.
Competition	Following the sale of the retailing part of the megabus Europe Division to FlixBus, the Division's principal competition is from other coach operators for future contract opportunities.
Future market developments	The European inter-city coach market remains highly competitive following the de-regulation of the market in a number of countries. We may see a reduction in the number of retailers of inter-city coach services over time as they each seek to improve financial returns.

UK Bus (London)	
Description	The Group is the fourth largest operator in the London bus market, with an estimated 15% share of that market. The business operates from 9 depots and has a fleet of around 1,300 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years. The UK Bus (London) Division currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the Division's risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is now on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 15% of the bus operating mileage contracted by Transport for London to bus operators. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward. Transport for London has plans to increase the level of contracted bus services in coming years, which may present some growth opportunities for the business.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win contracts from Transport for London from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metroline, RATP, Transit Systems and Abellio.
Future market developments	In the short-term, revenue growth could come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. There are longer term opportunities to benefit from Transport for London's plans to expand the network of bus services in London. Continuing population growth in London and positive government policy on public transport contribute to a positive long-term outlook for the business.

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

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 (excluding its joint venture) currently operates approximately 2,300 vehicles in the United States and Canada. In addition to its wholly-owned operations in North America, Stagecoach has a joint venture, Twin America LLC, with CitySights NY. The joint venture principally operates sightseeing bus services in New York. The Group holds 60% of the economic rights and 50% of the voting rights in the joint venture. Twin America LLC is headed by a chief executive and is overseen by a joint board.
Regulatory environment	The North America business operates on a commercial basis in a largely deregulated market. It also operates some tendered services for local authorities and services contracted by corporations.
Strategy	The strategy of the North America Division is to deliver organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused services at a reasonable price to customers. This may be supplemented by winning new contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group estimates that it has less than 4% of the bus and coach market in North America and is growing this through innovative services such as megabus.com. The latest US Department of Transportation's Bureau of Transportation Statistics, published in 2016, show that in 2014 some 86% of transportation to work was by car, compared with only 5% by public transport. The opportunity to stimulate modal shift from car to bus and coach is substantial and megabus.com has been successful in doing this.
Macroeconomic factors	The North American operations are more exposed to macroeconomic factors than the UK Bus operations as a greater proportion of their revenue is derived from customers using its services for leisure purposes, including its charter, tour and sightseeing services. 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 effectively respond to changes in macroeconomic conditions.
Competition	The business faces competition for customers not only from other operators of coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Megabus.com faces competition from the car but also from other coach operators, airlines and train operators. FirstGroup and National Express Group are also major operators of coach and bus services in North America.
Future market developments	The Group has taken a leading role in the development of bus and coach travel in North America through its megabus.com services. The market for inter-city coach travel, such as that provided by megabus.com, has grown rapidly and while megabus.com revenue has declined more recently reflecting lower oil prices, we expect the inter-city coach market to continue to present significant long-term opportunities to the Group.

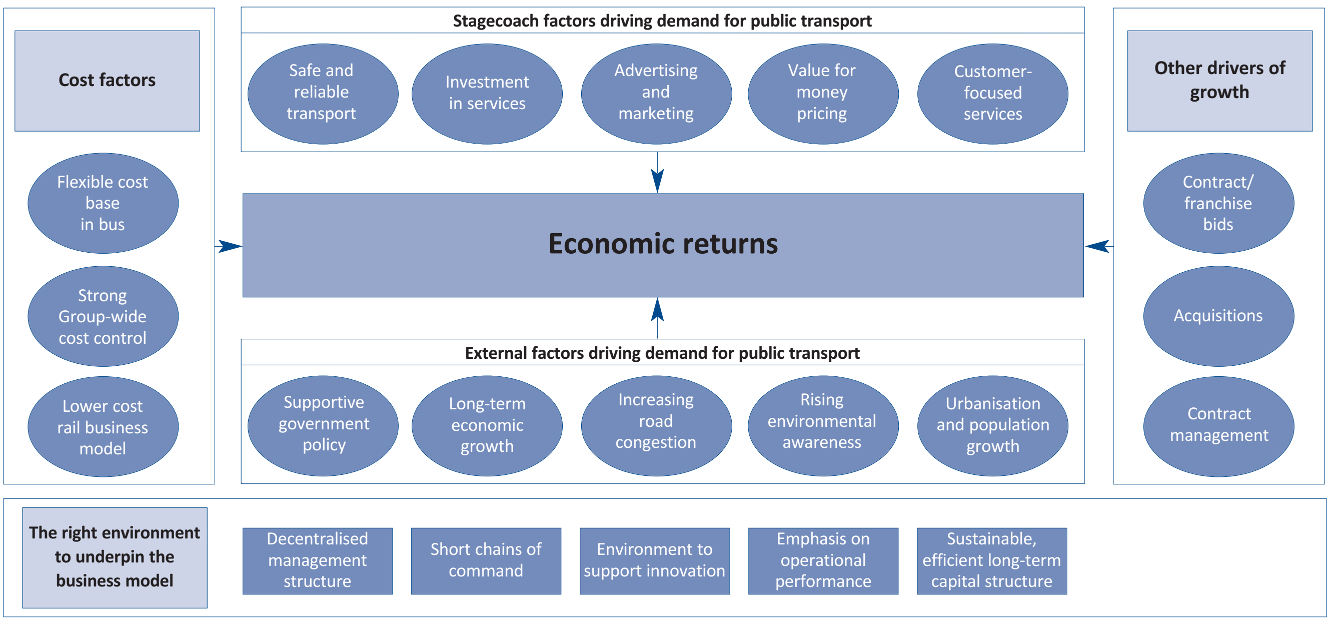
UK Rail	
Description	Stagecoach Group has major rail operations in the UK. Our principal rail subsidiaries are South West Trains, East Midlands Trains and Virgin Trains East Coast. South West Trains runs train services in south west England out of London Waterloo railway station, and operates Island Line services on the Isle of Wight. The South West franchise is contracted to run until February 2017. The UK Department for Transport has the option to extend the franchise by up to around six months and has already announced its intention to extend the franchise until at least June 2017. From 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 is contracted to run until at least March 2018. The UK Department for Transport has the option to extend the franchise by up to one-year and has already announced its intention to extend the franchise until at least July 2018. Stagecoach has a 90% share in the Virgin Trains East Coast business with the Virgin Group of Companies holding the other 10%. The Virgin Trains East Coast franchise began in March 2015 and is planned to run until 31 March 2023, with the option for a one-year extension at the discretion of the UK Department for Transport. It provides inter-city train services between London and a number of locations including Edinburgh, Newcastle, Leeds and York. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. Stagecoach Group has a 49% shareholding in a joint venture, Virgin Rail Group, which operates the West Coast Trains rail franchise. The current West Coast Trains rail franchise runs until March 2018. The other shareholder in Virgin Rail Group is the Virgin Group of Companies. South West Trains, East Midlands Trains, Virgin Trains East Coast and the tram operations each have a managing director, who 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.

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

UK Rail (continued)	
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. The Group's South West Trains franchise has significant protection against macroeconomic risks due to the receipt of revenue support from Government whereby Government pays the Group a proportion of the shortfall of actual revenue to the revenue expected when the Group bid for the franchise. The Group's East Midlands Trains and Virgin Trains East Coast franchise, as well as the West Coast Trains franchise operated by the Group's Virgin Rail Group joint venture, are not entitled to revenue support in the form received by South West Trains. They do, however, have "GDP sharing" agreements that are intended to ensure that the Department for Transport bears most of the risk of variances in revenue resulting from UK GDP differing from that expected at the time of the applicable franchise agreement. On bids for new franchises, the Group's evaluation of macroeconomic risks is a key component of the bid process.
Competition	The business faces competition for customers not only from other train operators but also from other modes of transport. The main competitors that bid against the Group for UK rail franchises are FirstGroup, National Express Group, Go-Ahead Group, Arriva, MTR, Keolis, SNCF, Eurostar, Serco and Abellio.
Future market developments	The UK 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 How we create value (the business model)

The Group's overall business model is illustrated below.



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

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

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

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

1.4.5 What we need, to do what we do (resources and relationships)

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

Customers

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

We conduct customer research to monitor our performance and to determine how we can improve the quality, delivery and accessibility of our services. We are passionate about providing good customer service and our businesses have regular and ongoing discussions with bus and rail user groups. This includes presentations from managers on aspects of our service as well as consultation and information sharing on particular issues.

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

Employees

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

The financial community

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

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

Government and regulatory bodies

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

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

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

Suppliers

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

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

Information technology is increasingly important to effectively operate our services and to meet our customers' expectations. Significant investment, internal management resource and external supplier input 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. Stagecoach has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

Natural resources and manufacturing technology

Operating our bus and rail services requires considerable use of natural resources, including diesel and electricity. We have arrangements in place to ensure that these resources are sourced efficiently and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches, trains and trams, which are produced to detailed specifications relevant to the individual markets in which they are required.

Licences

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

Transport and industry representation groups

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

1.4.6 The challenges we face (principal risks and uncertainties)

Like most businesses, there 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, 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 4.13. The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group.

Description of risk	Management of risk	Developments in year ended 30 April 2016	Section in Annual Report
Catastrophic events			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action. A series of less severe incidents could have similar consequences.	While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.	• No significant matters to report.	
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that, whilst not directly targeting public transport, have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.	• We believe that the high profile terrorist attacks that occurred in Paris and Brussels during the year discouraged some travellers from visiting major European cities. We believe this contributed to lower growth in passenger journeys on our longer distance UK Rail services and our megabus.com inter-city coach services in the UK and mainland Europe.	• 1.5.2 and 1.5.5
Economy			
The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. In particular, the revenue of the Group's UK rail operations is historically correlated with factors such as UK Gross Domestic Product and Central London Employment. In North America, a greater proportion of the revenue from bus operations is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. Other factors, such as movements in fuel prices, can also affect revenue, costs and profit. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.	Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk. In bidding for new rail franchises, the evaluation of macroeconomic risks is a key element of the bid process. Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.	• During the year ended 30 April 2016, the Group's wholly owned South West Trains rail franchise received revenue support from the Department for Transport, such that the Department was and is at risk for the majority of any difference between actual and expected revenue. • From June 2014, the West Coast Trains franchise, operated by the Group's Virgin Rail Group joint venture, has a "GDP sharing" agreement that is intended to ensure that the Department for Transport bears most of the risk of variances in West Coast Trains' revenue resulting from UK GDP differing from that expected at the time of the June 2014 franchise agreement. Up to June 2014, the franchise operated under a management contract meaning that the Department for Transport bore virtually all of the risk of revenue and costs being significantly different from those expected.	• 1.5.5

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

Description of risk	Management of risk	Developments in year ended 30 April 2016	Section in Annual Report
Economy (continued)			
		• The Virgin Trains East Coast franchise, which commenced in March 2015, also operates with a "GDP sharing" agreement similar to the West Coast Trains franchise. • The East Midlands Trains franchise, which ended in October 2015, received revenue support similar to that received by South West Trains. The new East Midlands Trains franchise, that began in October 2015, operates with a "GDP sharing" agreement similar to the West Coast Trains franchise. • We believe that macroeconomic factors have contributed to slower revenue and passenger volume growth in the UK businesses over recent months. • The recent referendum in favour 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 pension, financial instruments and other balances.	
Rail cost base			
A substantial element of the cost base in the Group's UK Rail Division is essentially fixed because under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is therefore unable to flex supply in response to short-term changes in demand. In addition, a significant part of the cost base is comprised of payments to the infrastructure provider, Network Rail, and payments under train operating leases which are committed and do not vary with revenue. Accordingly, a significant proportion of any change in revenue (for example, arising as a result of the risks described above in respect of terrorism and the economy) will impact profit from the UK Rail Division.	The Group looks to achieve sensible risk sharing arrangements in its rail franchise agreements. The Group's franchise bids are designed to deliver an acceptable risk-reward trade-off. As described above, economic and terrorism risks are closely managed. In addition, the Group remains focused on controlling costs in the UK Rail Division.	• No significant matters to report.	
Sustainability of rail profit			
A significant element of the Group's revenue and profit is generated by UK rail franchises, which have a finite duration. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises.	In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid.	• During the year, the previous East Midlands Trains franchise ended and from October 2015, the Group began operating a new "Direct Award" East Midlands Trains franchise. The franchise is contracted to run until at least March 2018. The Department for Transport has now indicated its intention to extend the franchise until at least July 2018 and it has an existing contractual option to extend it up until March 2019. • During the year, the Department for Transport formally confirmed the extension of Virgin Rail Group's West Coast Trains franchise from March 2017 to March 2018. • The Group is shortlisted as one of two bidders for a new South West Trains franchise, planned to run from June 2017, when the Group's existing South West Trains franchise is expected to end. • Further rail franchises are expected to be tendered over the next few years.	• 1.5.5 • 1.5.6.1 • 1.5.5 • 1.5.5

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

Description of risk	Management of risk	Developments in year ended 30 April 2016	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.	• No significant matters to report.	
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-Executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.	• Pension scheme liabilities have decreased during the year due to market changes. • During the year, the Pensions Regulator completed a review of the valuation basis applied by the Group's main defined benefits pension scheme. This is consistent with reviews the Regulator has undertaken of other pension schemes as part of its remit.	• 1.6.9
Insurance and claims environment			
The Group receives claims in respect of traffic incidents and employee claims. The Group protects itself against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" on insurance policies. There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. In the US, in particular, there is a risk that given the size of the "excess", that a small number of large-value claims could have a material impact on the Group's financial performance and/or financial position.	The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.	• No significant matters to report.	

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

Description of risk	Management of risk	Developments in year ended 30 April 2016	Section in Annual Report
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. Similarly, many of the Group's businesses benefit from government investment in bus and train services, including tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to regulatory or other reasons. 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 industry and national trade bodies along with domestic and international government forums. The Group seeks to maintain good, co-operative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	• Growth in concessionary revenue in the UK Bus (regional operations) is expected to be low in the short-term. • The current UK Government's plans for greater devolution of powers within the UK could see the introduction of franchised bus networks in some areas, which could affect our commercialised bus operations. The Government's plans are reflected in the Bus Services Bill, which was first published in May 2016. • As explained in section 1.6.4, in February 2016, a first First Tier Tax Tribunal ruled in favour of Her Majesty's Revenue and Customs ("HMRC") on a tax case involving the Group.	• 1.5.1 • 1.5.1 • 1.6.4
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.	• Changes in the Company's Board of Directors during the year are explained in section 1.3 of this Annual 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.	• No significant matters to report.	

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

Description of risk	Management of risk	Developments in year ended 30 April 2016	Section in Annual Report
Information technology			
The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group. An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue at a time when the Group is investing in megabus.com coach operations, of which Internet sales is a fundamental part. A significant and ongoing megabus.com website failure could severely affect the megabus.com brand and also give a competitor an advantage during the time of the failure.	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.	• No significant matters to report.	
Litigation			
The Group is exposed to the risk of commercial and consumer litigation arising from the legal environment in some markets, particularly the United States.	The Group has compliance programmes in order to reduce the risk of material litigation against the Group.	• No significant matters to report.	
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 driverless 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.	• We have seen increased competition from cars and airlines affecting our rail business during the year, partly reflecting the impact of lower fuel prices.	• 1.5.5

Details of the Group's treasury risks are discussed in note 26 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1.4.7 How we measure our performance (key performance indicators)

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

- Profitability
- Organic growth
- Safety
- Service delivery

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

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

Profitability

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

Adjusted EPS was as follows:

		Year ended 30 April		
	Target	**2016 pence**	2015 pence	2014 pence
Adjusted EPS	To increase in excess of inflation	**27.7p**	26.7p	26.0p

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.
- Rail – growth in passenger miles measured as the percentage increase in the number of miles travelled by passengers relative to the equivalent period in the previous year.
- UK Bus (London) and North America – growth in constant currency revenue from continuing operations measured as the percentage increase in revenue relative to the equivalent period in the previous year.

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

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

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

	Target	**Year ended 30 April 2016 Growth %**	Year ended 30 April 2015 Growth %	Year ended 30 April 2014 Growth %
UK Bus (regional operations) passenger journeys	Positive growth each year	**(0.8)%**	0.1%	1.2%
megabus Europe passenger journeys		**235.0%**	65.1%	74.4%
UK Bus (London) revenue		**2.5%**	6.4%	5.2%
UK Rail passenger miles				
– South West Trains		**2.7%**	3.9%	3.4%
– East Midlands Trains		**1.2%**	6.3%	(0.8)%
– Virgin Trains East Coast		**1.7%**	n/a	n/a
– Virgin Rail Group – West Coast Trains		**2.6%**	10.2%	4.5%
North America revenue		**(3.5)%**	0.9%	3.9%

The reduction in passenger journeys at UK Bus (regional operations) in the year ended 30 April 2016 is partly a result of local authorities reducing spending on supported services due to budget constraints. It also reflects a fall in the number of journeys by concessionary passengers (being older people and people with disabilities, who are legally entitled to free bus travel) during the year, which we believe is partly due to the poor weather conditions in some areas of the UK between November 2015 and January 2016.

The increase in passenger miles at South West Trains during the year ended 30 April 2014 is artificially inflated by changes in travelcard factors used to determine cross-industry passenger volumes in the London area. The decline in passenger miles at East Midlands Trains during the year ended 30 April 2014 includes the disruptive effect of engineering works on the rail network, which reversed in the year ended 30 April 2015.

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

Safety

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

	Target	Year ended 30 April 2016	Year ended 30 April 2015	Year ended 30 April 2014
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**20.4**	19.8	19.2
megabus Europe – number of blameworthy accidents per 1 million miles travelled		**11.9**	6.7	7.4
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		**35.6**	28.5	26.2
US – number of blameworthy accidents per 1 million miles travelled		**6.2**	4.4	4.9
South West Trains – workforce lost time injuries per 1,000 staff		**1.4**	1.5	1.4
East Midlands Trains – workforce lost time injuries per 1,000 staff		**1.3**	1.1	1.3
Virgin Trains East Coast – workforce lost time injuries per 1,000 staff		**1.5**	n/a	n/a
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		**1.3**	1.8	1.3

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

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

The service delivery KPIs were as follows:

		Year ended 30 April		
	Target	**2016 %**	2015 %	2014 %
UK Bus (regional operations) reliability	>99.0%	**99.4%**	99.5%	99.5%
megabus Europe reliability	>99.0%	**99.7%**	99.3%	99.7%
UK Bus (London) reliability	>99.0%	**97.4%**	97.2%	98.0%
UK Rail punctuality				
– South West Trains	>90.0%	**90.0%**	90.1%	89.5%
– East Midlands Trains	>85.0%	**92.8%**	92.3%	91.2%
– Virgin Trains East Coast	>85.0%	**85.0%**	n/a	n/a
– Virgin Rail Group – West Coast Trains	>85.0%	**86.2%**	84.4%	86.1%

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

1.5 Divisional Performance

1.5.1 UK Bus (regional operations)

Financial performance

The financial performance of the UK Bus (regional operations) Division for the year ended 30 April 2016 is summarised below:

Year to 30 April	2016 £m	2015 £m	Change
Revenue	**1,032.8**	1,036.3	(0.3)%
Like-for-like* revenue	**1,029.2**	1,034.0	(0.5)%
Operating profit*	**137.3**	145.3	(5.5)%
Operating margin	**13.3%**	14.0%	(70)bp

The above figures exclude the results of the megabus.com inter-city coach business involving mainland Europe, which has now been reported as a separate operating segment. Taking megabus Europe and the UK Bus (regional operations) Division together, like-for-like revenue growth was 0.4%. As megabus Europe has developed, we have reported that business within the results of the UK Bus (regional operations) Division. Reflecting its growth, we now report the business as a separate operating segment to provide a clearer view of its financial performance distinct from the UK businesses. The prior year figures for the UK Bus (regional operations) Division have been re-stated to exclude megabus Europe.

While the operating profit for the year ended 30 April 2016 of £137.3m fell short of the target we set at the start of the financial year, the UK Bus (regional operations) Division remains a strong business. Operating margin was over 13% and the business continues to generate a double-digit percentage annual rate of return on capital.

Revenue and operating profit in the year was adversely affected by a number of factors including lower underlying demand; the effects of severe weather in late 2015 and early 2016 particularly in Cumbria, Scotland and Greater Manchester; and severe road congestion especially in Manchester. In our view, the lower underlying demand partly reflects a deterioration in provincial high streets coupled with a rise in online shopping and we continue to review and adjust our bus networks to respond to that trend.

Revenue fell year-on-year reflecting the above factors as well as contract and tender losses. The year-on-year reduction in operating profit reflects the revenue decline in the year with savings in fuel costs being insufficient to offset inflation in other costs, particularly staff costs.

Like-for-like revenue can be analysed as follows:

Year to 30 April	2016 £m	2015 £m	Change
Commercial on and off bus revenue	**604.0**	600.6	0.6%
Concessionary revenue	**247.7**	248.7	(0.4)%
Tendered and school revenue	**111.0**	116.1	(4.4)%
Contract revenue	**39.5**	41.5	(4.8)%
megabus.com UK	**24.1**	23.1	4.3%
Hires and excursions	**2.9**	4.0	(27.5)%
Like-for-like revenue	**1,029.2**	1,034.0	(0.5)%

Like-for-like revenue excludes the revenue earned in the prior year from contracts to provide transport for the Commonwealth Games in Glasgow.

Overall like-for-like revenue fell 0.5% and estimated passenger journeys on an equivalent basis fell 0.8%. After normalising on a pro rata basis for the extra leap day year in 2016, the equivalent revenue and journey declines were 0.7% and 1.0% respectively.

Commercial revenue (i.e. revenue earned directly from fare-paying passengers) grew in the year but this was offset by weakness in the other categories of revenue. Concessionary revenue fell modestly, with lower journey numbers and continued pressure from local authorities to minimise the rates they pay us for carrying older people and people with disabilities, free of charge to the passenger. Revenue from tendered and school services provided under contract declined, as a result of local authorities reducing spending on supported services due to budget constraints. Revenue from other contracts, hires and excursions also fell in the year, which partly reflects the megabus sleeper services that we formerly operated under contract for Scottish Citylink being directly operated on our own behalf from January 2015.

Lower oil prices have reduced the marginal cost of operating a car and while we believe that the impact of that on the Division's revenue has been proportionately less than we have seen in North America, our market research indicates that there has been some adverse effect.

Road works and increasing road congestion have also had some negative impact on revenue. The bus can help in addressing road congestion if local authorities work in partnership with bus operators including in respect of bus priority measures.

Excluding concessionary volumes, estimated like-for-like passenger journeys fell by around 0.2%. In some of our regional bus companies, estimated journey growth was over 4%. We continue to see growth rates vary across the country with local economic conditions having a significant effect.

The decrease in operating margin was built up as follows:

Operating margin – 2014/15	**14.0%**
Change in:	
Staff costs	**(2.1)%**
Fuel costs	**1.4%**
Insurance and claim costs	**0.5%**
Other	**(0.5)%**
Operating margin – 2015/16	**13.3%**

The main changes in the operating margin shown above are:

- Staff costs, including pension costs, rose by more than inflation, whereas revenue growth has been more modest.
- Fuel costs have reduced reflecting market fuel prices and our fuel hedging programme.
- Insurance and claims costs have reduced due to lower costs on the self-insured portion of claims.

Our costs remain generally well controlled, which has allowed us to keep recent fare increases to a minimum. Our fuel costs have reduced this year and are forecast to reduce again in 2016/17, reflecting the profile of our fuel hedging programme. Staff costs, which are the biggest component of our cost base, have increased in line with our expectations. Only a small minority of our employees previously received a wage rate below the new National Living Wage that applies from April 2016, but we remain mindful that the introduction of and subsequent increases in the National Living Wage could add to wage inflation generally across the UK. We will also incur increased payroll tax costs when the new Apprentice Levy is imposed from April 2017. We still anticipate that any increased wage inflation will be manageable over the coming years as part of our usual management of costs.

Customer improvement initiatives

We are continuing to invest in enhancing the quality of our UK bus and coach services, and in initiatives to further increase customer satisfaction. Around 480 new buses and coaches will be introduced in 2016/17 at a cost of nearly £100m, with most built by UK manufacturers.

During the year ended 30 April 2016, we launched a new mobile website as part of our digital investment programme. Stagecoach bus passengers are benefiting from easier journeys through the new website, which allows customers to check live running times for their services and buy travel straight from their smart phone. We will introduce further digital investments, including an app for our local bus customers, later this year.

Stagecoach and other major bus operators delivered on their pledge to introduce smart multi-operator bus ticketing in all nine of England's smart city regions during the year. In addition, Stagecoach is working with other

* See definitions in note 35 to the consolidated financial statements

bus companies to explore the introduction of next generation contactless travel across all of Britain's buses and to deliver multi-operator smart ticketing across Scotland's largest cities during 2016/17. The project in Scotland is expected to extend to rail, ferries and the Glasgow Underground.

Our strong focus on our customers is reflected in the latest Independent Transport Focus satisfaction data. Passengers rated Stagecoach the best value major bus operator in Britain for the third consecutive year and our services were given an approval rating of 86%. The research also highlighted the impact of road congestion on bus passenger satisfaction and we are pursuing this issue with local authorities.

We are also continuing to develop our customer offer for our express coach customers in the UK. Customers using Oxford Tube, our London-Oxford frequent express coach service, are now benefiting from a new mobile phone app. We have invested further in new vehicles for key inter-urban express routes in Scotland and the launch of a new premium coach service in the south-west of England.

Enhanced partnerships

We continue to believe that enhanced partnership working is central to the future growth of bus use. In the past year, we have built on our strong existing links and have worked with other private bus operators and public sector transport authorities to launch new bus alliances in Merseyside, the West Midlands and Yorkshire. These alliances have set ambitious targets to generate growth and make bus a transport mode of choice for more people through investment in new vehicles, multi-operator smart ticketing and network improvements.

Regulatory matters

The UK Government has now published a Bus Services Bill as part of its plans to devolve a range of powers and funding to regional authorities. We welcome the strong focus and encouragement in the Bill on strengthened partnership working between local transport authorities and local bus companies. We share the Government's view of the value of joint working to address bus quality, accessibility and reliability. This proven and successful approach allows partners to deliver more collectively than they can alone, and at better value for taxpayers than other approaches.

The Bill also proposes to give powers to some English local authorities outside London to introduce bus franchising. We note that the planned legislation does not impose this approach. Any planned franchising scheme would require the development of a business case, which would be subject to assessment, audit and consultation. In addition, authorities other than a mayoral combined authority would need the approval of the Secretary of State for Transport to implement a bus franchising scheme.

In the majority of the geographic areas served by our regional bus operations, there is no major pressure for bus franchising. It is also likely to be some years before any significant bus franchising, if proposed, is implemented. We do, however, recognise that any franchising scheme introduced outside London may have the potential to affect the profitability of our bus business.

The Bill states that a transport authority's assessment of a proposed franchising scheme would need to consider several factors: whether the proposal would contribute to the implementation of the authority's policies, how the scheme would operate, whether it would be affordable and represent value-for-money, and the likelihood that the authority would be able to secure the proposed local services. However, we believe the Bill requires tougher taxpayer safeguards, steps to ensure greater transparency and clearer legal protections to prevent a franchising authority from pressing ahead with a scheme that does not meet key tests. We note that last year a scheme proposed by the North East Combined Authority, the only fully worked up proposal for bus franchising in the UK outside London, failed on numerous counts to meet the applicable statutory tests under current legislation. This is clear evidence of the value and need for proper protections.

Stagecoach is proud to offer the best value fares of any major bus operator in the country. We are also investing in new digital solutions for our customers and playing a leading industry role in the delivery of smart ticketing. We support the Government's objectives around open data on information and ticketing. This can deliver significant benefits to passengers through the development of new apps and we have already started the process to proactively make this data available.

We support the principle of devolution and the growth ambitions of regions across the country. Public transport in general and buses specifically are a key part of making that a reality. However, devolution must be about practical improvements, not just new structures. The ultimate objective should be to improve the wider environment for buses and support efforts to make bus travel a real and attractive alternative to car use. Bold and urgent measures are required to tackle the road congestion crisis and associated pollution which is damaging the health and well-being of our local communities and our economy, otherwise the benefits of devolution for public transport will not be realised. We will continue to monitor and help inform the progress of the Bus Services Bill, together with any associated secondary legislation and guidance issued by the Department for Transport.

Outlook

We continue to expect underlying revenue growth from our local bus services to remain modest in the short-term. We have kept recent fare increases to a minimum and are seeking to stimulate demand through those low fare increases, enhanced marketing and the further development and promotion of our digital offering. Modest revenue growth is balanced with costs continuing to be well controlled and with some further reduction in fuel costs anticipated. Given that, we have not significantly changed our expectation of the Division's operating profit for the year ending 30 April 2017 since our last update on trading.

1.5.2 megabus Europe

Financial performance

The financial performance of the megabus Europe Division for the year ended 30 April 2016 is summarised below:

Year to 30 April	**2016** **£m**	2015 £m	Change
Revenue and like-for-like revenue	**18.4**	9.2	100.0%
Operating loss	**(24.1)**	(4.2)	(437.8)%
Operating margin	**(131.0)%**	(45.7)%	(8,530)bp

megabus Europe has delivered further revenue growth in the year as it expanded its network of inter-city coach services between the UK and mainland Europe, and within mainland Europe.

The operating loss for the year of £24.1m is higher than we forecast at the start of the year. Around half of that variance is due to us adding further inter-city services that were not anticipated at the start of the year, principally in response to the de-regulation during the year of inter-city coach services in France. The remainder of the variance is due to higher than forecast losses on the services we planned to operate. We continue to see an impact from low fuel prices, strong competition from other inter-city transport operators and also, we believe that the high profile terrorist attacks that occurred in Paris and Brussels during the year discouraged some travellers from visiting major European cities and therefore had an adverse impact on the Division's revenue.

megabus Europe sold inter-city coach journeys to customers (primarily through its own websites) and operates most of the coach services that provide those journeys. Others in the market, such as FlixBus, sell the journeys and sub-contract the operation of the coach services. We have sold the retailing part of megabus Europe to FlixBus, who has contracted us to operate a number of ongoing coach services. The sale completed on 1 July 2016. We look forward to building on that new partnership with FlixBus.

The agreed amount of the consideration for the sale of the retail operations has been satisfied by the issue of a loan note from FlixBus to Stagecoach. We expect the loan note to be fully settled by the end of 2017. Payment of the loan note is not subject to any conditions or performance criteria which need to be fulfilled. We have additionally agreed to transfer vehicles at a future date to FlixBus or other parties nominated by it. The Group expects to report an exceptional gain on the disposal of the business. In addition, the Group expects to profitably operate a number of inter-city coach services on behalf of FlixBus for at least a further three years.

megabus.com services operating wholly within the UK or North America are not part of the sale to FlixBus.

Outlook

megabus Europe has continued to incur losses into the new financial year ending 30 April 2017. Those ongoing operating losses should cease with the sale of the retail business. The Group may incur some costs as a result of the sale and such costs will form part of the calculation of the overall gain on disposal of the business.

1.5.3 UK Bus (London)

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 30 April 2016 is summarised below:

Year to 30 April	2016 £m	2015 £m	Change
Revenue and like-for-like revenue	**267.1**	260.6	2.5%
Operating profit	**20.2**	26.3	(23.2)%
Operating margin	**7.6%**	10.1%	(250)bp

The Division continues to perform in line with our expectations. During the year, we have experienced a small net reduction in contracts with Transport for London. However, we believe our strategy of bidding prudently is the right one for the long-term sustainability of the business.

Road works remain a significant operational challenge. A recent study by INRIX suggested that planned road works in London had increased by 362% since 2012 and, together with a rise in light goods vehicles was the major cause of increased road congestion. However, there are signs that the impact of major road work schemes is starting to ease as these move towards completion. An improved operating environment should also be a positive factor in determining financial performance, including quality incentive income.

The reduction in operating margin was built up as follows:

Operating margin – 2014/15	**10.1%**
Change in:	
Insurance and claims costs	**(1.2)%**
Prior year gain on sale of property	**(0.6)%**
Staff costs	**(1.4)%**
Materials and consumables	**(0.6)%**
Fuel costs	**1.8%**
Other	**(0.5)%**
Operating margin – 2015/16	**7.6%**

The prior year margin benefited from one-off items in respect of a £3.0m insurance provision release and a £1.5m gain on disposal of a depot.

The reduction in quality incentive income has also impacted the Division's operating margin. Staff, and certain other costs, that increase with the vehicle mileage operated have increased at a faster rate than revenue as a result of the reduced quality incentive income. The resulting reduction in margin has been partially offset by the lower fuel costs, which reflect market fuel prices and our fuel hedging programme.

Outlook

The outlook for the London Bus operations is positive with continuing good profitability expected from our portfolio of contracts with Transport for London. We still aim to deliver long-term operating margins of 7% or more.

New development land is being made available for residential housing projects in East London to accommodate the capital's growing population. This is expected to lead to the procurement of new or extended contracts by Transport for London in the next few years. We are well-placed to benefit from this expansion and have available depot capacity to accommodate new contract wins.

1.5.4 North America

Financial performance

The financial performance of the North America Division for the year ended 30 April 2016 is summarised below:

Year to 30 April	2016 US$m	2015 US$m	Change
Revenue	**647.7**	680.1	(4.8)%
Like-for-like revenue	**656.2**	680.1	(3.5)%
Operating profit	**28.4**	35.3	(19.5)%
Operating margin	**4.4%**	5.2%	(80)bp

Trading in our North America Division continues to be affected by lower fuel prices which are impacting demand for inter-city coach services. The operating profit for the year of US$28.4m is in line with our recent expectations, and the reduction in the year is mainly due to lower operating profit from megabus.com reflecting the low fuel prices.

We have revised our revenue categories in the year to try to better reflect the different risk-reward profiles of the various components of the Division's revenue. Like-for-like revenue, using the new categorisation, was built up as follows:

Year to 30 April	2016 US$m	2015 US$m	Change
megabus.com	**206.8**	222.5	(7.1)%
Scheduled service			
– Commercial revenue	**157.5**	162.3	(3.0)%
– Support from local authorities	**19.0**	17.6	8.0%
Charter	**125.5**	127.9	(1.9)%
Sightseeing and tour	**28.6**	31.6	(9.5)%
Contract services	**118.8**	118.2	0.5%
Sightseeing and tour	**28.6**	31.6	(9.5)%
Like-for-like revenue	**656.2**	680.1	(3.5)%

The fall in oil prices has continued to impact demand adversely for our megabus.com inter-city coach services, with like-for-like revenue at megabus.com North America being 7.1% below last year. The megabus.com revenue figures now include revenue from megabus.com branded services in Canada, which were originally operated under different brands.

During the year, we reduced the mileage operated by megabus.com to better match changed levels of demand and have launched a new marketing campaign to capitalise on the 10th anniversary of the megabus.com brand in North America, with a particular focus on digital channels.

The reduced scheduled service revenue includes the adverse effect on demand for some services resulting from the strong US dollar impacting the number of European visitors to the US and spending by those visitors. Our scheduled services to and from the major Woodbury Commons retail outlets centre, for example, have seen revenue decline. We have also seen some decline in revenue on certain scheduled, airport express services reflecting competition and reduced visitor numbers.

Charter revenue has reduced during the year, partly reflecting decreased volumes from a major customer in Canada.

Contract revenue includes transit contracts operated by us for local authorities, akin to the business of our UK Bus (London) Division. Some of those contracts were not retained when re-tendered resulting in reduced revenue but the contracts lost did not earn a significant profit. This loss of transit contracts has been offset by other new contract work secured.

The sharp fall in sightseeing and tour revenue reflects weak trends in that market, particularly in the highly competitive markets in which we operate "hop-on, hop-off" sightseeing tours.

The decrease in operating margin was built up as follows:

Operating margin – 2014/15	**5.2%**
Change in:	
Staff costs	**(1.0)%**
Depreciation	**(0.8)%**
Fuel costs	**1.6%**
Insurance and claim costs	**(0.5)%**
Other	**(0.1)%**
Operating margin – 2015/16	**4.4%**

The main changes in the operating margin shown above are:

- Staff costs have declined at a slower rate than the fall in revenue. After adjusting for vehicle mile reductions, staff costs have increased in line with inflation.
- Depreciation costs have increased as expected, given we have largely maintained the size of our fleet, which provides us with the flexibility to increase mileage in response to market conditions and customer demand.
- Fuel costs have reduced reflecting market fuel prices and our fuel hedging programme.
- Insurance claims costs increased as a percentage of revenue as we continue to see inflation in US claims costs.

Regulatory matters

We welcome the passing in December 2015 of the Fixing America's Surface Transportation (FAST) Act, which brings certainty to United States federal surface transportation spending through to 2020. As well as addressing improvements to key highway infrastructure, it recognises the key contribution of motor coaches to the economy, provides for greater input from operators in the transportation planning process, and supports public-private partnership initiatives and intermodal connectivity between passenger rail and inter-city buses.

Outlook

Oil prices fell sharply towards the end of 2014 with a consequential adverse effect on megabus.com revenue. While US "at the pump" gas prices remain below the prices of a year ago, the business remains profitable and we have operational plans in place and fleet capacity to grow the business if and when we see revenue recover. However, megabus.com revenue trends are not yet improving to the extent we had anticipated and we have revised our forecast 2016/17 North America operating profit accordingly.

We continue to seek to improve the profitability of the rest of the North American business by remaining focused on further improving the customer experience. We see opportunities for new contracts wins but will remain disciplined in ensuring that our contract bids remain designed to deliver a satisfactory rate of return on capital.

1.5.5 UK Rail

Financial performance

The financial performance of the UK Rail Division (excluding exceptional items) for the year ended 30 April 2016 is summarised below:

Year to 30 April	**2016 £m**	2015 £m	Change
Revenue	**2,129.1**	1,478.4	44.0%
Like-for-like revenue	**1,398.8**	1,360.4	2.8%
Operating profit	**66.7**	26.9	148.0%
Operating margin	**3.1%**	1.8%	130bp

The UK Rail Division has performed well during the year, which includes the first full year of operating the Virgin Trains East Coast franchise. However, the outlook for the UK rail industry has become more challenging in recent months. Revenue growth in our UK Rail Division slowed significantly in the second half of the year ended 30 April 2016. We believe the reduced rate of growth reflects the effects of weakening consumer confidence, increased terrorism concerns, sustained lower fuel prices, the related effects of car and air competition, slower UK GDP growth and slowing growth in real earnings.

East Midlands Trains

Revenue at East Midlands Trains grew 4.1% in the year. The business is delivering a strong financial performance and a share of that strong performance is being paid to the Department for Transport under the franchise "profit share" arrangement. That arrangement also provides some financial protection to the business if future revenue is less than currently anticipated because, all other things being equal, the revenue shortfall would be partly offset by profit share payments also being lower than currently anticipated.

In September 2015, the Group agreed a new East Midlands Trains franchise with the Department for Transport, which commenced on 18 October 2015 and is scheduled to run until 4 March 2018. The Department for Transport has the option to extend the contract by up to one year on commercial terms that have been agreed, and the Department has already indicated that it expects the franchise to run until at least July 2018. East Midlands Trains remains Britain's most punctual long-distance train operator and passengers are benefitting from the previously announced investments of around £13m under the new agreement.

We have made a good start to the new franchise and have launched a new mobile app to make travel easier for our customers and support our growth plans. We recently launched a new marketing campaign, including regional TV, direct mail and digital advertising, to promote our strong customer service offer. Investment is continuing in improved stations, such as the introduction of new cycling facilities.

South West Trains

South West Trains' revenue grew by 2.4% in the year. It currently receives revenue support from the Department for Transport such that any future shortfall in revenue versus our current expectation would be 80% offset by increased revenue support income from the Department.

South West Trains is progressing a previously announced £50m package of investment. In December 2015, we launched extra services and new links to London for many communities across the West of England, as well as other improvements, as part of the introduction of an improved timetable. Working with the Department for Transport and Network Rail, South West Trains has announced the start of an £800m investment programme to provide an overall 30% increase in peak time capacity by 2019. It includes an expanded and improved London Waterloo station, a new fleet of Siemens built Class 707 trains, extended platforms at 10 stations for longer trains on the Reading line, improvements to depots and maintenance facilities, and new technology to boost the efficiency and punctuality of our fleet.

We note the Government consultation on high-level plans for rail services that operate mostly or wholly within the Greater London boundary to transfer to Transport for London, which could include inner suburban rail services operating out of London Waterloo that currently form part of the South West Trains business. Although this transfer will not happen during our current franchise term, we will continue to monitor developments and press the case for any decisions to balance long-term capacity improvements for customers, continued value for money for taxpayers, and the retention of the benefits of an integrated rail network.

Virgin Trains East Coast

We began operating the Virgin Trains East Coast franchise in March 2015, in which we have a 90% interest, and have made significant strides in the delivery of our planned £140m programme of investment to transform customer journeys.   Although, as expected, our initiatives have yet to have a significant impact on revenue, the business' revenue did grow by 5.2% in the year.

Virgin Trains East Coast does not benefit from revenue support in the form received by South West Trains and nor is it currently making profit share payments like East Midlands Trains. Accordingly, its future profitability is more exposed to changes in forecast revenue than the revenue of those other franchises. However, we are pursuing a wide range of actions to grow the business.

In the first 12 months of the franchise, we have invested almost £18m. Customer-focused investment is delivering new interiors across the existing train fleet, including leather seats in First Class and new seats and carpets in Standard class. We have also unveiled the first of our new fleet of Azuma trains which are set to revolutionise travel on the East Coast franchise from 2018. A fleet of 65 trains will provide 12,200 extra seats under a new and expanded timetable, increasing peak capacity into King's Cross station in London by around 28% as well as cutting journey times. We have already launched new routes from Sunderland and Stirling, as well as more than 40 additional services a week between Edinburgh and London, amounting to 22,000 extra seats per day. Eight lounges have been transformed at stations between London and Edinburgh, doubling the seating capacity and offering an improved environment for our customers. We have also started a trial of paperless m-Tickets, which provide customers with a barcode that can be scanned directly from a smart phone or tablet. These are just some of the many initiatives that we are pursuing to improve the customer experience and grow revenue.

In May 2016, the Office of Road and Rail ("the ORR") approved the application made by Virgin Trains East Coast to run new services between London and Edinburgh, Harrogate, Lincoln and Middlesbrough. These services formed part of our successful bid for the East Coast rail franchise. Virgin Trains East Coast's core existing timetable has been approved from December 2017 when the current access contract expires. In addition, it has been granted firm rights for service extensions to Bradford, Lincoln and Harrogate from May 2019, and for Edinburgh and Middlesbrough from May 2021.

The ORR has also approved an application from another train operator to run open access train services between London and Edinburgh with firm rights from May 2021. As noted by the ORR, when these services commence they are expected to impact revenue from Virgin Trains East Coast services, although we also note that it is not certain that the infrastructure will be in place to reliably accommodate all of the approved services. We do not believe the granting of open access services within a franchised system and without a level playing field is in the best interests of passengers, taxpayers or communities. We are assessing the ORR decision and implications in detail and reviewing our options.

Rail industry structural and regulatory matters

We note the publication of the Shaw review on the future shape and funding of Network Rail. The report has recommended "route devolution" to give parts of the rail network more power. It suggested Network Rail's eight regions should also be required and empowered to find local sources of funding and financing. Options include allowing private firms to run part of the rail network for a fixed period. We believe that any future structure and approach should support the delivery of a more integrated rail service, with decision-making which puts the interests of customers first and delivers a more optimal and efficient management of the network.

Separately, the Competition and Markets Authority ("CMA") has concluded a project looking at the possibilities for introducing greater competition between passenger train operators. The CMA said that, for the major inter-city routes, increasing the number of open access services or splitting franchises offered the most immediate benefits from increased competition, but that a move towards a system of multiple licensed operators replacing franchises could also be worth consideration in the future. As Stagecoach and our partners Virgin have previously made clear, competition for the market through franchising has a proven track record of delivering improved customer service and good value for taxpayer investment. We do not believe a hybrid model of franchised and open access operators on the same network offers either a level playing field or the best use of limited network capacity. For inter-city networks, however, we believe a licensing system could boost competition and bring benefits to both passengers and government.

Franchising update

Stagecoach Group is one of two operators to have been shortlisted by the Department for Transport for the new South Western rail franchise, which is expected to start in June 2017. We are proud to have operated the network under the South West Trains brand since 1996. We are already well underway with the development of our plans to build on that success. Our detailed knowledge of the business places us in a strong position to bid for the new franchise and we expect a new operator to be selected in early 2017.

During the year ended 30 April 2016, the Group was a 40% partner in a joint venture with Abellio, which was shortlisted to bid for a new East Anglia rail franchise. We were unable to reach an agreement with Abellio on elements of the proposed bid and took a decision not to proceed with an equity participation in the bid.

We will continue to consider other rail bidding opportunities that we believe will deliver benefits to passengers and add value for our investors.

Outlook

The slower UK Rail revenue growth experienced in the second half of the financial year ended 30 April 2016 has continued, and the financial outlook for the year ahead is somewhat uncertain. We therefore remain cautious and have updated our forecast of 2016/17 UK Rail operating profit accordingly. We will continue to focus on delivering our commitments and driving growth.

1.5.6 Joint Ventures

1.5.6.1 Virgin Rail Group

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture (excluding exceptional items) for the year ended 30 April 2016 is summarised below:

Year to 30 April 49% share	**2016** **£m**	2015 £m
Revenue	**525.3**	510.3
Operating profit	**32.6**	28.0
Net finance income	**0.7**	–
Taxation	**(9.1)**	(5.7)
Profit after tax	**24.2**	22.3
Operating margin	**6.2%**	5.5%

Virgin Rail Group's West Coast rail franchise continues to perform strongly and that is benefitting taxpayers through profit share payments by the business to the UK Department for Transport. The Department for Transport has formally extended the current franchise, which commenced in June 2014, to run until 31 March 2018 on the commercial terms already agreed.

The Group's share of the results of Virgin Rail Group is based on the management accounts of Virgin Rail Group to the period end that falls closest to the Group's balance sheet date of 30 April. The Group's results for the year ended 30 April 2015 incorporate its share of Virgin Rail Group's results for the period from 27 April 2014 to 2 May 2015 and for the year ended 30 April 2016, incorporate its share of Virgin Rail Group's results for the period from 3 May 2015 to 30 April 2016. The impact on the Group's share of Virgin Rail Group's profit and net assets of using these periods rather than the years ended 30 April is not material. However, the revenue figures reported above are affected. After normalising the revenue to an equivalent number of days in each year, the estimated revenue growth was around 5%.

Virgin Trains West Coast has continued to work to improve customers' experience and grow revenue notwithstanding that its current franchise now has less than two years to run. The revenue growth in the year has been supported by continued investment in marketing, new ticket gates at key stations and the conversion of one carriage (coach G) on each of the 21 nine-carriage trains from a first class carriage to a standard class carriage. Revenue in the second half of the year was adversely affected by the closure of a viaduct in south Scotland on the West Coast Mainline. However, the business received contractual compensation from Network Rail in respect of that.

In October 2015, Virgin Trains West Coast became the first train company to automatically compensate some customers if they are delayed. A customer who buys an Advance ticket through virgintrains.com or the app will automatically receive money directly back onto his or her payment card when their train service is delayed by 30 minutes or more. Virgin Trains West Coast also introduced a new text-messaging service offering personalised, customised boarding information. It is available for people booking on the Virgin Trains website travelling with Virgin Trains from London Euston on all services on the West Coast Mainline including Birmingham, Manchester, Liverpool and Glasgow. These are excellent examples of private sector innovation delivering customer improvements commercially without the need for overly restrictive contractual commitments or government intervention.

Franchising

The current Virgin Trains West Coast franchise is due to end in March 2018. The Department for Transport's most recent rail franchise schedule envisages a competitive tender process being held to select the operator for a new West Coast franchise, with a view to the new franchise beginning in April 2018. We look forward to seeing more detail on the Department's plans for the West Coast business beyond March 2018.

Outlook

Despite a recent reduction in revenue growth, the West Coast franchise continues to perform ahead of our expectations at the time the contract was agreed. As with our UK Rail businesses, we will seek to mitigate the effects of lower revenue growth, through additional initiatives to grow revenue and a continuing focus on strong cost control. The contract includes protections for taxpayers which limit the level of profit that the business can earn and, as a result, there is limited scope for further profit growth, within the term of the current West Coast franchise.

1.5.6.2 Twin America

Financial performance

The financial performance of the Group's Twin America joint venture (excluding exceptional items) for the year ended 30 April 2016 is summarised below:

Year to 30 April 60% share	**2016** **US$m**	2015 US$m
Revenue	**69.8**	74.7
Operating (loss)/profit	**(0.9)**	3.4
Finance costs (net)	**(0.3)**	(0.2)
(Loss)/profit after tax	**(1.2)**	3.2
Operating margin	**(1.3)%**	4.6%

Trading at our Twin America joint venture remains challenging. There is continued strong competition in the New York sightseeing market. In addition, as part of a previously reported litigation settlement, Twin America surrendered its rights from May 2015 to use certain bus stops and adjusted its service levels accordingly.

Impairment review

The Directors undertook an impairment review as at 30 April 2016 of the carrying value of the Group's interest in Twin America. An exceptional charge of £37.9m was recognised, which reflects our expectation of a continuation of the highly competitive market environment for the foreseeable future. We remain supportive of the joint venture's management team and the plans it has developed to improve the profitability of the business in the years ahead.

Litigation

In December 2012, the United States Department of Justice and the Attorney General of the State of New York initiated legal proceedings against Twin America and others alleging that the formation of Twin in 2009 was anticompetitive. Several private actions were also filed in relation to this matter. A settlement was reached with the private plaintiffs in 2014. A settlement was agreed with the US Department of Justice and the New York Attorney General's office earlier this year and has now received court approval. Related to the Twin America litigation involving the Group's North America Division, the Department of Justice is continuing to investigate the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Department of Justice has not taken any enforcement action related to these issues, and the Group is co-operating with the investigation.

1.6 Other financial matters

1.6.1 EBITDA, depreciation and intangible asset expenses

Earnings from continuing operations before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £370.0m (2015: £353.3m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

Year to 30 April	**2016** **£m**	2015 £m
Total operating profit before intangible asset expenses and exceptional items	**228.8**	227.1
Depreciation	**132.2**	120.1
Add back joint venture finance income & tax	**9.0**	6.1
Pre-exceptional EBITDA	**370.0**	353.3

The income statement charge for intangible assets increased from £11.9m to £15.8m, principally due to the first full year of amortisation of intangible assets in respect of the Virgin Trains East Coast franchise.

1.6.2 Exceptional items

The following exceptional items were recognised in the year ended 30 April 2016:

- As explained later in this report at section 1.6.7, a pre-exceptional loss of £23.3m was recognised relating to the re-financing of bonds.
- As explained in section 1.5.6.2, an exceptional charge of £37.9m was recognised in respect of the Group's interest in Twin America.
- A pre-tax exceptional impairment loss of £6.0m has been recorded in relation to the impairment of assets at Sheffield Supertram. The financial performance at Sheffield Supertram was adversely affected by the closure of parts of the tram network to undertake replacement of the tram track. The financial performance has not recovered to the extent we previously forecast and as a result, we undertook an impairment review of the business' assets and concluded that they were impaired

1.6.3 Net finance costs

Net finance costs, excluding exceptional items, for the year ended 30 April 2016 were £41.4m (2015: £42.1m) and can be further analysed as follows:

Year to 30 April	**2016 £m**	2015 £m
Finance costs, excluding exceptional items		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**5.9**	7.9
Hire purchase and finance lease interest payable	**2.1**	2.5
Interest payable and other finance costs on bonds	**25.9**	27.3
Unwinding of discount on provisions	**3.9**	3.8
Interest charge on defined benefit pension schemes	**5.3**	3.3
	43.1	44.8
Finance income		
Interest receivable on cash	**(1.4)**	(1.5)
Effect of interest rate swaps	**(0.3)**	(1.2)
	(1.7)	(2.7)
Net finance costs, excluding exceptional items	**41.4**	42.1

1.6.4 Taxation

The effective tax rate for the year ended 30 April 2016, excluding exceptional items, was 18.9% (2015: 19.0%).

The current year effective tax rate is depressed by adjustments in respect of the utilisation of previously unrecognised tax losses. It also reflects the impact of the reduction in the rate at which deferred tax is calculated, with legislation substantively enacted in October 2015 reducing the applicable UK corporation tax rate to 19% from April 2017 and 18% from April 2020. A subsequently announced reduction in the rate to 17% from April 2020 has not yet been substantively enacted and so its effect is not reflected in the financial statements to 30 April 2016.

The tax charge can be analysed as follows:

Year to 30 April 2016	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	196.9	(36.3)	18.4%
Intangible asset expenses	(15.8)	2.0	12.7%
	181.1	**(34.3)**	**18.9%**
Exceptional items	(67.2)	19.4	
	113.9	**(14.9)**	**13.1%**
Reclassify joint venture taxation for reporting purposes	(9.5)	9.5	
Reported in income statement	**104.4**	**(5.4)**	**5.2%**

In February 2016, a first First Tier Tax Tribunal ruled in favour of Her Majesty's Revenue and Customs ("HMRC") on a tax case involving the Group. The case involved the interpretation of historical and technical issues where the Group's interpretation of the legislation differed from HMRC's. The issues are no longer relevant under current legislation. No additional tax is payable by the Group in respect of the matter and no additional expense arises in the consolidated financial statements. The transactions involved investment in Stagecoach companies and, while the Tribunal ruling did not dispute the commercial rationale behind those transactions, it did not agree with the tax treatment the Group had adopted. Having taken all factors into account, we decided not to appeal the decision.

Stagecoach is a major contributor to the UK Exchequer both in taxes and other payments. We believe it is right that we pay our fair share of taxes and we are committed to doing so.

1.6.5 Fuel costs

The Group's operations as at 30 April 2016 consume approximately 425.3m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending 30 April	2017	2018	2019	2020
Total Group	91%	72%	45%	2%

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

1.6.6 Cash flows and net debt

Net debt (as analysed in note 30(c) to the consolidated financial statements) has, as expected, increased from 30 April 2015, reflecting additional investment, the acceleration of interest and premium payable associated with redeeming our 5.75% bonds and the reversal of some favourable UK Rail working capital timing differences in the previous financial year, partly offset by continued strong cash generation from operations.

Net cash from operating activities before tax for the year ended 30 April 2016 was £301.9m (2015: £346.4m) and can be further analysed as follows:

Year to 30 April	**2016 £m**	2015 £m
EBITDA of Group companies before exceptional items	**336.2**	321.8
Loss/(gain) on disposal of property, plant and equipment	**0.5**	(2.3)
Equity-settled share based payment expense	**2.2**	2.2
Working capital movements	**(35.2)**	46.0
Net interest paid	**(30.6)**	(35.8)
Dividends from joint ventures	**28.8**	14.5
Net cash flows from operating activities before taxation	**301.9**	346.4

Net cash from operating activities before tax was £301.9m (2015: £346.4m) and after tax was £278.9m (2015: £315.5m). Net cash outflows from investing activities were £178.9m (2015: £151.5m), which included £0.5m (2015: £Nil) in relation to the acquisition of businesses. Net cash used in financing activities was £114.8m (2015: £11.5m).

The net impact of purchases of property, plant and equipment for the year on net debt was £213.5m (2015: £188.8m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £191.2m (2015: £182.4m) and new hire purchase and finance lease debt of £22.3m (2015: £6.4m). In addition, £26.5m (2015: £47.9m) cash was received from disposals of property, plant and equipment.

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

Year to 30 April	**2016 £m**	2015 £m
UK Bus (regional operations)	**118.5**	104.7
megabus Europe	**7.0**	14.4
UK Bus (London)	**2.8**	(2.1)
North America	**45.6**	27.3
UK Rail	**13.1**	(3.4)
	187.0	140.9

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

Year to 30 April 2016	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	91.6	244.6	336.2
Loss on disposal of property, plant and equipment	–	0.5	0.5
Equity-settled share based payment expense	0.5	1.7	2.2
Working capital movements	(34.8)	(0.4)	(35.2)
Net interest paid	(1.0)	(29.6)	(30.6)
Dividends from joint ventures	–	28.8	28.8
Net cash flows from operating activities before taxation	56.3	245.6	301.9
Inter-company movements	(24.1)	24.1	–
Tax paid	(11.7)	(11.3)	(23.0)
Investing activities	(18.4)	(182.8)	(201.2)
Financing activities	–	(64.4)	(64.4)
Foreign exchange/other	–	(31.3)	(31.3)
Movement in net debt	2.1	(20.1)	(18.0)
Opening net debt	281.0	(662.3)	(381.3)
Closing net debt	283.1	(682.4)	(399.3)

The Group's net debt at 30 April 2016 is further analysed below:

	Fixed rate £m	Floating rate £m	Total £m
Unrestricted cash	–	80.6	80.6
Cash held within train operating companies	–	283.1	283.1
Restricted cash	–	18.6	18.6
Total cash and cash equivalents	**–**	**382.3**	**382.3**
US Notes	–	(102.2)	(102.2)
Sterling bond	(393.7)	–	(393.7)
Sterling hire purchase and finance leases	(2.1)	(32.9)	(35.0)
US dollar hire purchase and finance leases	(41.8)	–	(41.8)
Loan notes	–	(19.3)	(19.3)
Bank loans	–	(189.6)	(189.6)
Net debt	**(437.6)**	**38.3**	**(399.3)**

The split between fixed and floating rate debt shown above takes account of the effect of interest rate swaps in place as at 30 April 2016.

1.6.7 Financial position and liquidity

The Group maintains a strong financial position with investment grade credit ratings and appropriate headroom under its debt facilities.

On 29 September 2015, the Group issued £400m of 10-year bonds with an annual coupon of 4.00%. The Group subsequently redeemed the £400m of 5.75% bonds that were due to mature in December 2016. The premium payable to redeem the 5.75% bonds in excess of their par value, together with the cost of terminating interest rate swaps that became ineffective as a result of the re-financing, was £23.3m and has been reported as an exceptional item in the Group's consolidated income statement for the year ended 30 April 2016.

In addition to the bond re-financing, we extended the duration of £535m of committed, bi-lateral bank facilities by one year to October 2020.

We are pleased by the successful re-financing of bonds and the continuing support we receive from the debt capital markets. The new bond issue attracted a range of high quality investors. That issue, together with the one-year extension of bank facilities, ensures that 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 30 April 2016 to pre-exceptional EBITDA for the year ended 30 April 2016 was 1.1 times (2015: 1.1 times).
- Pre-exceptional EBITDA for the year ended 30 April 2016 was 9.0 times (2015: 8.4 times) pre-exceptional net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £281.2m at 30 April 2016 (2015: £298.8m) 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 Net assets

Net assets at 30 April 2016 were £177.8m (2015: £95.0m).

The increase is after £62.0m of dividend payments and is principally due to the profit attributable to equity holders of the parent and actuarial gains on defined benefit pension schemes.

1.6.9 Retirement benefits

The reported net assets of £177.8m (2015: £95.0m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £96.7m (2015: £160.5m), and associated deferred tax assets of £21.0m (2015: £35.3m).

The Group recognised net pre-tax actuarial gains of £68.5m in the year ended 30 April 2016 (2015: losses of £65.5m) on Group defined benefit pension schemes.

1.6.10 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2016, the Group's capital comprised:

As at 30 April	**2016 £m**	2015 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	**1,478.6**	2,086.8
Cash	**382.3**	395.6
Gross debt	**(781.6)**	(776.9)
Net debt (see section 1.6.6)	**(399.3)**	(381.3)

The Group manages its capital centrally. Its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group also takes account of the interests of other stakeholders when making decisions on its capital structure.

The capital structure of the Group is kept under regular review and will be adjusted from time to time to take account of changes in the size or structure of the Group, economic developments and other changes in the Group's risk profile. The Group will adjust its capital structure from time to time by any of the following: issue of new shares, dividends, return of value to shareholders and borrowing/repayment of debt. There are a number of factors that the Group considers in evaluating capital structure. The Directors' principal focus is on maintaining an investment grade credit rating. As well as considering the measures applied by credit rating agencies, the other principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios.

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

The Group has no current plan to return additional funds to shareholders. It keeps its capital structure under review and has increased the proposed dividend for the year by over 8%.

1.6.11 Treasury policies and objectives

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 26 to the consolidated financial statements, for details of

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

1.6.12 Critical accounting policies and estimates

The Group's material accounting policies are set out in note 1 to the consolidated financial statements.

Preparation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union requires directors to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

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

The critical accounting policies summarised below cover the policies regarded by the Directors as critical to the Group's financial reporting in general. The Audit Committee summarises, in its report, the significant financial reporting and accounting judgements that it specifically considered in respect of the year ended 30 April 2016 - see section of 5.4.1 of this Annual Report. As might be expected, there is considerable overlap between the significant judgements considered by the Audit Committee in respect of the year and the critical accounting policies summarised below.

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

Insurance

The Group receives claims in respect of traffic incidents and employee incidents. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies. Provision is made for the estimated cost to the Group (net of insurance recoveries) to settle claims for incidents occurring prior to the balance sheet date. The estimation of the balance sheet insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The eventual settlements on such claims may differ from the amounts provided for at the balance sheet date. This is generally of greater risk in (a) "younger" operations with a shorter claims history from which to make informed estimates of provisions and (b) operations, notably in the United States, where the deductible levels are generally higher than for the UK operations.

Taxation

The Group's tax charge is based on the pre-tax profit for the year and tax rates in force. Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgmental issues. However, the final tax cost to the Group may differ from the estimates.

Acquired customer contracts and onerous contracts

The Group has a number of contractual commitments most significantly in respect of its rail franchises and its London bus business. In certain circumstances, IFRS requires a provision to be recorded for a contract that is "onerous" or when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. Determining the amount of any contract provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value. There is uncertainty over future cash flows. Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate involves a significant degree of judgment. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Goodwill and impairment

In certain circumstances, IFRS requires property, plant, equipment and intangible assets to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant cash generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Group's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the CGU.

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

Property, plant and equipment

Property, plant and equipment, other than land, are depreciated on a straight-line basis to write off the cost or valuation less estimated residual value of each asset over their estimated useful lives. Useful lives are estimated based on a number of factors, including the expected usage of the asset, expected deterioration and technological obsolescence. If another depreciation method (for example, reducing balance) was used or different useful lives or residual values were applied, this could have a material effect on the Group's depreciation charge and net profit.

The estimates currently applied in respect of the useful lives and residual values of property, plant and equipment at the Group's train operating companies could result in a residual net book value of certain assets at the end of the applicable, current rail franchises. The net book values of the assets might be recovered through a sale of the assets to a new train operator appointed by the Department for Transport to operate the train services covered by the relevant franchise. The estimates regarding useful lives and residual values involve making assumptions on when existing franchises will expire and on the likely sales values negotiated for assets with successor train operators and so involve an increased level of judgement.

Rail contractual positions

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

1.6.13 Financial reporting calendar

Financial year-end

The Group currently reports its financial results based on a financial year ending 30 April. From 2016/17 onwards, the Group intends to report its financial results for a period broadly one-year in length that ends on a Saturday near to 30 April. For most years, that period will be 364 days in length but periodically, the period will be 371 days in length.

Reporting cycle

In recent years, the Group has provided six, scheduled updates on trading each year. These have typically involved results announcements in June and December, pre-close trading updates in October and April and further trading updates in August and March.

We now plan to reduce the number of scheduled trading statements, and will no longer schedule pre-close trading updates for October and April. We will schedule four updates each year: results announcements in June and December and further trading updates around September and March. Additional updates may be provided where it is appropriate to update the market on trading or other matters between the four scheduled updates.

The reduction in the number of scheduled updates on trading is consistent with the Group's philosophy of managing the business for the long-term and will reduce the level of focus on very short-term trading trends. The change is also consistent with recent changes in reporting practice by other UK-listed companies.

1.7 Current trading and outlook

The recent more challenging trading conditions have continued into our financial year ending 30 April 2017 and the overall outlook is uncertain. However, we have made a satisfactory start to the year and have not significantly changed our expectation of adjusted earnings per share for the year.

We remain positive on the long-term prospects for public transport. Public transport should benefit from continued population growth and growing urbanisation, and can form part of the solution to the increasing problem of road congestion. Predicted road traffic growth and the increasing cost of road congestion to the economy will require supportive public policy. Pressure to address climate change and the impact of pollution on health should also support the growth of the sector. Tackling these in a cost-efficient way is best achieved by private sector transport operators working in partnership with government authorities, supported by appropriate government policies. We aim to manage the Group in view of those longer term prospects and take the right actions in these more challenging times to ensure the Group is best positioned to capitalise on the longer term opportunities.

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

1.8 Corporate Social Responsibility

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

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

Like 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: http://www.stagecoach.com/sustainability.aspx.

This section includes just a small number of examples of our work to demonstrate the steps we are taking to meet our responsibilities.

1.8.1 Living our values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. Stagecoach promotes a culture of openness across all its businesses and our objective is to ensure the highest standards of probity and accountability. The Code, which was updated in 2016, sets out key principles and provides practical examples and guidance to help shape employees' corporate behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review. A copy of our Code of Conduct can be found at the following link: http://www.stagecoach.com/code-of-conduct.pdf.

In addition, we have a Speaking Up policy, also updated in 2016, which is designed to ensure that employees can raise serious concerns without fear of victimisation, discrimination or disadvantage. A copy of the document is available at http://www.stagecoach.com/speakingup.pdf.

1.8.2 Supporting and recognising our people

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

We have initiatives in place designed to nurture the next generation of talent to support the business and help our people achieve their potential. We have strong vocational training programmes in our bus and rail businesses and we continue to invest in developing our people.

Stagecoach's bus and rail companies have delivered nearly 500 apprenticeships over the past 10 years, with a further 200 apprenticeships currently underway in areas such as engineering. The apprenticeships delivered to date represent an investment of more than £30m by the Group.

Our Group-wide graduate development initiative continues to produce directors, senior managers and experts in operations and engineering. We also have programmes in place to promote the health and well-being of our people. Our annual Stagecoach Champions Awards, which are open to all employees, recognise excellence in the areas of safety, community, health, customer service, environment and innovation. Further information is available here: http://www.stagecoach.com/sustainability/our-people.aspx.

1.8.3 Employment policies

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

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

1.8.4 Diversity

The Group recognises and values the individuality and diversity that each employee brings to the business. We value diversity in its wider sense and are particularly focused on promoting gender diversity. During the year, Stagecoach worked with television personality, Ferne McCann, on a campaign to attract more female bus drivers.

The table below shows the gender split at different levels within the organisation, as at 30 April 2016. The Group's workforce is around 80.9% male and that high proportion is common in the ground transportation industry. However, the composition of our teams is becoming more diverse.

Population	Male	Female	Total	% Male	% Female
Board	8	2	10	80.0%	20.0%
Senior management *	93	23	116	80.2%	19.8%
Whole workforce	32,453	7,672	40,125	80.9%	19.1%

*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 2016 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The equivalent figures as at 30 April 2015 were:

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

1.8.5 Promoting safety

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

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

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

1.8.6 Accessible and affordable travel

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

Stagecoach is the only UK bus operator to operate a long-term nationwide discounted travel scheme for jobseekers and we have a range of discounted ticketing options for young people.

We are committed to improving accessibility of our buses, trains and stations. Our planned investment of nearly £100m in 480 new buses and coaches for 2016/17 will ensure that all of our local bus fleets in the UK are fully accessible. It will mean Stagecoach Group has invested over £1bn in more than 6,500 greener and more accessible buses and coaches since 2006/07. We are also investing in automated vehicle location systems to provide a technology platform to deliver audio visual next stop information via smartphones. 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. 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 http://www.stagecoach.com/sustainability/accessibility-affordability.aspx.

1.8.7 Environmental stewardship

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

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

The data below shows our greenhouse gas emissions for the year ended 30 April 2016 with comparative data for the year ended 30 April 2015 (excluding Virgin Trains East Coast).

	2015/16	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	1,009,003	0.26
Operation of facilities (refrigerants)	23,586	0.01
Total Scope 1	**1,032,589**	**0.27**
Scope 2		
Purchased electricity	394,906	0.10
Statutory total (Scope 1 & 2)*	**1,427,495**	**0.37**

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

* 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 2015.

We define our organisational boundary using the financial control approach and use a materiality threshold for the Group of 5% of estimated Greenhouse Gas Emissions. We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. All of these sources fall within businesses that are included in our consolidated financial statements. The Group is the majority shareholder of the Virgin Trains East Coast franchise, which it has operated since 1 March 2015. Since this franchise had not been operated for the full financial year ended 30 April 2015, it has not been included in the Group's greenhouse gas emissions shown above for that year.

Group Metrics	**2015/16**	**2014/15**
Revenue (£m)	3,871.1	3,086.4
Total Scope 1 & 2 emissions tonnes (tCO_2e)	1,427,495	1,266,526
Intensity ratio		
Scope 1 & 2 emissions per £ of revenue (Kg CO_2e/£)	0.37	0.41

1.8.8 Supporting our communities and the economy

Stagecoach Group is a major employer, supporting direct employment for around 40,000 people. Our investment in improving our transport services also supports thousands of other jobs through the supply chain. Further information is available at:
http://www.stagecoach.com/sustainability/economic-contribution.aspx

We also share our success with local people and communities by investing part of our profits in good causes. During the year ended 30 April 2016, £0.9m (2015: £0.9m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services. During the year, Stagecoach supported the charity Mary's Meals with a £70,000 donation to extend its successful school feeding programmes, which are helping hungry children across Malawi and Zambia in Africa. Significant additional in-kind support, such as complimentary bus and rail travel, is provided by the Group to good causes. Our megabus.com brand partnered during the year with German charity, ArbeiterKind.de, to help make academic education accessible for everyone, regardless of their social background. We have a number of other 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:
http://www.stagecoach.com/sustainability/community.aspx

1.8.9 Human rights

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

1.8.10 Conclusion

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

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

Mike Vaux
Company Secretary
8 July 2016

2. Board of Directors

Executive Directors

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Non-Executive Directors

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Martin Griffiths (1)

Chief Executive

Appointment to the Board: 2000
Age: 50
Committee membership: Health, Safety and Environmental.
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 (Chairman).

Ross Paterson (2)

Finance Director

Appointment to the Board: 2013
Age: 44
Committee membership: Pensions Oversight.
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 Committee of the Institute of Chartered Accountants of Scotland.
External appointments: Director and Chairman of Audit Committee, Virgin Rail Group Holdings Limited. Member of the Business Policy Committee of the Institute of Chartered Accountants of Scotland.

Sir Brian Souter (3)

Chairman

Appointment to the Board: n/a (co-founder)
Age: 62
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 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. Vice-President of the Institute of Chartered Accountants of Scotland.

Will Whitehorn (4)

Deputy Chairman and Senior Independent Non-Executive Director

Appointment to the Board: 2011
Age: 56
Committee membership: Health, Safety and Environmental (Chair), Audit and 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. He was appointed Stagecoach Deputy Chairman and Senior Independent Non-Executive Director effective from 1 April 2016.
External appointments: Speed Communications Agency Limited (Chairman), Scottish Exhibition Centre Limited (Chairman), Purplebricks Group plc (Non-Executive Director). Member of the First Minister of Scotland's 'GlobalScot' Business mentoring network. President of the Chartered Institute of Logistics and Transport. Scottish Gallery (Aitken Dott Limited) (Chairman).

Gregor Alexander (5)

Non-Executive Director

Appointment to the Board: 2013
Age: 53
Committee membership: Audit (Chair) and Remuneration.
Skills and previous experience: Gregor Alexander is a Chartered Accountant and 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 50% owned by SSE plc.

James Bilefield (6)

Non-Executive Director

Appointment to the Board: 1 February 2016
Age: 46
Committee membership: 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!. In 2015, he joined ticketscript, Europe's leading multichannel event ticketing business, as non-executive Chairman. 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: Ticketscript (TSTM Group Limited) (Chairman), McKinsey & Company (Senior Advisor), Advent International (Industry Advisor), UK Government Digital Service (Advisory Board Member), Teach First (Trustee).

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Sir Ewan Brown CBE (7)

Non-Executive Director

Appointment to the Board: 1988
Age: 74
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 and as Chairman of Creative Scotland 2009 Ltd.
External appointments: Scottish Financial Enterprise (Chair). Noble Grossart Holdings Ltd (Non-Executive Director) and Senior Governor of St Andrews University.

Ann Gloag OBE (8)

Non-Executive Director

Appointment to the Board: n/a (co-founder)
Age: 73
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: Proposed election with effect from 1 September 2016
Age: 60
Committee membership: n/a
Skills and previous experience: Ray O'Toole served as Chief Operating Officer of National Express Group until May 2010. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. Ray was responsible for the National Express Group's bus and coach businesses and rail franchises, with operations in Spain, the USA, Canada and the UK. 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 continues to serve as Chief Executive of Essential Fleet Services Limited.
External appointments: Yorkshire Water Services Limited (Non-Executive Director). The British Transport Police Authority (Non-Executive Director).

Karen Thomson (10)

Non-Executive Director

Appointment to the Board: 31 March 2016
Age: 54
Committee membership: Audit, Health, Safety and Environmental.
Skills and previous experience: Karen 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).

Garry Watts MBE (11)

Non-Executive Director

Appointment to the Board: 2007
Age: 59
Committee membership: Remuneration (Chair) and Nomination.
Skills and previous experience: A Chartered Accountant, Garry Watts is a former Chief Executive of SSL International plc, Non-Executive Director of Medicines and Healthcare Products Regulatory Agency and Protherics plc and Executive Director of Celltech plc. He is also former Finance Director of Medeva plc and partner with KPMG. Until April 2016, Garry was the Stagecoach Deputy Chairman and Senior Independent Non-Executive Director. He intends to step down from the Board in July 2016.
External appointments: Spire Healthcare Group plc (Chairman), BTG plc (Chairman), Foxtons Group plc (Chairman), Coca-Cola European Partners plc (Non-Executive Director).

3. Directors' report

3.1 Strategic report

The Group is required to produce a strategic report complying with the requirements of the Companies Act 2006. The Group has complied with these requirements as part of the Strategic report in section 1.

3.2 Group results and dividends

The results for the year are set out in the consolidated income statement on page 66.

An interim dividend of 3.5p per ordinary share was paid on 2 March 2016. The Directors recommend a final dividend of 7.9p per share, making a total dividend of 11.4p per share in respect of the year ended 30 April 2016. Subject to approval by shareholders, the final dividend will be paid on 5 October 2016 to those shareholders on the register on 2 September 2016.

3.3 Directors and their interests

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

The Board reviews its development plans at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to discharge their duties properly which includes a consideration of any other appointments that each director has. The Board believes that the performance of each director continues to be effective and that they continue to demonstrate commitment to their respective roles. The Chairman will therefore propose that each of the Directors who wish to remain on the Board be elected or re-elected (as appropriate) at the 2016 Annual General Meeting.

TABLE A	Number of ordinary shares (including those held under BAYE scheme)			
	7 July 2016	**30 April 2016**	23 June 2015	30 April 2015
Sir Brian Souter	**86,900,445**	**86,900,445**	86,900,445	86,900,445
Martin Griffiths	**499,978**	**437,907**	437,316	437,229
Ross Paterson	**242,946**	**229,065**	213,726	213,639
Gregor Alexander	**10,406**	**10,406**	10,406	10,406
James Bilefield (appointed 1 February 2016)	**–**	**–**	n/a	n/a
Sir Ewan Brown	**See below**	**See below**	See below	See below
Ann Gloag	**62,501,721**	**62,501,721**	62,501,721	62,501,721
Helen Mahy (resigned 29 February 2016)	**n/a**	**n/a**	8,971	8,971
Karen Thomson (appointed 31 March 2016)	**–**	**–**	n/a	n/a
Garry Watts (intends to resign effective 31 July 2016)	**16,000**	**16,000**	16,000	16,000
Phil White (resigned 31 March 2016)	**n/a**	**n/a**	4,070	4,070
Will Whitehorn	**72,288**	**72,288**	72,288	72,288

Sir Ewan Brown has an indirect interest in the share capital of the Company 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 30 April and 7 July 2016 (2015: 0.6%; 3,267,999 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% (2015: 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 and Transparency Rules of the Financial Conduct Authority. The voting rights of Sir Brian Souter and Ann Gloag determined in accordance with the Disclosure and Transparency Rules as at 30 April 2016 were 86,896,413 ordinary shares (2015: 86,952,175) and 62,501,721 ordinary shares (2015: 62,501,721) respectively, of which 86,896,009 (2015: 86,896,009) are held via HGT Finance B Limited and 62,501,721 (2015: 62,501,721) are held via HGT Finance A Limited. The reduction in Sir Brian Souter's voting rights in the year ended 30 April 2016 arose as a result of the vesting of awards under the Executive Participation Plan as shown in section 8.5.8 of this Annual Report.

Full details of share based awards held by the Directors at 30 April 2016 are contained in the Directors' remuneration report in section 8 of this Annual Report. Sir Brian Souter became Chairman on 1 May 2013 and retained an interest in share based awards. Details of share based awards held by Sir Brian during the year ended 30 April 2016 are set out in the Directors' remuneration report in section 8 of this Annual Report. Sir Brian had no remaining interest in share based awards as at 30 April 2016. No other non-executive director had an interest in share based awards at 30 April 2015, 23 June 2015, 30 April 2016 or 7 July 2016.

In addition to their individual interests in shares, Sir Brian Souter, Ann Gloag, Martin Griffiths and Ross Paterson are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held no shares as at 30 April 2016 but held 891,396 ordinary shares as at 30 April 2015. Martin Griffiths and Ross Paterson are also potential beneficiaries of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 300,634 ordinary shares as at 30 April 2016 (2015: 300,634).

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

3.4 Indemnification of directors and officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors and officers. In accordance with the Company's Articles of Association, and to the fullest extent permitted by law, the Company has indemnified each of its directors and other officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group.

3.5 Substantial shareholdings

As at 30 April 2016 and 7 July 2016 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings details of which are set out in section 3.3 of this report):

	7 July 2016	30 April 2016
Ameriprise Financial, Inc. and its Group	**12.9%**	**13.0%**

3.6 Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the consolidated and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("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 5.4.8 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.

3.7 Conflicts of interest

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

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

From the period from 1 May 2015 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

3.8 Financial risk management

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

3.9 Political donations

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

3.10 Authority for company to purchase its own shares

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 2014	576,099,960	724,693	575,375,267	57,609,996
Shares purchased into treasury	–	654,536	(654,536)	(654,536)
Prior to 2014 AGM	576,099,960	1,379,229	574,720,731	56,955,460
Renewal of buy-back authority	–	–	–	582,066
Following 2014 AGM	576,099,960	1,379,229	574,720,731	57,537,526
Transfer of treasury shares	–	(7,590)	7,590	–
As at 30 April 2015	576,099,960	1,371,639	574,728,321	57,537,526
Shares purchased into treasury	–	518,065	(518,065)	(518,065)
Transfer of treasury shares	–	(3,817)	3,817	–
Prior to 2015 AGM	576,099,960	1,885,887	574,214,073	57,019,461
Renewal of buy-back authority	–	–	–	453,371
As at 30 April 2016	576,099,960	1,885,887	574,214,073	57,472,832

At the 2014 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,537,526 of its ordinary shares. Between 24 June 2015 and 26 June 2015, the Company acquired 518,065 of its own ordinary shares and held these in treasury. The aggregate amount paid for the repurchased shares was £2.1m (excluding fees and as shown in the consolidated statement of cash flows, £2.2m including fees). This represented 0.1% of the Company's called up share capital (excluding treasury shares) on 26 June 2015. The shares were purchased to satisfy awards made under the Group's employee share schemes. During the year ended 30 April 2016, the Company transferred 3,817 of the shares held in treasury for nil consideration to an employee to satisfy an award made under the Group's 2013 Executive Participation Plan. This represented less than 0.1% of the Company's called up share capital (excluding treasury shares) on the date of transfer.

At the 2015 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 57,472,832 of its ordinary shares. Under the existing authority, the Company may therefore repurchase up to a further 57,472,832 ordinary shares. This authority will expire at the conclusion of the 2016 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be proposed at the next Annual General Meeting that the Company be authorised to repurchase up to approximately 10% of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2015 Annual General Meeting and will lapse at the conclusion of the 2017 Annual General Meeting.

3.11 Shareholder and control structure

As at 30 April 2016, there were 576,099,960 ordinary shares (2015: 576,099,960) in issue with a nominal value of 125/228th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned. As at 30 April 2016, 1,885,887 (2015: 1,371,639) ordinary shares representing 0.3% (2015: 0.2%) 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 3.5 of this Directors' report gives details of any shareholders (other than the Directors) that hold major interests in the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 3.3 of this Directors' report. Two directors of the Company, Sir Brian Souter and Ann Gloag, who are siblings, were interested in 26.0% of the ordinary shares in issue as at 30 April 2016, excluding shares held by the Company in treasury (2015: 26.0%). The other directors of the Company held 0.1% of the ordinary shares in issue as at 30 April 2016 (2015: 0.1%).

In addition to the Directors' individual interests in shares, employee benefit trusts held further shares in the company, representing less than 0.1% of the ordinary shares in issue as at 30 April 2016 (2015: 0.2%). The shares held by the trusts are for the benefit of employees of the Group. The voting rights are exercised by the trustees.

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

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

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

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

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

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

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

3.12 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 business 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 30 April 2019. 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 30 April 2019 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 30 April 2019. The first year of the financial forecasts represents the Group's budget for the year ending 30 April 2017. The period to 30 April 2019 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 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 bidding for selected rail franchises. However, the base financial forecasts do not assume any rail franchise wins over and above our existing contracts.

The Group faces a number of risks and the risks that the Board has currently assessed as being the principal risks are set out in section 1.4.6 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 2020 and currently has significant undrawn headroom under these facilities. It re-financed £400m of bonds in 2015 with the new bonds 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 4.13 and 4.14, was 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, competitions 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 30 April 2019.

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.

3.13 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Following a formal tender process overseen by the Audit Committee, the Board recommends to shareholders to appoint Ernst & Young LLP as the Group's external auditor for the financial year ending 30 April 2017. A resolution to 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.

3.14 Material included in the Strategic report

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

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

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

Listing Rule 9.8.4 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 33 to the consolidated financial statements. The Company has no controlling shareholders.
(11)	Details of any contract for the provision of services to the Company or any of its subsidiary undertakings by a controlling shareholder.	Not applicable
(12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Note 27 to the consolidated financial statements provides information on employee benefit trusts that have waived and agreed to waive dividends. Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Note 27 to the consolidated financial statements provides information on employee benefit trusts that have agreed to waive future dividends.
(14)	A statement made by the Board in respect of matters relating to a controlling shareholder.	Not applicable

By order of the Board

Mike Vaux
Company Secretary

8 July 2016

4. Corporate governance report

4.1 Introduction from Will Whitehorn, Deputy Chairman

The Stagecoach Group is committed to ensuring that it operates with the high standards of corporate governance that are expected of a group with shares traded on the London Stock Exchange. This introduction to the Group's corporate governance report is an opportunity to look back at the year 2015/16, at the progress that has been made with the governance of the Group and to look forward to the governance challenges for the future.

During the year, Garry Watts announced his intention to step down from the Board as he approached nine years' service on the Board. I took over from Garry as Deputy Chairman and Senior Non-Executive Director on 1 April 2016 and Garry has indicated his intention to step down from the Board on 31 July 2016. I would like to take this opportunity to thank Garry for his contribution to the Group during his tenure on the Board and in particular for helping to maintain and develop the strong corporate governance culture of the Group. I am pleased to have taken over the role of Deputy Chairman from such a positive position and look forward to the challenge of maintaining and improving that position over time. 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 and I believe it demonstrates that this structure is both robust and appropriate for the Group's operations.

The composition of the Board has been refreshed over the year. The Board was pleased to be able to recruit James Bilefield and Karen Thomson as new, independent, non-executive directors. We were also pleased to announce the proposed election of Ray O'Toole as a non-executive director with effect from 1 September 2016.

It is now over three years since Martin Griffiths took over as Chief Executive from Sir Brian Souter. As the Group's Chairman, Sir Brian is responsible for the conduct of the Board as a whole and in that position; the Board is able to draw on his depth of experience, particularly in considering broader strategic decisions, while the executive directors manage the business. I am satisfied that the views of all of the Directors are heard and given due weight and that our corporate governance procedures are appropriate for the Group.

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

In the past year, the Board has continued to discuss franchise opportunities available in the rail sector, the balance of the Group between its rail and bus businesses and the emerging opportunities and challenges in the European inter-city coach market. The Board recognises and has discussed in some detail the risks to the business in the changing political landscape. The Board has considered how new technology has enabled alternatives that challenge the traditional modes of public transport and opportunities for public transport providers to use information technology to enhance the passenger experience and attract more passengers to our services. The management team has risen to this challenge and has increased the focus of the Group on its information technology resources. An early result of this has been a significantly improved stagecoachbus.com website, providing more information to passengers in a more accessible form, along with a greater range of ways to pay for tickets on line and to carry tickets on mobile devices.

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
8 July 2016

4.2 Corporate governance and compliance with the Code

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

The Code issued in September 2014 applied to the Company's financial year from 1 May 2015 to 30 April 2016. The Directors believe that throughout the year ended 30 April 2016 the Group complied with all of the provisions of the Code. A copy of the Code is available at

https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf

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

The Financial Conduct Authority's Disclosure and Transparency Rule 7.2.6 ("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 3.5 and 3.11 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*		✓	
Sir Ewan Brown *Non-Executive Director*		✓	
Karen Thomson *Non-Executive Director*		✓	
Garry Watts *Non-Executive Director*		✓	
Will Whitehorn *Senior Independent Director & Deputy Chairman*		✓	
Ann Gloag *Non-Executive Director*			✓
Martin Griffiths *Chief Executive*			✓
Ross Paterson *Finance Director*			✓

As previously explained, Garry Watts has indicated his intention to step down from the Board on 31 July 2016. We have announced the proposed election of Ray O'Toole to the Board with effect from 1 September 2016. Following those two changes, the Board will continue to comprise ten directors, six of whom are considered to be independent by the Board and five of whom meet the criteria suggested by the Code for determining director independence.

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 suggests that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the year from 1 May 2015 to 30 April 2016, the Board considers that it complied with this Code requirement. The current position is that two thirds of the Board members (excluding the Chairman) are independent.

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

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

Sir Ewan Brown, one of the six independent Non-Executive Directors, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which has from time to time provided advice to the Company. The Company recognises and understands investor concerns over longer-serving non-executive directors but continues to regard Sir Ewan Brown as independent. Sir Ewan Brown's long association with the Group and the sound and detailed knowledge of the Group's business that he has developed enables him to provide a robust and effective challenge to management. The Board believes that Sir Ewan Brown's length of service enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. Six of the nine members of the Board, excluding the Chairman, are considered by the Board to be independent. Even were Sir Ewan Brown not treated as independent, the balance of the Executive and Non-Executive Directors complies with the recommendations of the Code.

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

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

4.6 Operation of the Board

The Board generally meets six times each year. Additional meetings of the Board are held to consider matters arising between scheduled Board meetings, where a decision of the Board is required prior to the next scheduled meeting. In addition to the formal meetings of the Board and its Committees, the Directors are in more frequent but less formal contact with each other and with the Group's management on a range of matters.

The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Deputy Chairman, meet without the Chairman at least annually.

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

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

The number of full Board meetings during the year was six. The full Board typically meets at least once a year at an operational location. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. The Board met in Washington DC in October 2015, giving the Board the opportunity to inspect the facilities at the Group's operations in the city and to meet the local management team. The February 2016 Board meeting was held at York railway station and the Board received briefings on the Virgin Trains East Coast operations and received presentations from members of the Group's talent programme. In November 2015, the Health, Safety and Environmental Committee visited the Group's South West Trains rail operations and was briefed on operational challenges, particularly from overcrowding and station layouts, and the management team's responses to those challenges.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings. Notable matters that the Board considered during the year ended 30 April 2016 included:

- Refinancing of the Group's £400m bonds
- Discussion of rail franchise bids, including the Transpennine Express franchise, a proposed joint bid with Abellio for the Greater Anglia franchise and the decision not to proceed with an equity participation in the Greater Anglia bid
- Development of megabus.com services in mainland Europe, including the expansion of the business in France and Italy, and the subsequent sale of the European retail business to FlixBus
- Group strategy and development opportunities
- Political and regulatory developments and potential developments, including the Quality Contract proposals in North East England and proposed devolution of transport regulatory powers to regional authorities

- Challenges to rail franchise operators from open access bids
- Negotiation of a direct award of the South West Trains franchise and the decision not to proceed with the award on the terms proposed
- Agreement of terms of a new East Midlands Trains franchise
- The management response to slowing rates of revenue growth in the UK Bus (regional operations) Division and the UK Rail Division
- Progress on digital and technology matters, including the management of information security
- Divisional management and board succession planning

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

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

4.7 Operational management of the Group

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

- UK Bus (London): headed by a managing director
- UK Bus (regional operations): headed by a managing director
- North America: headed by a chief operating officer
- UK Rail: headed by a managing director

Although the megabus Europe business is now reported as a separate segment for financial reporting purposes, it is managed as part of the UK Bus (regional operations) operating division.

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

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

4.8 Performance evaluation

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

The Directors have reviewed the effectiveness of the Board as a whole and its committees. The Code recommends board performance evaluation should be externally facilitated at least every three years. The Board appointed Margaret Exley of SCT Consultants to facilitate its evaluation in the year ended 30 April 2014 and details of the review were included in the 2014 Annual Report. The 2015 and 2016 evaluations were 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. The Board intends to review and revise the composition of the Committees following Garry Watt's leaving the Board and Ray O'Toole's proposed election to the Board.

Audit Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman and designated member with recent and relevant financial experience

Gregor Alexander

Other members

Karen Thomson

Will Whitehorn

Nomination Committee

Number of members of Committee: 5

Chairman

Sir Brian Souter

Other members

James Bilefield

Sir Ewan Brown

Garry Watts

Will Whitehorn

Remuneration Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman

Garry Watts

Other members

Gregor Alexander

James Bilefield

Health, Safety and Environmental Committee

Number of members of Committee: 4

Chairman

Will Whitehorn

Other members

Martin Griffiths

Ann Gloag

Karen Thomson

4.10 Reports from the Committees

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

4.11 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by directors during the year ended 30 April 2016:

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	2	2	n/a	n/a	1	1
Sir Ewan Brown	6	6	n/a	n/a	n/a	n/a
Ann Gloag	6	6	n/a	n/a	n/a	n/a
Helen Mahy	4	5	2	2	n/a	n/a
Ross Paterson	6	6	n/a	n/a	n/a	n/a
Karen Thomson	1	1	1	1	n/a	n/a
Gary Watts	6	6	n/a	n/a	3	3
Phil White	4	5	1	2	2	2
Will Whitehorn	6	6	1	1	2	2

PARTICIPATION IN MEETINGS	Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	6	6	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	n/a	n/a	1	1
James Bilefield	n/a	n/a	n/a	n/a	n/a	n/a
Sir Ewan Brown	n/a	n/a	3	3	1	1
Ann Gloag	5	6	n/a	n/a	1	1
Helen Mahy	5	5	1	3	1	1
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Karen Thomson	1	1	n/a	n/a	n/a	n/a
Gary Watts	n/a	n/a	3	3	1	1
Phil White	3	5	n/a	n/a	1	1
Will Whitehorn	6	6	2	3	1	1

4.12 Relations with shareholders

The Board endeavours to present a fair, balanced and understandable assessment of the Group's position and prospects in communications with shareholders. The Group holds periodic meetings with representatives of major institutional shareholders, other fund managers and representatives of the financial media.

The programme of investor relations includes presentations in London of the full-year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are effectively communicated and shareholder objectives are known. Written responses are given to letters or e-mails received from shareholders. The Annual Report is published in hard copy and on the Group's website.

The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants.

All shareholders are welcome to attend and participate at the Annual General Meeting and any other general meetings. The Group aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. All resolutions proposed to the 2015 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 2015 Annual General Meeting were published on the Group's website at http://www.stagecoach.com/investors/shareholder-services/agm.aspx

The Group intends to undertake a poll on each resolution put to the 2016 Annual General Meeting. All votes cast for or against each resolution, whether by proxy or in person at the meeting, will be aggregated and the results will be reported on the Group's website.

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

4.13 Risk management

The 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.

4.13.1 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 1.8.5 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 5.4.6 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 1.6.10 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.

4.13.2 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 30 April 2016, 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 was outsourced to and has been managed by Deloitte throughout the year to 30 April 2016, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. In conjunction with the tender for the provision of external audit services for the Group that resulted in the Board's recommendation to appoint Ernst & Young as the Company's auditors for the financial year ending 30 April 2017, the Audit Committee oversaw a tender for the provision of internal audit services to the Group. As a result of that tender process, the Group intends to appoint PricewaterhouseCoopers to manage the Group Risk Assurance Function. We expect that appointment to be made and take effect in August 2016, subject to shareholders approving the resolution to appoint Ernst & Young as external auditor in place of PricewaterhouseCoopers at the 2016 Annual General Meeting.

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.

4.13.3 Principal risks and uncertainties

The Board periodically undertakes 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 considers 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 3.12 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 1.4.6 of this Annual Report and that section includes an explanation of how we aim to appropriately manage and mitigate those risks.

4.14 Internal control

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

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

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. None of the weaknesses identified in the year to 30 April 2016 have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

4.15 Process for preparing consolidated financial statements

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

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept appraised of such developments.
- A written certificate is provided annually by the management of each business unit confirming that the internal financial controls have been reviewed and highlighting any departures from the controls system that the Group has determined to be appropriate practice.
- The financial statements of each business unit are subject to review by a local finance manager prior to being submitted to the Group Finance function.
- The financial statements of each business unit are subject to review by the Group Finance function for unusual items, unexplained trends and completeness. Any unexplained items are referred back to local management to explain.
- The Group Finance function compares the financial statements of each business unit to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the Group Finance function.
- The draft consolidated financial statements are reviewed by an individual independent from those individuals who were responsible for preparing the financial statements. The review includes checking internal consistency, consistency with other statements, consistency with internal accounting records and arithmetical accuracy.
- The Audit Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.
- The financial statements of all material business units are subject to external audit.

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

4.16 Pension schemes

The assets of the Group's pension schemes are held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. There are twelve trustees for the principal UK scheme, three of which are employee representatives nominated by the members on a regional basis and three are pensioner trustees. The chairman of the trustees of the principal UK scheme is a professional trustee who served for eight years as a fund member elected representative on the National Association of Pension Funds' investment council, and is a past Trustee Chairman of the Railways Pension Scheme trustees. The other trustees of the principal UK scheme include senior Group and UK Bus executives.

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

By order of the Board

Mike Vaux
Company Secretary
8 July 2016

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 30 April 2016 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.

Helen Mahy and Phil White stepped down from the Board and the Committee during the year ended 30 April 2016 and I would like to thank them for their contributions to the Committee.

I am pleased to welcome Karen Thomson as a member of the Committee. I am confident that the Committee will benefit from Karen's extensive experience, including her past membership of another FTSE 250 company's audit committee. Will Whitehorn has temporarily joined the Audit Committee and amongst his wider expertise, brings specific sector insight. The Board intends to review the composition of the Board committees in light of recent and planned changes in the Board's own composition.

The revised UK Corporate Governance Code was issued in September 2014 and applies to this year's Audit Committee report for the first time. During the year, the Committee considered the changes relevant to risk management and internal control arising from the revised Code, in particular reviewing the processes in place to support the new viability statement. Other areas of focus in the year included overseeing the tenders of the external audit and the Risk Assurance function.

Gregor Alexander
Chairman of the Audit Committee
8 July 2016

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report. Gregor Alexander is the current Chairman of the Audit Committee and is a Chartered Accountant. Gregor is the Finance Director of SSE plc, a FTSE 100 company, and is the designated Committee member with recent and relevant financial experience.

The Committee as a whole has competence relevant to the Group's industry sector. Of particular note, are the insights brought by Phil White and Will Whitehorn during the year from their 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. In addition, Audit Committee members participated in a meeting in December 2015 to specifically consider the internal and external audit tenders. 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

http://www.stagecoach.com/~/media/Files/S/Stagecoach-Group/Attachments/about/tor-audit-committee-apr-2016.pdf

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 30 April 2016.

5.4.1 Financial Reporting

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

The Group has had no interaction with the Financial Reporting Council's Corporate Reporting Review team during the year but the Audit Committee would oversee any such interaction.

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 30 April 2016, of which it considered the most significant to be those set out in the table on the following page.

In addition to the significant accounting judgements set out in the table, the Committee also considered other accounting and reporting matters in respect of the year ended 30 April 2016, 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, the Committee considered whether any actual or anticipated changes in the commercial terms or duration of rail franchises resulted in any changes in accounting estimates. The Committee also considered the accounting for any costs incurred in pursuing rail franchise opportunities. The Committee concluded that the accounting estimates in the consolidated financial statements had been appropriately updated for such franchise changes and that any costs incurred in pursuing rail franchise opportunities had been appropriately accounted for.
- Other liabilities – The Committee considered the judgements made in respect of certain other liabilities including the token provision, and considered them to be appropriate.

The Audit Committee also reviewed the evidence that supported the 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 30 April 2019, noting it was consistent with the disclosure given in section 3.12 of this Annual Report.

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
Pensions			
The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and mortality rates.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, comparing these assumptions to those applied by other companies operating in the same sector as the Group as well as by listed companies more generally, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there was a range of acceptable assumptions but concluded that the assumptions applied were appropriate.	The total pensions expense recognised in the consolidated income statement for the year ended 30 April 2016 was £106.7m (2015: £84.2m) and the net retirement benefit liability as at 30 April 2016 was £96.7m (2015: £160.5m).	6, 25
Insurance			
The estimation of the insurance provision in respect of traffic accidents and employee incidents is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group.	The Committee discussed with management the key judgements made in determining the insurance provision, challenging the methodology used, and understanding the extent to which estimates are supported by third party actuarial advice and analysis provided by the external auditors. The Committee noted that there was a range of acceptable estimates for the year-end insurance provision and after challenge, concluded that the amount of the insurance provision was at an appropriate point within that range.	The insurance provision in the consolidated balance sheet as at 30 April 2016 was £148.6m (2015: £150.7m).	24
Taxation			
Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities.	The Committee considered the judgements made in respect of tax by reviewing reports from management outlining the basis of the assumptions, challenging the estimates formed and considering the extent to which third party professional advice and/or historical experience informed the judgements. The Committee met with the Group's Tax Director, the Group Tax Manager and a tax specialist from the external auditors in April 2016. The specific judgements considered by the Committee included the accounting for the tax effect of fuel derivatives, transfer pricing and the financing of foreign operations. The Committee concluded that appropriate judgements had been made in determining the tax amounts recorded in the financial statements.	The consolidated tax charge for the year ended 30 April 2016 was £5.4m (2015: £25.7m). The net consolidated tax liability as at 30 April 2016 was £58.8m (2015: £63.2m).	7, 23
Twin America Litigation			
Certain of the Group's subsidiaries and one of its joint ventures, Twin America, are party to litigation as explained in note 31 to the consolidated financial statements. The ultimate cost to the Group in respect of this matter is uncertain but the Audit Committee is pleased that position is now less uncertain as a result of progress made during the year ended 30 April 2016.	The Committee considered the appropriateness of liabilities held by the Group and its joint venture in respect of the Twin America litigation. It considered this through discussion with management and consideration of relevant legal advice. It evaluated the range of possible outcomes and concluded that appropriate liabilities had been recorded in the consolidated financial statements.	The carrying value of the Group's interest in Twin America as at 30 April 2016 was £Nil (2015: £35.9m), after deducting £Nil (2015: £2.6m) in respect of the Group's share of liabilities related to the litigation. A further £1.6m was held in accruals in the Group's consolidated balance sheet as at 30 April 2016 (2015: £4.1m) in respect of liabilities related to the litigation.	13, 31
Impairment and onerous contracts			
The Group's critical accounting policies described in section 1.6.12 of this Annual Report, include goodwill and impairment; and acquired customer contracts and onerous contracts. A number of the Group's businesses have experienced more challenging trading conditions over the last year. The Committee therefore focused on whether any impairment losses and/or onerous contract provisions arose in respect of those businesses.	For those businesses where trading conditions have been more challenging than previously expected, in particular Twin America, Sheffield Supertram and Virgin Trains East Coast, the Committee assessed whether any assets were impaired and whether any contracts had become onerous. The Committee considered the judgements made by management in undertaking impairment and onerous contract reviews and challenged the assumptions on matters such as future cash flows, growth rates, tax rates and discount rates. Impairment losses were identified in respect of the carrying value of the Group's interest in its joint venture, Twin America, and in respect of assets at Sheffield Supertram. No new onerous contracts were identified.	An exceptional charge of £37.9m was recognised for the year ended 30 April 2016 in respect of Twin America. An exceptional impairment charge of £6.0m was recognised in respect of Sheffield Supertram.	4, 13, 31

5.4.2 External auditors

The external auditors presented a detailed audit plan to the Committee, setting out their analysis of significant audit risks and key judgemental accounting matters, which would inform their planned scope and approach to the current year audit. For the year ended 30 April 2016, the most significant risks identified were in relation to provisioning for insurance claims, taxation, exceptional items, pensions accounting and the Twin America impairment assessment, based on the inherent level of management judgement required in these areas. These risks are monitored through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates.

Private meetings were held with the external auditors at each Committee meeting without the presence of management. The Committee Chairman also holds 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 Committee considered the audit fee of £0.9m (2015: £0.8m) for PricewaterhouseCoopers LLP appropriate and concluded that an effective audit can be conducted for such a fee.

5.4.3 Non-Audit services

In May 2014, the European Commission published a directive amending the Statutory Audit Directive and a new Audit Regulation. The new Audit Regulation has the direct effect of law and European Union member states, including the UK, are required to adopt provisions to ensure its effective application. The new Audit Regulation stipulates that a statutory auditor of a public-interest entity, which would include the Company, shall not provide certain non-audit services to that entity, its parent undertaking and/or its subsidiary undertakings within the European Union. The Company's auditors will therefore be prohibited from providing certain non-audit services to the Group that are not currently prohibited. The new requirements shall first apply to the Group in respect of its financial year ending 30 April 2018.

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 provided 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.

In addition to the audit fee, PricewaterhouseCoopers LLP received non-audit related fees of £0.2m (2015: £0.1m), which equate to 19.2% (2015: 12.1%) of the audit fee and further details of which can be found in note 3 of the consolidated financial statements.

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

5.4.4 Tender of external audit and Risk Assurance Function (internal audit)

PricewaterhouseCoopers has been the Group's external auditor since 2002. Until recently, the audit partner was Graham McGregor and the year ended 30 April 2016 was the fifth consecutive financial year that Graham acted as the audit partner. Martin Cowie, who was involved throughout the 2016 audit, recently became the lead audit partner and signed the auditors' reports. As disclosed in last year's Annual Report, the Audit Committee confirmed at its April 2015 meeting its intention to conduct a formal tender process prior to 1 May 2016. Deloitte has managed the Risk Assurance Function since 2002, which was also the last year an internal audit tender was conducted, and as a matter of good corporate governance practice, the Committee decided to formally tender this function in conjunction with the external audit tender.

The Audit Committee issued an initial Request for Information questionnaire ("RFI") in August 2015 to parties wishing to tender for the Group's external audit and/or internal audit.

An audit tender panel (the "AT panel") was established, comprised of the Audit Committee Chairman, the Group Finance Director and the Group Financial Controller. The AT panel reviewed the responses to the RFI and created a shortlist to take part in the Request for Proposal stage. Each member of the AT panel had separate meetings with each of the shortlisted bidders in advance of the proposals being submitted. All shortlisted bidders were invited to present to the Audit Committee in December 2015.

The presentations provided the opportunity for detailed discussion and rigorous evaluation of the firms. In determining who to recommend to appoint for each role, the Audit Committee took into account a number of factors. These included, but were not limited to, the experience of the firms particularly in the listed company environment and their knowledge of the transport industry, to inform which firms would provide the best quality and most effective audits.

Having concluded the process in January 2016, the Committee recommended to the Board that Ernst & Young be appointed as the Group's statutory auditor for the financial year ending 30 April 2017. It also recommended that PricewaterhouseCoopers be appointed to manage the Group's Risk Assurance Function. The Board accepted these recommendations and, accordingly, a resolution proposing the appointment of Ernst & Young as the Group's new statutory auditor will be put to the shareholders at the 2016 Annual General Meeting. The Audit Committee and Ernst & Young plan that the audit partner will be Mark Harvey. We expect that PricewaterhouseCoopers will be formally appointed to manage the Group Risk Assurance Function from August 2016.

The Group has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibility) Order 2014 during the year.

5.4.5 Internal auditors

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

The Audit Committee 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. 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. As discussed at section 5.4.4, the management of the Risk Assurance Function was tendered during the year, and it is planned that PricewaterhouseCoopers will be appointed effective from August 2016.

5.4.6 Code of Conduct and "Speaking Up" Policy

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

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were sufficiently material to merit disclosure in the Annual Report. The Committee also received and considered updates on litigation involving the Group, although other than the Twin America litigation referred to in section 5.4.1 above and the tax litigation referred to in section 1.6.4, there were no such matters that were sufficiently material to merit separate disclosure in the Annual Report.

5.4.7 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, significant tax accounting judgements and tax risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- The Committee considered reports on the planned external audit and Risk Assurance Function tenders.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, guidance for audit committees, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance.
- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture. The Group's Finance Director is Chairman of the Virgin Rail Group Audit Committee.
- Minutes of the Treasury Committee meetings (comprising members of management) were shared with the Audit Committee.
- The Committee reviewed a summary of the Directors' expense claims.

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

The Audit Committee's assessment considered whether:

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

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

5.5 Viability statement

During the year, the Audit Committee examined the requirements of the revised UK Corporate Governance Code in relation to the assessment and reporting of longer-term viability, risk management and internal control. The Audit Committee advised the Board on the statement on the Group's viability included in section 3.12 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, with particular focus around potential effectiveness of mitigating actions, and consideration of the Group's ability to withstand the severe but plausible downside scenarios modelled.

An early draft of the viability statement was presented to the Audit Committee and Board in April 2016 for review, with the statement being finalised at the June 2016 meeting.

5.6 Committee evaluation

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

6. Nomination Committee report

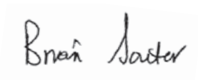
6.1 Introduction from Sir Brian Souter, Stagecoach Group Chairman and Chairman of the Nomination Committee

I am pleased to introduce my first report as Chairman of the Nomination Committee, having taken over from Garry Watts who stepped down as Deputy Chairman of the Company on 1 April 2016 and as Chairman of the Committee on 22 April 2016. I thank Garry for his work in chairing the Committee. Garry will remain a member of the Committee until he leaves the Board on 31 July 2016. I would also like to thank Helen Mahy, who stepped down from the Board and the Committee on 29 February 2016, for her contribution to the work of the Committee. I welcome James Bilefield to the Committee, joining Sir Ewan Brown, Garry Watts, Will Whitehorn and me with effect from 22 April 2016.

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

We have had a number of changes to our Board over the last year and the Nomination Committee was key to managing those changes. During the year, two of our non-executive directors, Helen Mahy and Phil White, resigned from the Board. Also, Garry Watts has given notice that he shall resign from the Board at the end of July 2016. The Nomination Committee led the process that resulted in the appointments of James Bilefield and Karen Thomson during the year, and the announcement since the end of the year of the proposed election of Ray O'Toole. Further details of the process are set out in this report.

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 who wish to continue on the Board for election or re-election (as appropriate) at the 2016 Annual General Meeting.



Sir Brian Souter
Chairman of the Nomination Committee

8 July 2016

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.

The search for candidates for non-executive directors during the year and subsequently was undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company. The Company engaged the services of the executive search firm, Heidrick & Struggles, to assist with the search. There is no other connection between Heidrick & Struggles and the Company.

Prospective candidates were considered by the members of the Nomination Committee and a short-list was proposed to the Board. Following meetings between the members of the Committee and then other members of the Board with a number of prospective candidates, James Bilefield, Karen Thomson and Ray O'Toole were identified by the full Board as the preferred candidates and appointment terms were offered and accepted. The full Board also considered and approved the appointment of Will Whitehorn to succeed Garry Watts as the Company's Deputy Chairman and Senior Independent Director.

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

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

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

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

6.4 Board diversity

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

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

The percentage of women on the Board is 20% and the Board aspires to maintain at least this percentage in the future. In addition to board diversity, the Company believes in promoting diversity at all levels of the organisation, further detail of which is provided in section 1.8.4 of the Strategic report.

6.5 Succession planning arrangements

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

The Nomination Committee 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 1.8.5, 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. Phil White brought significant bus and rail experience to the Board and Ray O'Toole will bring fresh insight on the bus and rail sector. 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 Garry Watts 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 during the year ended 30 April 2016 enhances the Board's skills in these areas.
- Listed company – The Committee believe 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, Sir Ewan Brown, Karen Thomson, Garry Watts 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 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 Will Whitehorn, 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. Helen Mahy stepped down from the Board and as Chairman of this Committee on 29 February 2016, after serving six years on the Board. As Chairman of the Health, Safety and Environmental Committee, Helen promoted a strong culture of safety from the Board into the whole Group and as the new Chairman of the Committee, I am determined to ensure that the Committee challenges the Group management team to continue to strengthen its safety management processes over time. I would like to welcome Karen Thomson, who joined the Committee from 21 April 2016.

In order to formulate and monitor the Group's policies, I believe that it is important to involve a range of contributors from the Group's businesses and to ensure that the members of the Committee actively engage with those businesses to help the Group to evolve its health, safety and environmental strategy. 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.

It is planned that I will hand over the chairmanship of the Committee to Ray O'Toole when he joins the Board in September 2016. I am confident that Ray will be a strong Committee Chairman and that the Group and the Committee will benefit from his depth of expertise in transport, health, safety and engineering matters.

Will Whitehorn
Chairman of the Health, Safety and Environmental Committee

8 July 2016

7.2 Composition of the Health, Safety and Environmental Committee

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

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

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

7.3 Operation of the Health, Safety and Environmental Committee

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

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. 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. As incidents occur, the Committee, aided by the safety management teams, is able to analyse those incidents and learn lessons to further improve the Group's safety processes.

The Committee and its members visit operational locations to observe health, safety and environmental management in practice. During the year, the members of the Committee visited the Group's Rail operations at Clapham Junction and were briefed on a number of initiatives being undertaken by the Group's rail operations. In particular, the rail management team explained the crowding issues that arise from the large number of passengers using Clapham Junction, the actions taken to address the issue at Clapham and how these actions could be applied to other stations.

In the Committee's 2015 performance evaluation, members of the Committee requested the chance to review the Group's Virgin Trains East Coast operations. The Committee held its February 2016 meeting at York Railway station and the Committee used the opportunity to receive briefings on a number of areas of the Virgin Trains East Coast business.

The Committee also visited the Group's operations in Washington DC and surrounding areas during the year and received briefings from the local management team on North America driver training procedures and health initiatives in the local businesses.

Committee members attend meetings of the Safety Committees of individual business units from time to time. The Committee allocates time in its agendas to receive detailed briefings on areas of specific interest or concern to it. During the year, presentations were received on a range of topics, including: advances in road safety technology, safety processes at Virgin Trains East Coast and in the Group's North America Division, UK Bus and North America bus driver training, rail safety reporting, rail operation risk management, the Group's Sustainability Strategy, planning for terrorist incidents and driver drug and alcohol testing processes.

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

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

8. Directors' remuneration report

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

On behalf of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 30 April 2016, prepared in compliance with UK reporting regulations. When Phil White left the Board on 31 March 2016, I was pleased to assume the chairmanship of the Committee on a temporary basis until I step down from the Board in July. I would like to personally thank Phil for his effective chairmanship of the Committee.

Will Whitehorn also left the Committee during the year following his appointment as the Deputy Chairman and Senior Independent Director, and I would like to thank Will for his strong contribution to the Committee. I was pleased to welcome James Bilefield as a new member of the Committee, joining Gregor Alexander and me. The Board will review the composition of the Committee in light of recent appointments to the Board.

The report includes a summary of the Directors' remuneration policy, which was approved at the 2014 Annual General Meeting on 29 August 2014, and the Annual Report on Remuneration for the year to 30 April 2016. A complete copy of the approved remuneration policy is available on our website at:

http://www.stagecoach.com/Remunerationpolicy29August-2014.pdf

In line with UK legislation, we do not intend to seek further approval of the policy at the 2016 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.

Our approach to executive pay and our remuneration policy has, therefore, remained unchanged during 2015/16 and the implementation has been consistent with previous years. Annual bonus potentials are retained at a maximum of 100% of basic pay (allocated 50% in cash and 50% in Deferred Shares) and with a maximum annual value on award under the Long Term Incentive Plan ("LTIP") of 150% of basic pay.

As explained in the 2015 Remuneration Report, the new version of the UK Corporate Governance Code ("the Code") recommends that performance-related remuneration schemes for executive directors should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. The Group had previously updated its Executive Participation Plan ("EPP") and LTIP to enable the Company to withhold the payment of any sum under these schemes – these provisions may be referred to as "malus" provisions. The current arrangements do not include provisions which enable the Company to recover sums already paid under the EPP or LTIP - such provisions may be referred to as "clawback" provisions. As a Committee, we will monitor developments in corporate remuneration practice and consider what, if any, changes to malus and clawback provisions should be introduced when the Directors' remuneration policy is next due for consideration by shareholders, at the Annual General Meeting in 2017. The malus provisions referred to above, the deferral of 50% of annual bonus in shares under the EPP and the interests in shares that the Executive Directors are expected to maintain (see section 8.5.8 of this Annual Report) are intended to ensure that the Executive Directors have a meaningful interest in the shares of the Company and take a longer term perspective on the success of the Company.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 30 April 2016 were:

- Reviewed the performance and approved the Executive Directors' bonuses for the year ended 30 April 2015.
- Set annual performance targets for the Executive Directors' bonuses.
- Reviewed performance of the 2012 awards under the LTIP, in June and December 2015.
- Reviewed and approved targets for LTIP awards made in the year ended 30 April 2016.
- Reviewed and approved the vesting of the 2012 awards under the EPP in June 2015.
- Decided on levels of pay and benefit increases in the annual salary review for the Executive Directors and made recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman.
- Reviewed the remuneration for senior non-Board managers.

Remuneration for 2015/16

The Group has delivered a solid set of financial results for the year and demonstrated its ability to deal with a challenging business environment.

These results, when measured against the demanding financial bonus targets set by the Committee for the year ended 30 April 2016, meant one of the three financial targets, consolidated net debt ("Net Debt") was better than target.

Consolidated profit before interest and taxation ("PBIT") from Group companies and consolidated adjusted earnings per share ("EPS") fell short of the demanding targets set for the year. Therefore, an annual bonus of 23.3% out of a maximum of 70% available for financial performance has been achieved. Whilst the shortfall against the PBIT and EPS targets reflected a combination of; (a) positive decisions to pursue expansion initiatives that were not budgeted, such as adding additional megabus Europe services despite knowing that these would be initially loss-making and (b) the overall trading results of the existing businesses falling short of target; the Committee did not believe the exercise of any discretion to vary the calculated bonus amounts was appropriate.

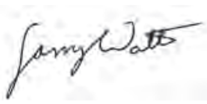
Both Martin Griffiths and Ross Paterson met all four of their personal objectives, contributing 30% towards their bonus award in each case. Taken together with the 23.3% awarded for the achievement against the financial targets, each director received a bonus award of 53.3% out of a maximum potential of 100% of basic pay. The awards will be satisfied one half in cash, and one half in Deferred Shares under the EPP.

The Committee remains committed to ensuring that there is a strong linkage between pay and performance and that pay remains aligned with the interests of shareholders and other major stakeholders.

We are grateful for the work undertaken by the Group and our remuneration advisers and for the support we have received from our major shareholders and their representative bodies. We continue to value shareholders' views on our remuneration arrangements and I can be contacted via the Company Secretary.

At the Group's Annual General Meeting on 25 August 2016, 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.



Garry Watts
Chairman of the Remuneration Committee

8 July 2016

8.2 Compliance statement

This Directors' remuneration report covers the year from 1 May 2015 to 30 April 2016 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration.

This report has been prepared in accordance with the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In accordance with Sections 439 and 439A of the Companies Act 2006, an advisory ordinary resolution to approve the statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration will be proposed at the 2016 Annual General Meeting.

Remuneration payments and payments for loss of office can only be made to directors if they are consistent with the approved Directors' remuneration policy or otherwise approved by ordinary resolution of the shareholders.

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

8.3 Remuneration Committee

The Committee's principal function is to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages and service contracts for the Group's Executive Directors and such senior members of the executive management as it is asked by the Board to consider. The Committee also has responsibility for making 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 sets out the remuneration policy for executive directors and non-executive directors. The policy was approved by a binding vote of shareholders on 29 August 2014 and took effect from that date.

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

8.4.1 Key principles of the remuneration policy

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

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

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

We also consult our major shareholders in developing policy.

8.4.2 Summary of remuneration policy for the Executive Directors

This section of our report sets out in tabular form a summary of each of the components of the remuneration package for the Executive Directors. The components reflect the policy that applied in the year ended 30 April 2016.

8.4.2.1 Fixed elements of pay

BASIC SALARY	
Purpose and link to strategy objectives To attract, retain and motivate executives ensuring basic salaries are competitive in the market. **Operation** Basic salaries are generally reviewed as at 1 May each year but the Remuneration Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. The Committee also considers the published salary data for FTSE 250 companies. Account is also taken of pay conditions throughout the Group.	**Maximum value** Basic salary increases are applied in line with the outcome of the annual review. Whilst there is no maximum salary or maximum increase in salary, the Committee would only set a salary which exceeded the top quartile of salaries applicable in FTSE 250 companies in unforeseen and exceptional circumstances. **Performance metrics** Basic salary levels are predicated on continued good performance by the director. Salary levels set effective from 1 May 2016 are set out in section 8.5.13.1.1 of the Annual Report on Remuneration.

8.4.2.1 Fixed Pay (continued)

PENSIONS AND LIFE ASSURANCE ARRANGEMENTS

Purpose and link to strategy objectives

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

Operation

Pension obligations for the Executive Directors are met through a combination of approved defined benefit, unfunded pension arrangements, and cash allowances, designed to provide pension benefits on retirement of up to two thirds of final pensionable pay. Her Majesty's Revenue and Customs ("HMRC") and Scheme rules provide that defined benefit pension benefits may not be drawn before age 55.

Maximum value

Final salary elements are related to basic salary, and any element satisfied by an employer cash allowance would be limited to a third of basic salary.

Performance metrics

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

BENEFITS IN KIND AND OTHER ALLOWANCES

Purpose and link to strategy objectives

Designed to be competitive in the market.

Operation

Benefits in kind and other allowances can include:

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

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

Maximum value

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

Participation in the BAYE scheme is subject to HMRC limits.

Performance metrics

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

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

8.4.2.2 Variable Pay

PERFORMANCE-RELATED ANNUAL CASH BONUSES

Purpose and link to strategy objectives

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

Operation

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

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

Maximum value

The maximum annual bonus is up to 100% of basic salary, of which 50% of any bonus award in the year will be settled in cash.

Performance metrics

70% of the maximum annual bonus is subject to meeting demanding key financial objectives, and 30% is for meeting individual business related objectives. In accordance with the rules of the EPP, at least 50% of any actual bonus will be deferred as shares under the EPP.

A number of discrete objectives are set and the bonus potential is specified for each. The minimum level of performance required to be met for payout for each of the discrete objectives is that specified in the objectives.

Further details of the performance measures used for the 2016 bonus are set out in the Annual Report on Remuneration in section 8.5.3.(iii).

EXECUTIVE PARTICIPATION PLAN ("EPP")

Purpose and link to strategy objectives

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

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

Operation

Participants are awarded Deferred Shares, which 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 granted after 30 August 2013 are subject to malus.

Maximum value

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

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

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

Performance metrics

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

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

8.4.2.2 Variable Pay (continued)

LONG TERM INCENTIVE PLAN ("LTIP")

Purpose and link to strategy objectives

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

Operation

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

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

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

Maximum value

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

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

Performance metrics

Awards made prior to 1 May 2014 are subject to a stringent performance condition related to total shareholder return (''TSR'') over a three-year assessment period. TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured relative to an appropriate comparator group of FTSE 250 companies.

Such awards will vest as follows:

- If the TSR does not exceed the median of the comparator group, then none of the relevant available Incentive Units awarded will vest and they will lapse;
- If the TSR exceeds the median of the comparator group (which is the "threshold" performance level), then one-sixth (16.67%) of the available Incentive Units awarded will vest and the remainder will lapse;
- If the TSR is in the top decile of the comparator group, then all of the available Incentive Units awarded will vest;
- If the TSR is higher than the median but less than the top decile of the comparator group, then the proportion of the available Incentive Units that will vest would be between 16.67% and 100% of the available Incentive Units awarded depending on the actual ranking against the comparator group.

For awards under the LTIP from 1 May 2014, a second performance condition applies, with one half of annual awards being made based on relative total shareholder return, and the other half based on targets set for a measure of earnings per share ("EPS") over the three-year period. In setting stretching targets for the EPS based performance condition the Committee will take into account factors such as:

- The long-term expectations for the Group
- Analysts' consensus expectations
- Market norms and the approach of peer group companies
- The level of expected underlying inflation, such that any growth target must be positive and exceed inflation.

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

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

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

- If the EPS is below the target set by the Remuneration Committee, then none of the relevant available Incentive Units will vest and they will all lapse;
- If the EPS equals the target for threshold vesting set by the Remuneration Committee (which is the "threshold" performance level), then one-quarter (25%) of the available Incentive Units will vest and the remainder will lapse;
- If the EPS equals or exceeds the target for maximum vesting set by the Remuneration Committee then all of the available Incentive Units will vest;
- If the EPS is higher than the threshold vesting target but less than the maximum vesting target, then the proportion of the Incentive Units that will vest would be between 25% and 100% of the available Incentive Units adjusted on a straight line basis depending on the EPS achieved.

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.

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 above for regulatory, exchange control, administrative or tax purposes.

8.4.3 Summary of remuneration policy for the Non-Executive Directors

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

BASIC SALARY/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. Remuneration comprises an annual fee for acting as a non-executive director.

Remuneration for the Chairman comprises an annual fee for acting as Chairman.

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

Non-executive directors do not participate in pensions or incentive benefits, or receive other remuneration in addition to their fees. Business related travel and accommodation expenses will be met or reimbursed including for partners to corporate events or management conferences, and in the case of the Chairman, home telephone costs may be met or reimbursed.

Maximum value

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

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

Performance metrics

Continued good performance.

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 30 April 2016.

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. Attendance at meetings by individual members is detailed in section 4.11. No director was involved in decisions as to their own remuneration.

The members who served on the Committee during the year ended 30 April 2016 were:

- Garry Watts (as Chairman from 21 April 2016)
- Gregor Alexander
- Will Whitehorn (until 21 April 2016)
- Phil White (Chairman until 31 March 2016)
- James Bilefield (from 21 April 2016)

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

8.5.2 Advisers

The Committee retained Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. It has no other connection to the Group. Addleshaw Goddard LLP received £8,417 (2015: £9,826) in respect of work it carried out in the year ended 30 April 2016. The fees payable were determined by Addleshaw Goddard LLP with reference to time spent and applicable hourly rates. We do not consider the level of fees paid or the nature of the work performed would prejudice the objectivity or independence of Addleshaw Goddard LLP.

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

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

Directors' remuneration and the single figure total for the year ended 30 April 2016 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION (amounts in £000)	Basic Salary/Fees		Benefits in kind		Short Term Incentives (performance related bonus)		Long Term Incentives vested (LTIP)		Pension related benefits		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Executive directors												
Martin Griffiths	**627**	614	**25**	23	**334**	399	**–**	99	**330**	316	**1,316**	1,451
Ross Paterson	**418**	410	**23**	23	**223**	267	**–**	49	**192**	196	**856**	945
Non-executive directors												
Gregor Alexander	**59**	58	**–**	–	**–**	–	**–**	–	**–**	–	**59**	58
James Bilefield (appointed 1 February 2016)	**13**	–	**–**	–	**–**	–	**–**	–	**–**	–	**13**	–
Sir Ewan Brown	**53**	53	**–**	–	**–**	–	**–**	–	**–**	–	**53**	53
Ann Gloag	**54**	53	**–**	–	**–**	–	**–**	–	**–**	–	**54**	53
Helen Mahy (resigned 29 February 2016)	**49**	58	**–**	–	**–**	–	**–**	–	**–**	–	**49**	58
Sir Brian Souter	**209**	205	**–**	–	**–**	–	**–**	–	**–**	–	**209**	205
Karen Thomson (appointed 31 March 2016)	**5**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5**	–
Garry Watts	**131**	128	**–**	–	**–**	–	**–**	–	**–**	–	**131**	128
Phil White (resigned 31 March 2016)	**54**	58	**–**	–	**–**	–	**–**	–	**–**	–	**54**	58
Will Whitehorn	**62**	53	**–**	–	**–**	–	**–**	–	**–**	–	**62**	53
Total	**1,734**	1,690	**48**	46	**557**	666	**–**	148	**522**	512	**2,861**	3,062

Directors' remuneration report

Notes to Table 1:

i. Basic Salary/fees

The basic salary/fees in Table 1 correspond to the amounts payable in respect of the financial year ended 30 April. Salary is paid monthly. Both Executive Directors participated in pension salary sacrifice arrangements during the year and the basic salary amounts are shown gross before any salary sacrifice arrangements.

ii. Benefits in kind and other allowances

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

TABLE 2 – BENEFITS IN KIND	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
	2016 £	2015 £	**2016 £**	2015 £	**2016 £**	2015 £	**2016 £**	2015 £	**2016 £**	2015 £
Martin Griffiths	**22,000**	22,000	**1,061**	866	**1,800**	405	**185**	177	**25,046**	23,448
Ross Paterson	**22,000**	22,000	**1,061**	866	**–**	–	**185**	177	**23,246**	23,043
Sir Brian Souter	**–**	–	**–**	–	**286**	25	**–**	–	**286**	25

During the year both Executive Directors participated in the Buy As You Earn ("BAYE") Plan. We believe that the BAYE plan aligns the interests of employees and shareholders by allowing all UK employees of the Group to purchase shares out of salary. It is designed to aid staff motivation and retention. The maximum employee purchase is governed by HMRC limits and 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 10.

iii. Performance related bonus

Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Committee determines the annual bonus for each executive director for the year just ended. This is based on the director's performance in achieving the set objectives. The objectives comprise both financial objectives for the Group and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 30 April 2016 were to meet financial targets with respect to measures of profit before interest and taxation, earnings per share, and net debt.

For the year ended 30 April 2016, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of financial objectives and 30% for meeting individual business related objectives. Details of the financial objectives applicable for 2015/16 are shown below:

TABLE 3 – DIRECTORS' OBJECTIVES	Target	Achieved	Potential Bonus (% of basic salary)	Bonus Awarded (% of basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	£227.6m	£204.0m	23.4%	–
Consolidated adjusted earnings per share ("EPS")	29.8p	27.7p	23.3%	–
Consolidated net debt ("Net Debt")	£467.6m	£399.3m	23.3%	23.3%
Element of bonus related to Group financial objectives			70.0%	23.3%

The PBIT and EPS measures shown above are determined in accordance with International Financial Reporting Standards but adjusted to exclude intangible asset expenses and exceptional items. The PBIT measure also excludes any share of profit or loss from joint ventures. The Net Debt measure shown above is determined in accordance with the definition of net debt given in note 35 to the consolidated financial statements. The actual values achieved in respect of each of the three measures are adjusted to exclude the impact of any acquisitions and disposals that were not included in determining the target values.

For the year ended 30 April 2016, the Chief Executive had personal objectives relating to:

- Health and safety performance across all business units;
- Strategy and value creation from rail activities;
- The development of inter-city coach operations in North America and Europe and;
- Managing the risks and opportunities arising from the potential regional devolution in the UK.

For the year ended 30 April 2016, the Finance Director had personal objectives relating to:

- The Group's investment grade credit ratings;
- The re-financing of debt;
- Reviewing the Group's strategy and in particular, the strategy in respect of the North America Division as well as the global megabus operations;
- The further development of the Group's digital and commercial capabilities.

The Committee intends to provide information on the Executive Directors' personal objectives for the year ending 30 April 2017 when it considers such disclosure to be no longer commercially sensitive.

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the Group's financial results as presented elsewhere in the Annual Report, relative total return to shareholders over the year, the Group's operational performance and other strategic developments. Performance related bonuses awarded to the Executive Directors in respect of the year ended 30 April 2016 are shown below:

TABLE 4 – DIRECTORS' BONUSES AWARDED	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
Director	Cash	Deferred Shares under EPP	Cash	Deferred Shares under EPP
Martin Griffiths	26.7%	26.7%	50%	50%
Ross Paterson	26.7%	26.7%	50%	50%

iv. LTIP

No amount is shown in Table 1 in respect of the LTIP vestings for the year ended 30 April 2016, as the December 2012 award achieved a ranking of 148 out of the 239 companies in the comparator group throughout the performance period, so did not pay out. Similarly, no amount is included for the June 2013 amount as it did not pay out.

Details of LTIP awards that are treated in Table 1 as having vested during the year ended 30 April 2016 are shown below:

TABLE 5 – LTIP AWARDS treated as vested for inclusion in Table 1 **Grant date**	As at 30 April 2015 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	As at 30 April 2016 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Vesting Date	Vesting %
Martin Griffiths							
06 Dec 12	114,985	2,486	(117,471)	–	–	10 Dec 15	0.00%
27 Jun 13	150,139	5,181	–	155,320	–	29 Jun 16	0.00%
					–		
Ross Paterson							
06 Dec 12	53,658	1,160	(54,818)	–	–	10 Dec 15	0.00%
27 Jun 13	100,092	3,454	–	103,456	–	29 Jun 16	0.00%
					–		

LTIP awards vested in June 2015

A forecast of the vesting value of the June 2012 LTIP awards which vested in June 2015 was shown in the 2015 Annual Report. The forecast amounts used were £Nil for both Martin Griffiths and Ross Paterson. No payment was made on vesting in June 2015.

v. Pension related benefits

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

vi. External Appointments

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £55,395 fees received from this position in the year ended 30 April 2016 (2015: £52,777).

8.5.4 Pensions (audited)

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

Martin Griffiths accrued benefits in the year ended 30 April 2016 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.

During the year ended 30 April 2016, Ross Paterson accrued benefits under the Group funded pension arrangements. During the preceding year, he accrued benefits under a combination of a HMRC-approved Group defined benefit pension scheme and the Group funded pension arrangements.

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

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

TABLE 6 – DIRECTORS' PENSION BENEFITS	Normal Retirement date	Contributions paid by the director for the year ended 30 April 2016 £000	Accrued cash entitlement at 30 April 2015 £000	Accrued annual pension entitlement at 30 April 2015 £000	Accrued cash entitlement at 30 April 2016 £000	Accrued annual pension entitlement at 30 April 2016 £000
Martin Griffiths	31 March 2026	55	168	112	168	132
Ross Paterson	29 July 2031	37	137	64	137	76

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

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

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

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

Tables 7 and 8 set out the awards to the Executive Directors under the Company's share schemes during the year ended 30 April 2016.

TABLE 7 – 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 £	Maximum total value at time of grant £	Vesting Date	Performance period
Martin Griffiths								
25 Jun 15	Incentive Units	4.1700	75% of basic salary	112,715	321,582	470,022	25 Jun 18	1 May 2015 - 30 April 2018
10 Dec 15	Incentive Units	3.0470	75% of basic salary	154,258	321,582	470,024	10 Dec 18	1 Nov 2015 - 31 Oct 2018
Ross Paterson								
25 Jun 15	Incentive Units	4.1700	75% of basic salary	75,143	214,387	313,346	25 Jun 18	1 May 2015 - 30 April 2018
10 Dec 15	Incentive Units	3.0470	75% of basic salary	102,838	214,385	313,347	10 Dec 18	1 Nov 2015 - 31 Oct 2018

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

The maximum and expected values shown above ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. The actual number of Incentive Units (if any) which vest will depend on the performance conditions being achieved. 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 challenging performance target of 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 portion of the award that is EPS based will attract a threshold payout level of 25% if the EPS growth over the three-year performance period is at least 15% and a 100% payout only if the EPS growth is at least 27% over the three-year performance period. A sliding scale of vesting on a straight-line basis would be applied between these lower and upper vesting levels.

TABLE 8 – EPP AWARDS IN YEAR	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Deferred Shares)	Maximum & expected total value at time of grant £	Vesting Date	Performance period
Martin Griffiths							
25 Jun 15	Deferred Shares	4.1700	50% of annual bonus	47,884	199,676	25 Jun 18	n/a
Ross Paterson							
25 Jun 15	Deferred Shares	4.1700	50% of annual bonus	31,923	133,119	25 Jun 18	n/a

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

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

8.5.6 Payments to past directors (audited)

There have been no payments (2015: £Nil) in excess of the de minimis threshold to former directors during the year ended 30 April 2016 in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

8.5.7 Payments for loss of office (audited)

There have been no payments for loss of office to directors during the year ended 30 April 2016 (2015: £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 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 30 April year end. LTIP incentive units are not included in this measurement. The Committee noted that both directors increased their interest in the number of shares held outright during the period, and the Committee remains satisfied that both directors retained significant interests in the shares of the Company. Martin Griffiths had an interest in shares equivalent to 226% (2015: 332%) of his basic salary and Ross Paterson an interest in shares equivalent to 179% (2015: 240%) of his basic salary. Ross Paterson had an interest in shares equivalent to 240% at the start of the financial year and although the number of shares he has an interest in increased during the year, a reduction in the Company's share price has resulted in his interest falling below the target 200% of basic salary. Consistent with the Committee's policy explained above, Ross would have a further period of three years to adjust his holding in shares to achieve the shareholding guideline.

The effective interests of the Directors (including those of connected persons) as at 30 April 2016 were:

TABLE 9 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 30 APRIL 2016	Interests as at 30 April 2016				Scheme interests vested during year ended 30 April 2016	
	Shares held outright	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)
Executive directors						
Martin Griffiths	435,240	813,503	213,087	2,667	–	76,483
Ross Paterson	226,398	542,330	115,141	2,667	–	27,890
Non-executive directors						
Gregor Alexander	10,406	–	–	–	–	–
James Bilefield	–	–	–	–	–	–
Sir Ewan Brown	*see note below*					
Ann Gloag	62,501,721	–	–	–	–	–
Sir Brian Souter	86,900,445	–	–	–	–	55,762
Karen Thomson	–	–	–	–	–	–
Garry Watts	16,000	–	–	–	–	–
Will Whitehorn	72,288	–	–	–	–	–

Sir Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 18% (2015: 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 30 April 2016 (2015: 3,267,999).

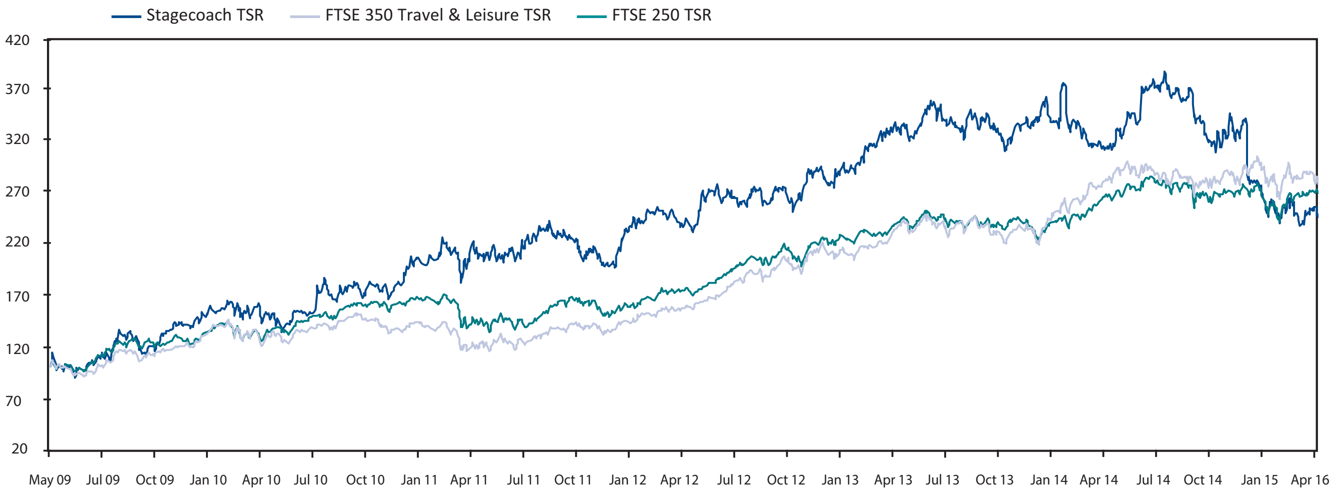
Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 10 below.

TABLE 10 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 30 April 2015	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 30 April 2016	Vesting Date
Long Term Investment Plan							
Martin Griffiths	139,694	–	–	(139,694)	–	–	29 Jun 15
	114,985	–	2,486	(117,471)	–	–	10 Dec 15
	150,139	–	5,181	–	–	155,320	29 Jun 16
	125,237	–	4,322	–	–	129,559	12 Dec 16
	124,613	–	4,300	–	–	128,913	26 Jun 17
	122,669	–	4,233	–	–	126,902	11 Dec 17
	–	112,715	3,890	–	–	116,605	25 Jun 18
	–	154,258	1,946	–	–	156,204	10 Dec 18
	777,337	266,973	26,358	(257,165)	–	813,503	
Ross Paterson	65,189	–	–	(65,189)	–	–	29 Jun 15
	53,658	–	1,160	(54,818)	–	–	10 Dec 15
	100,092	–	3,454	–	–	103,546	29 Jun 16
	83,490	–	2,881	–	–	86,371	12 Dec 16
	83,075	–	2,867	–	–	85,942	26 Jun 17
	81,779	–	2,822	–	–	84,601	11 Dec 17
	–	75,143	2,592	–	–	77,735	25 Jun 18
	–	102,838	1,297	–	–	104,135	10 Dec 18
	467,283	177,981	17,073	(120,007)	–	542,330	
Executive Participation Plan							
Martin Griffiths	76,483	–	–	–	(76,483)	–	30 Jun 15
	76,482	–	2,681	–	–	79,163	29 Jun 16
	81,506	–	2,856	–	–	84,362	26 Jun 17
	–	47,884	1,678	–	–	49,562	25 Jun 18
	234,471	47,884	7,215	–	(76,483)	213,087	
Ross Paterson	27,890	–	–	–	(27,890)	–	30 Jun 15
	24,982	–	875	–	–	25,857	29 Jun 16
	54,338	–	1,905	–	–	56,243	26 Jun 17
	–	31,923	1,118	–	–	33,041	25 Jun 18
	107,210	31,923	3,898	–	(27,890)	115,141	
Sir Brian Souter	55,762	–	–	–	(55,762)	–	30 Jun 15
Buy as you Earn Scheme							
Martin Griffiths	1,989	600	78	–	–	2,667	n/a
Ross Paterson	1,989	600	78	–	–	2,667	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 seven years to 30 April 2016 compared with that of the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index used by the Company for the TSR based performance criterion for the LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index.

Stagecoach 7-Year TSR Comparative Performance to 30 April 2016:



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

TABLE 11 – PAY FOR THE ROLE OF CHIEF EXECUTIVE Year ended 30 April:	**Sir Brian Souter** 2010	2011	2012	2013	**Martin Griffiths** 2014	2015	2016
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%	65%	53%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	56%	10%	0%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,212	1,451	1,316

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

TABLE 12 – BONUS AWARDED TO CHIEF EXECUTIVE (before waivers) Year ended 30 April:	**Sir Brian Souter** 2010	2011	2012	2013
Bonus (percentage of maximum)*	80%	90%	90%	90%

The total remuneration figure is calculated on the same basis as the single total figure of remuneration for directors shown in Table 1 in section 8.5.3.

8.5.10 Percentage change in Chief Executive Remuneration (audited)

The change in the Chief Executive's remuneration from 2014/15 to 2015/16 in comparison to a comparator group of employees is shown in Table 13 below.

TABLE 13 – PERCENTAGE CHANGE IN REMUNERATION FOR THE ROLE OF CHIEF EXECUTIVE	Percentage change of Chief Executive	Percentage change per capita of employees in the comparator group throughout both years
Salary	2.0%	3.1%
Benefits	6.8%	4.6%
Bonus	(16.4)%	(7.7)%

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

8.5.11 Relative Importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 30 April 2016 and the year ended 30 April 2015. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 14 – SPEND ON PAY RELATIVE TO DIVIDENDS	2016 £m	2015 £m	Percentage change
Profit distributed by way of dividend	62.0	56.3	10.1%
Overall spend on pay for employees	1,382.3	1,203.8	14.8%

Fees are effective from 1 May each year.

8.5.12 Consideration of shareholder views (audited)

The following table shows the results of the vote on the 2015 Remuneration Report at the 2015 Annual General Meeting.

TABLE 15 – SHAREHOLDER VOTE	Directors' Remuneration Report	
	Total number of votes	% of votes cast
For+	438,012,056	99.43%
Against	2,518,347	0.57%
Total votes cast (excluding withheld votes)	440,530,403	100.00%
Votes withheld*	417,604	
Total votes cast (including withheld votes)	440,948,007	

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

8.5.13 Implementation of remuneration policy in the financial year ending 30 April 2017

In the year ending 30 April 2017, 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 2016/17 basic salary decisions which are in line with the Directors' remuneration policy.

TABLE 16 – INCREASES IN BASIC SALARY	2016/17 salary £	2015/16 salary £	Percentage change
Martin Griffiths	639,200	626,700	2.0%
Ross Paterson	426,200	417,800	2.0%

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

8.5.13.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the Directors' Remuneration Policy, and there are no changes in the maximum bonus or LTIP potential amounts as a percentage of basic salary.

Short-term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the Directors' Remuneration Policy.

Targets are approved by the Remuneration Committee around the beginning of the year. Each executive director has a maximum potential bonus of up to 100% of basic salary, with 70% allocated over a range of demanding key financial objectives and 30% for meeting individual business related objectives. The Committee has determined that the element of the potential bonus related to financial objectives for 2016/17 will be allocated as follows:

TABLE 17 – FINANCIAL OBJECTIVES FOR 2016/17 BONUS	Potential bonus (% of the basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	23.4
Consolidated adjusted earnings per share ("EPS")	23.3
Consolidated net debt ("Net Debt")	23.3
Element of bonus related to Group financial objectives	70.0

The three measures listed in Table 17 will be defined consistently with 2015/16 (see note iii to Table 1), except that rail franchise bid costs will be excluded from both the target and the actual results for PBIT and EPS for the purposes of determining Directors' bonus awards.

The Committee is of the view that the performance targets for the financial element under the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. The targets and achievements in respect of the year ending 30 April 2017 will be disclosed in the 2017 Annual Report. The Committee is of the view that the performance targets for the 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 when 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 30 April 2017 and the nature of the performance conditions are provided in Table 18 below.

TABLE 18 – INTENDED LTIP AWARDS	Award Type	Performance metric	Face value of award at maximum vesting (% of 2016/17 salary)	Percentage of award vesting for threshold achievement	Length of Performance period
Martin Griffiths	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	EPS growth objectives	75%	25%	3 years
Ross Paterson	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	EPS growth objectives	75%	25%	3 years

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

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

The 2016/17 awards will be split one half based on TSR performance against a comparator group of the list of FTSE 250 companies, and the other half based on a measure of earnings per share. For the TSR based awards, the TSR must exceed the median of the comparator group and the amount of Incentive Units awarded which are released will range from 25% to 100% of the available Incentive Units depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units. Demanding targets for the growth in earnings per share will be set for the other half of the awards based on relevant market factors and expectations for the Group as at the date of award. The portion of the award that is EPS based will attract a threshold payout level of 25% if the EPS growth over the three-year performance period is at least 15% and a 100% payout only if the EPS growth is at least 27% over the three-year performance period. A sliding scale of vesting on a straight-line basis would be applied between these lower and upper vesting levels.

8.5.13.2 Implementation of non-executive directors' remuneration policy

Annual fees for 2017

The implementation of policy in relation to the Non-Executive Directors is in line with the 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. The fees per annum for the Non-Executive Directors for 2015/16 and the amount set for 2016/17 are set out in Table 19 below.

TABLE 19 – NON-EXECUTIVE DIRECTOR FEES	2016/17 fees £	2015/16 fees £
Chairman	213,100	208,900
Deputy Chairman	150,000	130,600
Chairmen of Audit, Remuneration and Health, Safety & Environmental Committees	59,700	58,600
Other non-executive Directors (range)	52,500-54,700	52,500 - 53,600

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 8 July 2016 on behalf of the Board by:

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

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

Report on the Group financial statements

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 30 April 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the consolidated balance sheet (statement of financial position) as at 30 April 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Overview

- Overall Group materiality: £8.6m (2015: £8.7m) which represents 5% (2015: 5%) of profit before tax prior to exceptional items and after intangible asset expenses.
- In expressing our opinion over the Group financial statements, we audited the financial information of North America and all reporting units for UK Rail, and the 15 most significant reporting units by size for UK Bus (London) and UK Bus (regional operations). We also instructed and received reporting from component auditors in relation to Virgin Rail Group and Twin America.
- We performed additional audit procedures at a Group level including over the consolidation, and on exceptional items, pensions, taxation, financial instruments, share based payments and presentation of the Group financial statements.
- We updated our understanding of the key controls and processes that management have in place in relation to material balances and tested those that provided us with appropriate evidence for the purposes of our audit.
- The reporting units where we conducted our audit work accounted for 93% (2015: 91%) of Group profit before tax prior to exceptional items, 96% (2015: 92%) of Group revenues and 72% (2015: 73%) of Group total assets.

Our audit focused on the following areas:

- Pension liabilities;
- North America and UK Bus insurance provisions;
- Uncertain tax positions;
- Impairment and onerous contracts reviews; and
- Exceptional items.

The scope of our audit and our areas of focus

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

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

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

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

Area of focus	How our audit addressed the area of focus
Pension liabilities The Group had a net pension deficit of £96.7m as at 30 April 2016 (2015: £160.5m). We focused on the valuation of the pension liabilities because of their significance to the overall financial statements. Relatively small movements in assumptions applied can result in a material impact to the financial statements. Valuation of pension liabilities is dependent upon judgement by management in determining and applying appropriate assumptions used in the actuarial calculation. These assumptions include life expectancies of scheme members, discount rate and inflation rates. Applying an appropriate methodology consistent with the requirements of accounting standards also requires judgement. Refer also to notes 6 and 25 to the consolidated financial statements.	We obtained and read the independent actuary's report commissioned by management which reported on the assumptions and methodology used to calculate the pension liabilities and compliance of management's approach with the relevant accounting standard. We challenged the critical actuarial assumptions used (including the discount rate, life expectancies of scheme members and inflation rates) and the judgements taken by management in applying these assumptions in calculating the pension liabilities. This included comparing those critical actuarial assumptions used by management to independent estimates prepared by our specialists based on their understanding of Stagecoach pension schemes and expectations based on wider industry knowledge. In addition to our assessment of management's critical assumptions, we also compared those assumptions to our own benchmark range of companies. The critical assumptions applied by management were within our expected or benchmark ranges. We checked that management's process and methodology in calculating the net pension deficit was consistently applied year to year for accounting purposes and reflected the most recent triennial valuation reports and found this to be the case. We tested pension scheme membership information as this is a key input used in the overall pension liability calculations. We agreed this data, on a sample basis, to underlying employee records. We did not note any material exceptions in our testing.
North America and UK Bus insurance provisions Total insurance provisions as at 30 April 2016 amount to £148.6m (2015: £150.7m), the majority of which relates to UK Bus and North America. Although the Group uses insurance policies to protect against claims, the excesses under these policies that apply to individual claims are payable by the Group and provided for on the balance sheet. These provisions are both material and judgemental. The provisions require management to use their experience and judgment to estimate both the liability for known cases, and the liability for exposures on cases which have not yet been reported. For the North America insurance provision, management calculates the provision in-house, using its knowledge and experience of loss rates and applying a consistent process and methodology. For the UK Bus insurance provision, the provision is based upon an independent actuarial review, with adjustment by management to reflect its view of volatility in actuarial estimates from year to year, applying a consistent process and methodology. Refer also to note 24 to the consolidated financial statements.	Our audit testing with respect to both the North America and UK Bus insurance provisions was as follows: • We updated our understanding of the key controls and processes that management has in place to assess insurance claims and related provisions and found these to be consistently applied year to year. • We evaluated whether consistent processes and methodologies had been applied year on year in determining the levels of provisioning, by management in North America and management and the independent actuary for the UK Bus provision. The processes and methodologies were consistently applied. In addition for North America: • We tested certain controls that provided us with audit evidence over the completeness and accuracy of the claims data, as well as completing substantive testing over settlements in the year. No exceptions were noted from this testing. • We used our team, with relevant actuarial experience, in North America to independently recalculate North American insurance provisions based on underlying data used by management. • We compared the level of provision calculated by management with the independent calculation by our internal US actuaries and found the provision to be within our expected actuarial range. In addition for UK Bus: • We performed substantive audit testing over the underlying claims data. We tested a sample of year-end claims provisions by comparing the provision with recent settlement history for similar cases and obtaining relevant correspondence. We also tested settlements in the year. We did not note any material exceptions based on our evaluation of the available claims and settlement information. • We obtained and read the independent actuary's report commissioned by management which reported on the valuation of the UK Bus insurance provision. Based on our consideration of the report and available evidence, the methodology, assumptions and approach applied by management are in line with market practice and accounting standards. • We calculated an expected provision based on settlements and average claim life and compared this to the level of provision held by management and found that the value of the UK Bus provision is not materially different.
Uncertain tax positions The Group has a net consolidated tax liability of £58.8m as at 30 April 2016 (2015: £63.2m) which includes provisions in relation to uncertain tax positions. These were an area of focus in our audit because of the judgemental nature of the balances and the inherent complexity of interpreting and implementing taxation rules and the risk of challenge of certain of the Group's tax positions. Refer also to notes 7 and 23 to the consolidated financial statements.	We obtained reports showing the components of the tax provisions and used them to identify the most significant balances for testing. We then applied various selection criteria, including identifying the largest balances, for testing. As appropriate, we tested the completeness, accuracy and valuation of the provisions as follows: • In undertaking our testing, we obtained evidence to substantiate the continued recognition of the opening tax provisions and the recognition and measurement of any movements in tax provisions in the year. • We understood and re-performed the provision calculation with no exceptions noted. • We read relevant correspondence with tax authorities and considered the implications for our audit. • We used our tax expertise and our knowledge and experience of developments in the relevant tax jurisdictions to consider the completeness of liabilities and challenged the basis of the significant provision judgements made by management and their in-house tax specialists. • We utilised our experience of similar situations elsewhere to independently assess the evidence supporting those tax provisions. Based on our evaluation of the evidence obtained from the procedures described above, we did not identify any material misstatement in the tax provisions.

Area of focus	How our audit addressed the area of focus
Impairment and onerous contracts review The carrying value of the Group's interest in Twin America is impaired as a result of the challenging market factors in the New York sightseeing market, through increasing competition and regulatory pressures. Trading conditions at Twin America remain challenging. Management has undertaken an impairment review as at 30 April 2016 of the carrying value of the Group's interest in Twin America and has concluded that the carrying value is fully impaired at the balance sheet date. The financial performance at Sheffield Supertram was adversely affected by the closure of parts of the tram network to undertake replacement of the tram track. The financial performance has not recovered to the extent previously forecast. Management has also undertaken an impairment review as at 30 April 2016 of Sheffield Supertram and concluded that the carrying value of the assets are impaired by £6.0m. The profit of Virgin Trains East Coast has been less than that forecast by the Group at the time of its bid for the franchise. As a result, management has carried out an onerous contract review of the Virgin Trains East Coast franchise and concluded that the contract will earn a profit for the remaining term of its franchise. The assessments for impairment and onerous contracts are based on judgement and involve modelling and projecting certain assumptions, the most significant of which are future revenue growth assumptions and the application of contract terms. In evaluating management's assessments we focused on these key assumptions. Refer also to notes 4, 13 and 31 to the consolidated financial statements.	In summary, our approach to impairment and onerous contract reviews was as follows: • We discussed the performance and outlook for the Twin America business, the Sheffield Supertram business and the Virgin Trains East Coast franchise with Twin America, North America, UK Rail and Stagecoach Group management. • In considering management's impairment and onerous contract assessment models for these businesses, we tested and challenged management to substantiate the key assumptions used in the models, particularly in relation to revenue assumptions applied by management. We determined that the assumptions used by management were supportable based on our knowledge of the performance and outlook for the businesses and based on supporting evidence provided by management. • In evaluating management's trading and cash flow assumptions used in their impairment model, we compared forecast results to recent trading results and our knowledge of future changes to the business, corroborated through discussions with management. • Using the support of our valuations specialists, we evaluated the methodology used by management within its impairment and onerous contract calculations. Based on available evidence, we can conclude that the methodology, assumptions and approach applied are in line with market practice. • To assist us in challenging management's assumptions, we applied sensitivities to management's forecasts and considered the extent of a change in those assumptions, individually or together, that could give rise to a material adjustment to the identified impairment charge or result in an onerous contract. • Legal matters were discussed with Group Legal and their external legal advisors, and appropriate documentation considered to understand the application of contract terms under the Virgin Trains East Coast Franchise Agreement.
Exceptional items As a result of the exceptional items in relation to the impairment of the Group's interest in Twin America, the impairment of assets at Sheffield Supertram and finance costs associated with the early redemption of bonds, £67.2m of exceptional costs have been recorded during the year. Because of the judgement involved in determining what costs are deemed exceptional and whether such determination is made on a consistent basis, we focused on this area because misstatements in the exceptional costs could result in a misstatement of the Group's underlying profit. Refer also to notes 4 and 35 to the consolidated financial statements.	In summary, our approach to exceptional items was as follows: • We assessed the appropriateness of the costs classified as exceptional against the Group's definition of exceptional items as set out in note 35 to the consolidated financial statements and determined the classification to be appropriate. • We substantively tested the exceptional costs for the bond refinancing expenses, the Sheffield Supertram and Twin America impairments by testing to supporting documentation. We noted no exceptions from this testing. • We also considered whether there were other significant costs which should have been included in exceptional items and noted no such items. • We checked the nature of the costs and confirmed they were treated appropriately as exceptional items within the income statement. We reviewed the disclosures in the Annual Report relating to exceptional items. From the audit work performed, we did not note any exceptions arising from our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The scope of our audit reflected the organisational structure of the Group, being 5 business areas: UK Bus (London), UK Bus (regional operations), megabus Europe, UK Rail and North America.

As a result, we performed an audit of the financial information of all reporting units of UK Rail and North America and the 15 most significant reporting units by scale (based on profit before tax) of UK Bus. The audit work on all in scope reporting units, with the exception of Twin America and Virgin Rail Group, was performed directly by the Group engagement team. For Twin America, the Group engagement team instructed component auditors from PwC US, identifying and explaining areas of focus for their work. We also communicated with a firm outside of the PwC 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 those component auditors to clarify and discuss their audit approach, materiality and our reporting requirements. In addition, we had meetings and calls with the component auditors as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work.

This scope together with directed scope procedures over certain financial statement line items meant we performed audit work across components of the Group that accounted for 93% (2015: 91%) of Group profit before tax prior to exceptional items, 96% (2015: 92%) of Group revenue and 72% (2015: 73%) of Group total assets.

In addition, the Group audit team performed additional procedures over the consolidation process, exceptional items, pensions, taxation, financial instruments, share based payment and presentation of the Group financial statements, to give us the evidence we needed for our opinion on the Group financial statements as a whole.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£8.6m (2015: £8.7m).
How we determined it	5% of profit before tax prior to exceptional items and after intangible asset expenses of £171.6m. (2015: 5% of profit before tax prior to exceptional items and after intangible asset expenses of £173.1m).
Rationale for benchmark applied	This year, like the prior year, we have excluded exceptional items from our adjusted profit before tax benchmark so that our overall materiality was not impacted by these one off expenses. We believe that this is a measure used by shareholders in evaluating the underlying business performance, and the exclusion of exceptional items provides us with a consistent year on year basis for determining materiality. We applied a lower materiality to the audit of exceptional items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £430,000 (2015: £435,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out in section 3.12, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance report set out in section 4 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors in section 3.6, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent Company acquired in the course of performing our audit.	We have no exceptions to report.
• Section 5.1 to section 5.6 of the Annual Report, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation in section 4.13.3 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.

• the Directors' explanation in section 3.12 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, 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 Group 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.	We have nothing material to add or to draw attention to.

Under the Listing Rules, we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

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

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2016 and on the information in the Directors' remuneration report that is described as having been audited.

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

8 July 2016

11. Consolidated Financial Statements

Consolidated income statement

For the year ended 30 April 2016

	Notes	2016 Performance pre intangibles and exceptional items £m	2016 Intangibles and exceptional items (note 4) £m	2016 Results for the year £m	2015 Performance pre intangibles and exceptional items £m	2015 Intangibles and exceptional items (note 4) £m	2015 Results for the year £m
CONTINUING OPERATIONS							
Revenue	2	**3,871.1**	**–**	**3,871.1**	3,204.4	–	3,204.4
Operating costs and other operating income	3	**(3,667.1)**	**(21.8)**	**(3,688.9)**	(3,002.7)	(11.9)	(3,014.6)
Operating profit of Group companies	2	**204.0**	**(21.8)**	**182.2**	201.7	(11.9)	189.8
Share of (loss)/profit of joint ventures after finance costs, finance income and taxation	2	**24.8**	**(35.9)**	**(11.1)**	25.4	2.7	28.1
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	2	**228.8**	**(57.7)**	**171.1**	227.1	(9.2)	217.9
Non-operating exceptional items	4	**–**	**(2.0)**	**(2.0)**	–	(10.6)	(10.6)
Profit before interest and taxation		**228.8**	**(59.7)**	**169.1**	227.1	(19.8)	207.3
Finance costs	5	**(43.1)**	**(23.3)**	**(66.4)**	(44.8)	–	(44.8)
Finance income	5	**1.7**	**–**	**1.7**	2.7	–	2.7
Profit before taxation		**187.4**	**(83.0)**	**104.4**	185.0	(19.8)	165.2
Taxation	7	**(26.8)**	**21.4**	**(5.4)**	(31.1)	5.4	(25.7)
Profit for the year from continuing operations and profit after taxation for the year		**160.6**	**(61.6)**	**99.0**	153.9	(14.4)	139.5
Attributable to:							
Equity holders of the parent		**158.8**	**(60.9)**	**97.9**	153.6	(14.3)	139.3
Non-controlling interests		**1.8**	**(0.7)**	**1.1**	0.3	(0.1)	0.2
		160.6	**(61.6)**	**99.0**	153.9	(14.4)	139.5
Earnings per share (all of which relates to continuing operations)							
– Adjusted basic/Basic	9	**27.7p**		**17.1p**	26.7p		24.3p
– Adjusted diluted/Diluted	9	**27.6p**		**17.0p**	26.6p		24.1p

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

Consolidated statement of comprehensive income

For the year ended 30 April 2016

	2016	2015
	£m	£m
Profit for the year	**99.0**	139.5
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value losses on cash flow hedges	**(84.2)**	(56.6)
– Reclassified and reported in profit for the year	**67.8**	35.1
– Share of other comprehensive expense on joint ventures' cash flow hedges	**(0.3)**	(2.3)
– Tax effect of cash flow hedges	**2.9**	4.1
– Tax effect of share of other comprehensive expense on joint ventures' cash flow hedges	**–**	0.5
Foreign exchange differences on translation of foreign operations (net of hedging)	**3.1**	8.2
Share of foreign exchange differences on translation of foreign operations of joint ventures	**–**	(0.2)
Total items that may be reclassified to profit or loss	**(10.7)**	(11.2)
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on Group defined benefit pension schemes	**68.5**	(65.5)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	**(16.0)**	11.9
Share of actuarial gains on joint ventures' defined benefit pension schemes, net of tax	**4.0**	0.1
Total items that will not be reclassified to profit or loss	**56.5**	(53.5)
Other comprehensive income/(expense) for the year	**45.8**	(64.7)
Total comprehensive income for the year	**144.8**	74.8
Attributable to:		
Equity holders of the parent	**143.9**	75.0
Non-controlling interests	**0.9**	(0.2)
	144.8	74.8

Consolidated balance sheet (statement of financial position)

As at 30 April 2016

	Notes	2016 £m	2015 £m
ASSETS			
Non-current assets			
Goodwill	10	**136.9**	132.9
Other intangible assets	11	**88.7**	84.7
Property, plant and equipment	12	**1,165.2**	1,097.9
Interests in joint ventures	13	**22.4**	57.8
Derivative instruments at fair value	26(g)	**5.6**	2.3
Retirement benefit assets	25	**24.8**	25.5
Other receivables	19	**5.6**	12.1
		1,449.2	1,413.2
Current assets			
Inventories	18	**27.5**	26.9
Trade and other receivables	19	**382.2**	375.2
Derivative instruments at fair value	26(g)	**1.0**	1.1
Foreign tax recoverable		**–**	0.1
Cash and cash equivalents	20	**382.3**	395.6
		793.0	798.9
Total assets	2(d)	**2,242.2**	2,212.1
LIABILITIES			
Current liabilities			
Trade and other payables	21	**825.2**	830.4
Current tax liabilities		**33.2**	38.2
Borrowings	22	**53.6**	51.6
Derivative instruments at fair value	26(g)	**41.3**	35.9
Provisions	24	**54.9**	64.7
		1,008.2	1,020.8
Non-current liabilities			
Other payables	21	**45.5**	40.0
Borrowings	22	**738.2**	733.7
Derivative instruments at fair value	26(g)	**19.5**	5.4
Deferred tax liabilities	23	**25.6**	25.1
Provisions	24	**105.9**	106.1
Retirement benefit obligations	25	**121.5**	186.0
		1,056.2	1,096.3
Total liabilities	2(d)	**2,064.4**	2,117.1
Net assets	2(d)	**177.8**	95.0
EQUITY			
Ordinary share capital	27	**3.2**	3.2
Share premium account	29	**8.4**	8.4
Retained earnings	29	**(185.1)**	(279.6)
Capital redemption reserve	29	**422.8**	422.8
Own shares	29	**(34.3)**	(32.1)
Translation reserve	29	**1.3**	(1.8)
Cash flow hedging reserve	29	**(40.3)**	(26.8)
Total equity attributable to the parent		**176.0**	94.1
Non-controlling interests		**1.8**	0.9
Total equity		**177.8**	95.0

These financial statements have been approved for issue by the Board of Directors on 8 July 2016. The accompanying notes form an integral part of this consolidated balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity attributable to the parent	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 30 April 2014		3.2	8.4	(310.0)	422.8	(25.7)	(10.0)	(9.4)	79.3	–	79.3
Profit for the year		–	–	139.3	–	–	–	–	139.3	0.2	139.5
Other comprehensive (expense)/income net of tax		–	–	(55.1)	–	–	8.2	(17.4)	(64.3)	(0.4)	(64.7)
Total comprehensive income/(expense)		**–**	**–**	**84.2**	**–**	**–**	**8.2**	**(17.4)**	**75.0**	**(0.2)**	**74.8**
Own ordinary shares purchased		–	–	–	–	(6.4)	–	–	(6.4)	–	(6.4)
Credit in relation to equity-settled share based payments		–	–	2.2	–	–	–	–	2.2	–	2.2
Tax credit in relation to equity-settled share based payments		–	–	0.3	–	–	–	–	0.3	–	0.3
Transactions with non-controlling interest		–	–	–	–	–	–	–	–	1.1	1.1
Dividends paid on ordinary shares	8	–	–	(56.3)	–	–	–	–	(56.3)	–	(56.3)
Balance at 30 April 2015		3.2	8.4	(279.6)	422.8	(32.1)	(1.8)	(26.8)	94.1	0.9	95.0
Profit for the year		–	–	97.9	–	–	–	–	97.9	1.1	99.0
Other comprehensive income/(expense) net of tax		–	–	56.4	–	–	3.1	(13.5)	46.0	(0.2)	45.8
Total comprehensive income/(expense)		**–**	**–**	**154.3**	**–**	**–**	**3.1**	**(13.5)**	**143.9**	**0.9**	**144.8**
Own ordinary shares purchased		–	–	–	–	(2.2)	–	–	(2.2)	–	(2.2)
Credit in relation to equity-settled share based payments		–	–	2.2	–	–	–	–	2.2	–	2.2
Dividends paid on ordinary shares	8	–	–	(62.0)	–	–	–	–	(62.0)	–	(62.0)
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

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

Consolidated statement of cash flows

For the year ended 30 April 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated by operations	30	**303.7**	367.7
Interest paid		**(32.3)**	(38.5)
Interest received		**1.7**	2.7
Dividends received from joint ventures		**28.8**	14.5
Net cash flows from operating activities before tax		**301.9**	346.4
Tax paid		**(23.0)**	(30.9)
Net cash from operating activities after tax		**278.9**	315.5
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(0.5)**	–
Cash inflow on inception of rail franchise		**–**	1.3
Purchase of property, plant and equipment		**(191.2)**	(182.4)
Disposal of property, plant and equipment		**26.5**	47.9
Purchase of intangible assets		**(19.6)**	(12.5)
Movements in loans to joint ventures		**5.9**	(5.8)
Net cash outflow from investing activities		**(178.9)**	(151.5)
Cash flows from financing activities			
Purchase of treasury shares		**(2.2)**	(2.5)
Investment in own ordinary shares by employee share ownership trust		**–**	(3.9)
Repayments of hire purchase and lease finance		**(35.4)**	(33.2)
Redemption of 5.75% sterling bond – principal		**(400.0)**	–
Redemption of 5.75% sterling bond – exceptional items		**(23.3)**	–
Issue of new 4.00% sterling bond		**393.5**	–
Drawdown of other borrowings		**270.0**	205.9
Repayment of other borrowings		**(255.2)**	(121.2)
Dividends paid on ordinary shares	8	**(62.0)**	(56.3)
Sale of tokens		**0.3**	0.5
Redemption of tokens		**(0.5)**	(0.8)
Net cash used in financing activities		**(114.8)**	(11.5)
Net (decrease)/increase in cash and cash equivalents		**(14.8)**	152.5
Cash and cash equivalents at the beginning of year		**395.6**	240.3
Exchange rate effects		**1.5**	2.8
Cash and cash equivalents at the end of year	20	**382.3**	395.6

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

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

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

- **Basis of preparation**

The consolidated financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (and therefore comply with Article 4 of the 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 and all values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

- **New accounting standards adopted during the year**

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 May 2015:

- Amendments to IAS 19, defined benefit plans, employee contributions
- IFRIC 21, Levies

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

- **New standards and interpretations not applied**

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

International Accounting Standards and Interpretations		*Effective for annual periods beginning on or after*
IFRS 9	Financial instruments: Hedge accounting*	1 January 2018
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture*	Postponed indefinitely
Amendments to IFRS 10, 12 and IAS 28	Investment Entities: Applying the consolidation exception*	1 January 2016
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations *	1 January 2016
IFRS 14	Regulatory deferral accounts*	1 January 2016
IFRS 15	Revenue from contracts with customers*	1 January 2018
IFRS 16	Leases*	1 January 2019
Annual Improvements to IFRSs 2012-2014 Cycle		1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41	Bearer Plants	1 January 2016
Amendment to IAS 27	Equity method in separate financial statements	1 January 2016
Amendments to IAS 7	Statement of cash flows: disclosure initiative	1 January 2017

*Not yet adopted for use in the European Union.

With the exception of IFRS 15 and IFRS 16, the Directors have reviewed the requirements of the new standards and interpretations listed above and they are not expected to have a material impact on the Group's financial statements in the period of initial application. The impact of IFRS 15 and IFRS 16 is being assessed.

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 substantial rolling stock operating lease commitments will be affected by the application of the new standard. 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. 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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Comparatives**

Where appropriate, comparative figures for the previous year have been adjusted to conform to changes in presentation. These changes have no impact on the consolidated income statement or on consolidated net assets.

- **Basis of consolidation**

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

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

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

- **Subsidiaries and joint ventures**

(i) Subsidiaries

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. 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 Group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

(ii) Joint ventures

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

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint 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 intangible asset expenses and exceptional items. This is intended to enable users of the financial statements to determine more readily the impact of intangible asset expenses and exceptional items on the results of the Group.

Exceptional items are defined in note 35.

- **Use of estimates**

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Although these estimates and assumptions are based on management's best knowledge, actual results may ultimately differ from those estimates and assumptions used.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are the measurement of tax assets and liabilities, the measurement of contract provisions, the measurement of retirement benefit amounts, the measurement and impairment of goodwill and other non-current assets, the measurement of insurance provisions and the measurement of receivables and payables in relation to rail contracts. The measurement of tax assets and liabilities requires an assessment to be made of the potential tax consequence of certain items that will only be resolved when agreed by the relevant tax authorities. The measurement of contract provisions requires estimates of future cash flows relating to the relevant contracts and the selection of a suitable discount rate. The measurement of retirement benefit amounts requires the estimation of life expectancies, future changes in salaries, inflation and the selection of a suitable discount rate. The Group determines whether goodwill arising on business combinations is impaired on an annual basis and this requires the estimation of value in use of the cash generating units to which the goodwill is allocated. This requires estimation of future cash flows and the selection of a suitable discount rate. The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The estimation of receivables and payables in relation to rail contracts requires an estimate of the likely outcomes based on interpreting the applicable contracts.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described in section 1.6.12 of this Annual Report, which forms part of these financial statements.

- **Revenue**

Revenue represents gross revenue earned from public transport services and excludes payments received on account. Amounts receivable from government bodies for tendered services and concessionary fare schemes are included as part of revenue as these represent payments for services provided. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue.

Rail revenue includes amounts attributable to the train operating companies, based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry) in respect of passenger receipts. Franchise agreement receipts or payments from or to the UK's Department for Transport are treated as operating costs or other operating income.

Note 1 IFRS accounting policies (continued)

- **Revenue (continued)**

Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided. Cash received for the sale of season tickets and travelcards is deferred within liabilities and recognised in the income statement over the period covered by the relevant ticket.

Income from advertising and other activities is recognised as the income is earned.

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

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The amounts at South West Trains are based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The amounts at West Coast Trains (operated by the Group's Virgin Rail Group joint venture), Virgin Trains East Coast and from October 2015, East Midlands Trains, are based on calculations that involve comparing published UK national Gross Domestic Product ("GDP") with the GDP comparator specified in the relevant franchise agreement. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

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

- **Performance incentive payments**

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

- **Government grants**

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

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

- **Share based payments**

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

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

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

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Choice of settlement

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

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).

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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Taxation**

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

- **Segment reporting**

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

- **Foreign currency translation**

The financial statements of foreign operations are maintained in the functional currencies in which the entities transact business. The trading results of foreign operations are translated into sterling using average rates of exchange. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling using rates of exchange at the relevant balance sheet date. Exchange differences arising on the translation of the opening net assets and results of foreign operations, together with exchange differences arising on net foreign currency borrowings and foreign currency derivatives, to the extent they hedge the Group's investment in foreign operations, are recognised as a separate component of equity being the translation reserve. Further information on the Group's accounting policy on hedges of net investments in a foreign entity is provided on page 78.

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

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

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

	2016	2015
US Dollar:		
Year end rate	**1.4649**	1.5368
Average rate	**1.5031**	1.5988
Canadian Dollar:		
Year end rate	**1.8349**	1.8614
Average rate	**1.9756**	1.8323

- **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. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

- **Impairment of non-current assets**

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

Note 1 IFRS accounting policies (continued)

- **Impairment of non-current assets (continued)**

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

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

- **Intangible assets**

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

Amortisation is calculated to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below, and is recorded in operating costs in the income statement. Amortisation of intangible assets relating to customer contracts and lease contracts is amortised based on the pattern of the consumption of economic benefits obtained from the relevant contract. Amortisation on other intangible assets is calculated on the straight-line method. Intangible assets relating to rail franchises of a finite duration are amortised over the expected life of the franchise.

Operating leases on favourable terms	over the life of the lease (up to 4 years for current contracts)
Customer contracts	over the life of the contract (1 to 5 years for current contracts)
Right to operate rail franchises	over the expected life of the franchise (10 years from February 2007 to February 2017 for South West Trains franchise, 2 years and 5 months from October 2015 to March 2018 for East Midland Trains franchise and 8 years and 1 month from March 2015 to March 2023 for Virgin Trains East Coast franchise)
Software costs	2 to 5 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 cash flows 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.

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.

Note 1 IFRS accounting policies (continued)

- **Pre-contract costs**

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

- **Tokens**

Tokens issued by the Group to facilitate public passenger travel in the United Kingdom are credited to a token redemption provision to the extent they are expected to be redeemed.

The estimate of the balance sheet provision for token redemptions is remeasured at each balance sheet date and is based on the value of tokens issued by the Group but not yet redeemed or cancelled at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed.

- **Restructuring provisions**

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

- **Insurance**

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

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

- **Retirement benefit obligations**

The Group contributes to a number of pension schemes.

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

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

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

Curtailments arise where the Group makes a material reduction in the number of employees covered by a pension scheme or amends a defined benefit pension scheme’s terms such that a material element of future service by current employees will qualify for no or significantly reduced benefits. Settlements arise when the Group enters into a transaction that eliminates all or part of the Group’s obligations for benefits provided under a defined benefit pension scheme. The gain or loss arising on a settlement or curtailment comprises the resulting change in the net pension asset or liability, and such gain or loss is recognised in the income statement when the settlement or curtailment occurs. Where the gain or loss is related to a disposal of a business, it is included within the reported gain or loss on disposal.

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

The liability or asset recognised for the relevant sections of the Railways Pension Scheme represents only that part of the net deficit (or surplus) of each section that the employer expects to fund (or recover) over the life of the franchise to which the section relates. Where the award of a new rail franchise to the Group results in it assuming a net pension liability, a corresponding intangible asset is recognised, reflecting a cost in obtaining the right to operate the franchise. When a pension asset is assumed, a corresponding deferred income balance is recognised. The intangible asset or deferred income balance is amortised to the income statement on a straight-line basis over the expected life of the related franchise.

Note 1 IFRS accounting policies (continued)

- **Retirement benefit obligations**

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

- **Financial instruments**

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

Financial assets

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments or as available for sale. They include cash and cash equivalents, accrued income, trade receivables, other receivables, other investments and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss: Financial assets classified as held for trading and other assets designated as such on inception are classified as financial assets at fair value through profit or loss where the assets meet the criteria for such classification. Financial assets are classified as held for trading if they are acquired for sale in the short-term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and is recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

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

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

Fair values

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

Derivative financial instruments

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

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

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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

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

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

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

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

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

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

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

Non-derivative financial liabilities, such as foreign currency borrowings, can be designated as hedges of a net investment in a foreign entity and are subject to the same requirements as derivative hedges of a net investment in a foreign entity.

Cash and cash equivalents

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

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

Note 2 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is managed, and reports internally, on a basis consistent with its five continuing operating segments, being UK Bus (regional operations), megabus Europe, UK Bus (London), North America and UK Rail. megabus Europe is now reported as a separate segment having been reported within the UK Bus (regional operations) segment in previous years. The prior year figures have been restated accordingly. The Group's IFRS accounting policies are applied consistently, where appropriate, to each segment.

The segmental information provided in this note is on the basis of the 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 three joint ventures: Virgin Rail Group that operates in UK Rail, Citylink that operates in UK Bus (regional operations) and Twin America LLC that operates in North America. The results of these joint ventures are shown separately in notes 2(c) and 2(g).

(a) Revenue

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

	2016	2015
	£m	£m
Continuing operations		
UK Bus (regional operations)	**1,032.8**	1,036.3
megabus Europe	**18.4**	9.2
UK Bus (London)	**267.1**	260.6
North America	**430.9**	425.4
Total bus continuing operations	**1,749.2**	1,731.5
UK Rail	**2,129.1**	1,478.4
Total Group revenue	**3,878.3**	3,209.9
Intra-Group revenue – UK Bus (regional operations)	**(7.2)**	(5.5)
Reported Group revenue	**3,871.1**	3,204.4

(b) Operating profit

Operating profit split by segment was as follows:

	2016			2015		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Continuing operations						
UK Bus (regional operations)	**137.3**	**–**	**137.3**	145.3	–	145.3
megabus Europe	**(24.1)**	**–**	**(24.1)**	(4.2)	–	(4.2)
UK Bus (London)	**20.2**	**–**	**20.2**	26.3	–	26.3
North America	**18.9**	**–**	**18.9**	22.1	–	22.1
Total bus continuing operations	**152.3**	**–**	**152.3**	189.5	–	189.5
UK Rail	**66.7**	**(6.0)**	**60.7**	26.9	–	26.9
Total continuing operations	**219.0**	**(6.0)**	**213.0**	216.4	–	216.4
Group overheads	**(11.9)**	**–**	**(11.9)**	(13.9)	–	(13.9)
Intangible asset expenses	**–**	**(15.8)**	**(15.8)**	–	(11.9)	(11.9)
Restructuring costs	**(3.1)**	**–**	**(3.1)**	(0.8)	–	(0.8)
Total operating profit of continuing Group companies	**204.0**	**(21.8)**	**182.2**	201.7	(11.9)	189.8
Share of joint ventures' (loss)/profit after finance costs, finance income and taxation	**24.8**	**(35.9)**	**(11.1)**	25.4	2.7	28.1
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	**228.8**	**(57.7)**	**171.1**	227.1	(9.2)	217.9

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(c) Joint ventures

The share of (loss)/profit from joint ventures was further split as follows:

	2016			2015		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Continuing						
Virgin Rail Group (UK Rail)						
Operating profit	**32.6**	**–**	**32.6**	28.0	–	28.0
Finance income (net)	**0.7**	**–**	**0.7**	–	–	–
Taxation	**(9.1)**	**–**	**(9.1)**	(5.7)	–	(5.7)
	24.2	**–**	**24.2**	22.3	–	22.3
Citylink (UK Bus, regional operations)						
Operating profit	**1.8**	**–**	**1.8**	1.4	–	1.4
Taxation	**(0.4)**	**–**	**(0.4)**	(0.3)	–	(0.3)
	1.4	**–**	**1.4**	1.1	–	1.1
Twin America LLC (North America)						
Operating (loss)/profit	**(0.6)**	**–**	**(0.6)**	2.1	2.7	4.8
Impairment loss	**–**	**(35.9)**	**(35.9)**	–	–	–
Finance costs (net)	**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
	(0.8)	**(35.9)**	**(36.7)**	2.0	2.7	4.7
Share of (loss)/profit of joint ventures after finance costs, finance income and taxation	**24.8**	**(35.9)**	**(11.1)**	25.4	2.7	28.1

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	2016			2015		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**909.2**	**(283.2)**	**626.0**	861.7	(341.2)	520.5
megabus Europe	**24.2**	**(5.6)**	**18.6**	5.0	(0.6)	4.4
UK Bus (London)	**74.3**	**(103.6)**	**(29.3)**	80.5	(99.1)	(18.6)
North America	**391.8**	**(132.4)**	**259.4**	372.0	(129.3)	242.7
UK Rail	**413.0**	**(635.8)**	**(222.8)**	415.1	(660.6)	(245.5)
	1,812.5	**(1,160.6)**	**651.9**	1,734.3	(1,230.8)	503.5
Central functions	**25.0**	**(53.2)**	**(28.2)**	24.3	(37.7)	(13.4)
Joint ventures	**22.4**	**–**	**22.4**	57.8	–	57.8
Borrowings and cash	**382.3**	**(791.8)**	**(409.5)**	395.6	(785.3)	(389.7)
Taxation	**–**	**(58.8)**	**(58.8)**	0.1	(63.3)	(63.2)
Total	**2,242.2**	**(2,064.4)**	**177.8**	2,212.1	(2,117.1)	95.0

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

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

Note 2 Segmental information (continued)

(e) Capital expenditure on property, plant and equipment

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

	2016	2015
	£m	£m
UK Bus (regional operations)	**123.8**	119.8
megabus Europe	**7.3**	4.5
UK Bus (London)	**2.5**	3.8
North America	**52.8**	31.1
UK Rail	**33.2**	43.8
	219.6	203.0

(f) Capital expenditure on intangible assets

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

	2016	2015
	£m	£m
UK Bus (regional operations)	**14.2**	8.4
UK Rail	**5.4**	64.9
	19.6	73.3

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

The results of each segment are further analysed below:

	Year ended 30 April 2016								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus (regional operations)	208.5	–	208.5	(71.2)	137.3	(2.6)	–	(0.9)	133.8
megabus Europe	(20.4)	–	(20.4)	(3.7)	(24.1)	–	–	–	(24.1)
UK Bus (London)	26.1	–	26.1	(5.9)	20.2	(0.3)	–	(0.1)	19.8
North America	56.2	–	56.2	(37.3)	18.9	(1.8)	–	(0.6)	16.5
UK Rail – subsidiaries	80.6	–	80.6	(13.9)	66.7	(11.1)	(6.0)	(1.5)	48.1
UK Rail – joint venture (Virgin Rail Group)	32.6	(8.4)	24.2	–	24.2	–	–	–	24.2
UK Bus – joint venture (Citylink)	1.8	(0.4)	1.4	–	1.4	–	–	–	1.4
North America – joint venture (Twin America)	(0.6)	(0.2)	(0.8)	–	(0.8)	–	(35.9)	–	(36.7)
Group overheads	(11.7)	–	(11.7)	(0.2)	(11.9)	–	–	–	(11.9)
Restructuring costs	(3.1)	–	(3.1)	–	(3.1)	–	–	3.1	–
	370.0	(9.0)	361.0	(132.2)	228.8	(15.8)	(41.9)	–	171.1

	Year ended 30 April 2015								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation expense £m	Operating profit pre intangibles and exceptional items £m	Intangible asset expenses £m	Exceptional items £m	Allocation of restructuring costs £m	Operating profit £m
UK Bus (regional operations)	215.3	–	215.3	(70.0)	145.3	(1.5)	–	(0.4)	143.4
megabus Europe	(3.1)	–	(3.1)	(1.1)	(4.2)	–	–	–	(4.2)
UK Bus (London)	32.4	–	32.4	(6.1)	26.3	(0.8)	–	–	25.5
North America	55.7	–	55.7	(33.6)	22.1	(5.3)	–	(0.2)	16.6
UK Rail – subsidiaries	35.9	–	35.9	(9.0)	26.9	(4.3)	–	(0.2)	22.4
UK Rail – joint venture (Virgin Rail Group)	28.0	(5.7)	22.3	–	22.3	–	–	–	22.3
UK Bus – joint venture (Citylink)	1.4	(0.3)	1.1	–	1.1	–	–	–	1.1
North America – joint venture (Twin America)	2.1	(0.1)	2.0	–	2.0	–	2.7	–	4.7
Group overheads	(13.6)	–	(13.6)	(0.3)	(13.9)	–	–	–	(13.9)
Restructuring costs	(0.8)	–	(0.8)	–	(0.8)	–	–	0.8	–
	353.3	(6.1)	347.2	(120.1)	227.1	(11.9)	2.7	–	217.9

Notes to the consolidated financial statements

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2016	2015
	£m	£m
Miscellaneous revenue (see explanation below)	**183.3**	131.2
Rail franchise premia (see explanation below)	**(935.7)**	(805.7)
Rail revenue support (see explanation below)	**274.0**	315.3
Materials and consumables	**(416.4)**	(419.8)
Staff costs (note 6)	**(1,382.3)**	(1,203.8)
Depreciation on property, plant and equipment (note 12)	**(132.2)**	(120.1)
(Loss)/gain on disposal of property, plant and equipment	**(0.5)**	2.3
Repairs and maintenance expenditure on property, plant and equipment	**(27.2)**	(32.8)
Amortisation of intangible assets (note 11)	**(15.8)**	(11.9)
Network Rail charges, including electricity for traction	**(234.1)**	(197.4)
Operating lease rentals payable	**(292.2)**	(207.7)
Other external charges	**(700.7)**	(463.4)
Impairment (note 4)	**(6.0)**	–
Restructuring costs	**(3.1)**	(0.8)
Total operating costs and other operating income	**(3,688.9)**	(3,014.6)

Miscellaneous revenue comprises revenue incidental to the Group's principal activities. It includes commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income.

Rail franchise premia is the amount of financial premia payable to the UK's Department for Transport in respect of the operation of UK passenger rail franchises.

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

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

	2016	2015
	£000	£000
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	**400.0**	400.0
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	**510.0**	434.0
Total audit fees	**910.0**	834.0
Taxation advisory services	**20.0**	46.5
Taxation compliance services	**28.0**	–
Other non-audit services	**23.5**	–
Other assurance services	**103.6**	96.0
Non-audit fees	**175.1**	142.5
Total fees payable by the Group to its auditors	**1,085.1**	976.5

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US$180,000 (2015: US$165,000) in relation to the audit of the Group's joint venture, Twin America LLC.

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

Note 4 Exceptional items and intangible asset expenses

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

Information on exceptional items is provided in section 1.6.2 of the Strategic report.

The items shown in the column headed “Intangibles and exceptional items” on the face of the consolidated income statement for the year ended 30 April 2016 and for the prior year comparatives can be further analysed as follows:

	2016			2015		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m	£m	£m	£m
Operating costs						
Impairment of assets at Sheffield Supertram	**(6.0)**	**–**	**(6.0)**	–	–	–
Intangible asset expenses	**–**	**(15.8)**	**(15.8)**	–	(11.9)	(11.9)
	(6.0)	**(15.8)**	**(21.8)**	–	(11.9)	(11.9)
Share of (loss)/profit of joint ventures						
Twin America litigation	**–**	**–**	**–**	2.7	–	2.7
Impairment of interest in Twin America	**(35.9)**	**–**	**(35.9)**	–	–	–
	(35.9)	**–**	**(35.9)**	2.7	–	2.7
Non-operating exceptional items						
Provision for commitment to Twin America	**(2.0)**	**–**	**(2.0)**	–	–	–
Provision for onerous property lease	**–**	**–**	**–**	(2.1)	–	(2.1)
Twin America litigation	**–**	**–**	**–**	(8.5)	–	(8.5)
Non-operating exceptional items	**(2.0)**	**–**	**(2.0)**	(10.6)	–	(10.6)
Finance costs						
Premium on early redemption of bonds	**(21.3)**	**–**	**(21.3)**	–	–	–
Cancellation of ineffective interest rate swaps	**(2.0)**	**–**	**(2.0)**	–	–	–
Finance costs	**(23.3)**	**–**	**(23.3)**	–	–	–
Intangible asset expenses and exceptional items	**(67.2)**	**(15.8)**	**(83.0)**	(7.9)	(11.9)	(19.8)
Tax effect of intangible asset expenses and exceptional items	**19.4**	**2.0**	**21.4**	2.3	3.1	5.4
Intangible asset expenses and exceptional items after taxation	**(47.8)**	**(13.8)**	**(61.6)**	(5.6)	(8.8)	(14.4)

In respect of the Twin America litigation, the Group made payments in the year ended 30 April 2016 of £1.4m (2015: £4.5m) to settle litigation and legal fees. Its share of payments made by Twin America in that respect was £1.1m (2015: £6.7m). The £23.3m (2015: £Nil) of exceptional finance costs were paid in cash in the year ended 30 April 2016.

Note 5 Finance costs and income

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

	2016	2015
	£m	£m
Interest income on financial assets not at fair value through profit and loss		
– Interest receivable on cash	**1.4**	1.5
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	**0.3**	1.2
Finance income	**1.7**	2.7
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	**(5.9)**	(7.9)
– Interest payable on hire purchase and finance leases	**(2.1)**	(2.5)
– Interest payable and other finance costs on bonds	**(25.9)**	(27.3)
Other finance costs		
– Unwinding of discounts on provisions	**(3.9)**	(3.8)
– Interest charge on defined benefit pension schemes	**(5.3)**	(3.3)
– Exceptional finance costs (note 4)	**(23.3)**	–
Finance costs	**(66.4)**	(44.8)
Net finance costs	**(64.7)**	(42.1)

Note 6 Staff costs

Total staff costs were as follows:

	2016	2015
	£m	£m
Staff costs		
Wages and salaries	**1,177.2**	1,027.0
Social security costs	**100.9**	91.1
Pension costs, excluding interest on net liability (note 25)	**101.4**	80.9
Share based payment costs (excluding social security costs)		
– Equity-settled	**2.2**	2.2
– Cash-settled	**0.6**	2.6
	1,382.3	1,203.8

The total amount shown for staff costs above includes an amount of £Nil (2015: £0.5m) in respect of share based payment costs for the Directors.

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

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

	2016	2015
	number	number
UK operations	**31,296**	28,381
UK administration and supervisory	**3,862**	3,430
North America	**4,669**	4,860
Mainland Europe	**376**	138
	40,203	36,809

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

	2016	2015
	number	number
UK Bus (regional operations)	**20,513**	19,937
megabus Europe	**376**	138
UK Bus (London)	**4,189**	4,144
North America	**4,669**	4,860
UK Rail	**10,342**	7,609
Central	**114**	121
	40,203	36,809

Note 7 Taxation

(a) Analysis of charge in the year

	2016			2015		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Current tax:						
UK corporation tax at 20.0% (2015: 20.9%)	**21.8**	**(1.3)**	**20.5**	22.3	(1.4)	20.9
Prior year over provision for corporation tax	**(2.2)**	**–**	**(2.2)**	(2.7)	–	(2.7)
Foreign tax (current year)	**0.8**	**–**	**0.8**	0.8	–	0.8
Foreign tax (prior year)	**(0.1)**	**–**	**(0.1)**	0.4	–	0.4
Total current tax	**20.3**	**(1.3)**	**19.0**	20.8	(1.4)	19.4
Deferred tax:						
Origination and reversal of temporary differences	**14.3**	**(20.1)**	**(5.8)**	14.2	(4.0)	10.2
Change in tax rates	**(5.0)**	**–**	**(5.0)**	–	–	–
Adjustments in respect of prior years	**(2.8)**	**–**	**(2.8)**	(3.9)	–	(3.9)
Total deferred tax (note 23)	**6.5**	**(20.1)**	**(13.6)**	10.3	(4.0)	6.3
Total tax on profit	**26.8**	**(21.4)**	**5.4**	31.1	(5.4)	25.7

(b) Factors affecting tax charge for the year

	2016 £m	2015 £m
Profit before taxation	**104.4**	165.2
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 20.0% (2015: 20.9%)	**20.9**	34.5
Effects of:		
Intangible asset allowances/deductions	**1.5**	0.3
Non-deductible expenditure/non-taxable income	**1.7**	1.6
Utilisation of tax losses not previously recognised as deferred tax assets	**(0.2)**	–
Foreign taxes differences	**(3.3)**	0.6
Adjustments to tax charge in respect of prior years	**(5.1)**	(6.2)
Tax effect of share of results of joint ventures	**(5.0)**	(4.7)
Change in UK corporation rate	**(5.1)**	(0.4)
Total taxation (note 7a)	**5.4**	25.7

(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 £23.2m (2015: £27.4m) have not been recognised due to restrictions in the availability of their use. Temporary differences in respect of the revaluation of land and buildings and in respect of rolled over capital gains are fully offset by temporary differences in respect of capital losses.

The deferred tax balances have been calculated with reference to the enacted UK corporation tax rates of 20% to 31 March 2017, 19% from 1 April 2017 and 18% from 1 April 2020 (2015: 20%). A planned reduction in the rate to 17% has yet to be substantively enacted.

Had the reduction in the rate to 17% been substantively enacted, the estimated impact of this reduction on the deferred tax liability would be a reduction of £1.8m.

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

The components of tax on items taken directly to or transferred from equity are shown in the consolidated statement of comprehensive income on page 67 and the consolidated statement of changes in equity on page 69.

Notes to the consolidated financial statements

Note 8 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2016	2015	**2016**	2015
	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	**7.3**	6.6	**41.9**	37.9
Interim dividend in respect of the current year	**3.5**	3.2	**20.1**	18.4
Amounts recognised as distributions to equity holders in the year	**10.8**	9.8	**62.0**	56.3
Dividends proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares				
Final dividend in respect of the current year	**7.9**	7.3	**45.3**	41.9

Note 9 Earnings per share

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

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

	2016	2015
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	**573.8**	574.4
Dilutive ordinary shares		
– Long Term Incentive Plan	**–**	0.2
– Executive Participation Plan	**2.0**	2.3
Diluted weighted average number of ordinary shares	**575.8**	576.9

	2016	2015
	£m	£m
Net profit attributable to equity holders of the parent (for basic EPS calculation)	**97.9**	139.3
Intangible asset expenses before tax (see note 4)	**15.8**	11.9
Non-controlling interest in intangible asset expenses	**(0.7)**	(0.1)
Exceptional items before tax (see note 4)	**67.2**	7.9
Tax effect of intangible asset expenses and exceptional items (see note 4)	**(21.4)**	(5.4)
Profit for adjusted EPS calculation	**158.8**	153.6

Earnings per share before intangible asset expenses and exceptional items ("adjusted EPS") is calculated by adding back intangible asset expenses 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.

Note 10 Goodwill

The movements in goodwill were as follows:

	2016	2015
	£m	£m
Cost and net book value		
At beginning of year	**132.9**	125.4
Foreign exchange movements	**4.0**	7.5
At end of year	**136.9**	132.9

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

The cash generating units are as follows:	UK Bus (regional operations)		UK Bus (London)		North America	
	2016	2015	**2016**	2015	**2016**	2015
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	**47.5**	47.5	**3.6**	3.6	**85.8**	81.8
Basis on which recoverable amount has been determined	**Value in use**	Value in use	**Value in use**	Value in use	**Value in use**	Value in use
Period covered by approved management plans used in value in use calculation	**5 years**	5 years	**5 years**	5 years	**5 years**	5 years
Pre-tax discount rate applied to cash flow projections	**8.6%**	9.0%	**8.6%**	9.0%	**11.3%**	11.8%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.3%**	2.3%	**2.3%**	2.3%	**4.3%**	4.4%
Difference between above growth rate and long-term average growth rate for market in which unit operates	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil

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

The principal risks and uncertainties facing the Group are set out in section 1.4.6 of the Strategic report.

The cost base of the UK Bus (regional operations) and North American operations can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. Risks to the cash flow forecasts remain, however, and are described in section 1.4.6. The cost base of UK Bus (London) is less flexible because the business is contractually committed to operate the majority of its services.

The discount rates have been determined with reference to the estimated post-tax Weighted Average Cost of Capital ("WACC") of the Group. The WACC has been estimated as at 30 April 2016 at 6.9% (2015: 7.2%) based on:

- The market capitalisation and net debt of the Group as at 30 April 2016 as an indication of the split between debt and equity;
- A risk-free rate of 1.7% (2015: 1.9%);
- A levered beta for the Group of 0.8 (2015: 0.8);
- A marginal pre-tax cost of debt of 3.9% (2015: 5.4%).

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

The Directors believe that in the case of each of the cash generating units shown above, any reasonably possible change in the key assumptions on which the recoverable amount of the unit is based would not cause its carrying amount to exceed its recoverable amount.

Notes to the consolidated financial statements

Note 11 Other intangible assets

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

Year ended 30 April 2016

	Operating leases	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	1.1	21.9	80.6	29.8	133.4
Additions	–	0.1	0.2	19.3	19.6
Disposals	(1.1)	(2.6)	(7.7)	–	(11.4)
Foreign exchange movements	–	1.0	–	0.3	1.3
At end of year	–	20.4	73.1	49.4	142.9
Accumulated amortisation					
At beginning of year	(1.1)	(19.8)	(18.9)	(8.9)	(48.7)
Amortisation charged to income statement	–	(1.5)	(8.8)	(5.5)	(15.8)
Disposals	1.1	2.6	7.7	–	11.4
Foreign exchange movements	–	(0.9)	–	(0.2)	(1.1)
At end of year	–	(19.6)	(20.0)	(14.6)	(54.2)
Net book value at beginning of year	–	2.1	61.7	20.9	84.7
Net book value at end of year	–	0.8	53.1	34.8	88.7

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

Year ended 30 April 2015

	Operating leases	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m	£m
Cost						
At beginning of year	1.0	38.0	4.1	19.7	16.9	79.7
Additions	–	–	–	60.9	12.4	73.3
Disposals	–	(17.7)	(4.3)	–	–	(22.0)
Foreign exchange movements	0.1	1.6	0.2	–	0.5	2.4
At end of year	1.1	21.9	–	80.6	29.8	133.4
Accumulated amortisation						
At beginning of year	(0.6)	(30.9)	(4.1)	(15.4)	(6.1)	(57.1)
Amortisation charged to income statement	(0.4)	(5.4)	–	(3.5)	(2.6)	(11.9)
Disposals	–	17.7	4.3	–	–	22.0
Foreign exchange movements	(0.1)	(1.2)	(0.2)	–	(0.2)	(1.7)
At end of year	(1.1)	(19.8)	–	(18.9)	(8.9)	(48.7)
Net book value at beginning of year	0.4	7.1	–	4.3	10.8	22.6
Net book value at end of year	–	2.1	–	61.7	20.9	84.7

Note 12 Property, plant and equipment

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

Year ended 30 April 2016	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	327.0	1,364.1	222.0	1,913.1
Additions	18.6	153.0	48.0	219.6
Disposals	(4.2)	(72.3)	(28.4)	(104.9)
Reclassifications	(2.6)	–	2.6	–
Foreign exchange movements	2.4	19.0	0.2	21.6
At end of year	341.2	1,463.8	244.4	2,049.4
Depreciation				
At beginning of year	(70.4)	(587.5)	(157.3)	(815.2)
Depreciation charged to income statement	(9.3)	(103.9)	(19.0)	(132.2)
Disposals	2.3	61.8	9.0	73.1
Reclassifications	1.1	–	(1.1)	–
Foreign exchange movements	(0.8)	(9.1)	–	(9.9)
At end of year	(77.1)	(638.7)	(168.4)	(884.2)
Net book value at beginning of year	256.6	776.6	64.7	1,097.9
Net book value at end of year	264.1	825.1	76.0	1,165.2
Included in the above net book value at end of year are:				
Assets on hire purchase	–	78.2	–	78.2
Assets on finance leases	–	43.3	–	43.3
Long leasehold land and buildings	51.4	–	–	51.4

Included in the net book value of property, plant and equipment is £8.9m (2015: £17.1m) in respect of assets under construction that the Group expects to be sold to Network Rail and other third parties following the completion of each asset's construction.

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

Notes to the consolidated financial statements

Note 13 Interests in joint ventures

The Group has three joint ventures as summarised below. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in all three 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 (2015: £22.5m). This could restrict Virgin Rail Group's ability to make distributions to the Stagecoach Group.

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

(b) Twin America LLC

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

Contractual arrangements are in place in respect of Twin America which require the agreement of both members to decisions on key matters. In light of that, the fact voting rights are split 50:50 between the two joint venture members and despite the fact that the Chief Executive of Twin America is a representative of the other member, the Group considers that it has joint control of Twin America.

In connection with the settlement of litigation (see note 31(iv)), the Group contractually committed to make loans to Twin America. As at 30 April 2016, no loans (2015: US$9.0m) were outstanding and the remaining loan commitment that Twin America could draw from the Group in certain circumstances was US$3.0m (2015: US$6.0m). The Group has contractually committed to pay further non-refundable amounts of US$2.0m (2015: US$2.0m) to the plaintiffs in connection with the Twin America litigation. Twin America has contractually committed to pay further non-refundable amounts of US$3.0m and the Group could be directly liable for these amounts if Twin America fails to meet its payment obligations. Other than where both members agree otherwise, the available cash flow of Twin America is distributed to its members quarterly after retaining sufficient cash for the anticipated working capital needs of the business.

(c) Scottish Citylink Coaches Limited

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

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

(d) Impairment reviews

The Directors undertook an impairment review as at 30 April 2016 of the carrying value of the Group's joint venture interests. Other than in respect of Twin America, they concluded that there were no impairment losses and no reasonably possible change that would cause the carrying values to exceed the recoverable amounts.

Trading at Twin America has remained challenging during the year ended 30 April 2016, as the New York sightseeing market continues to be competitive. Following an impairment review, an impairment loss of £35.9m has been recognised.

Note 13 Interests in joint ventures (continued)

(e) Movements in carrying values

The movements in the carrying values were as follows:

	Virgin Rail Group	**Citylink**	**Twin America LLC**	**Total 2016**	Total 2015
	£m	£m	£m	£m	£m
Net book value					
At beginning of year	**17.1**	**4.8**	**35.9**	**57.8**	42.8
Share of recognised profit/(loss)	**24.2**	**1.4**	**(36.7)**	**(11.1)**	28.1
Share of actuarial gains on defined benefit pension schemes, net of tax	**4.0**	**–**	**–**	**4.0**	0.1
Share of other comprehensive expense on cash flow hedges, net of tax	**(0.3)**	**–**	**–**	**(0.3)**	(1.8)
Share of foreign exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	(0.2)
Dividends received in cash	**(27.1)**	**(1.7)**	**–**	**(28.8)**	(14.5)
Foreign exchange movements	**–**	**–**	**0.8**	**0.8**	3.3
At end of year	**17.9**	**4.5**	**–**	**22.4**	57.8

A loan payable to Citylink of £1.7m (2015: £1.7m) is reflected in note 21. A loan receivable from Twin America of £Nil (2015: £5.9m) is reflected in note 19.

(f) Summarised financial information of joint ventures

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

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

Joint venture	**Latest statutory financial year-end closest to 30 April 2016**	**Balance sheet date of management accounts**
Virgin Rail Group	31 March 2016	30 April 2016
Twin America	31 March 2016	30 April 2016
Citylink	31 December 2015	30 April 2016

Notes to the consolidated financial statements

Note 13 Interests in joint ventures (continued)

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

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

As at 30 April 2016	Virgin Rail Group £m	Citylink £m	Twin America £m	Total 2016 £m
Non-current assets	21.2	0.1	6.4	
Cash and cash equivalents	98.4	1.4	5.9	
Other current assets	84.3	9.0	6.6	
Non-current liabilities	(10.1)	–	(10.3)	
Current liabilities	(157.1)	(5.2)	(8.6)	
Net assets	**36.7**	**5.3**	**–**	
Non-controlling interests	(0.2)	–	–	
Shareholders' funds	**36.5**	**5.3**	**–**	
Group share	49%	35%	60%	
Group share of net assets	**17.9**	**1.9**	**–**	**19.8**
Goodwill	–	2.6	–	2.6
Group interest in joint ventures	**17.9**	**4.5**	**–**	**22.4**

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

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):

	2016 £m	2015 £m
Virgin Rail Group		
Non-current assets – derivative instruments at fair value	**0.4**	–
Non-current liabilities – derivative instruments at fair value	**–**	(2.4)
Current liabilities – derivative instruments at fair value	**(4.5)**	(2.3)
Citylink		
Current assets – loan to Stagecoach Group	**1.7**	1.7
Twin America		
Current liabilities – bank borrowings	**(6.5)**	–
Current liabilities – loan from Stagecoach Group	**–**	(5.9)

Note 13 Interests in joint ventures (continued)

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

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

Year ended 30 April 2016	Virgin Rail Group	Citylink	Twin America
	£m	£m	£m
Revenue	1,072.1	41.2	77.4
Depreciation & amortisation	–	–	(3.2)
Other operating expenses	(1,005.5)	(36.0)	(75.2)
Operating profit/(loss)	66.6	**5.2**	**(1.0)**
Finance income	1.4	–	–
Finance costs	–	–	(0.3)
Taxation	(18.6)	(1.1)	–
Profit after tax	**49.4**	**4.1**	**(1.3)**
Other comprehensive income	7.6	–	–
Total comprehensive income	**57.0**	**4.1**	**(1.3)**

In addition to the above amounts, the Group has recognised exceptional costs in the year ended 30 April 2016 in respect of Twin America (see note 4).

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

Note 14 Available for sale and other investments

The available for sale and other investments of the Group are immaterial.

Note 15 Business combinations

The Group completed no material business combinations during the year ended 30 April 2016. Details of business combinations completed in previous years are provided in the Annual Reports for the years concerned.

Note 16 Disposals

The Group completed no material disposals of businesses during the year ended 30 April 2016. Details of disposals of businesses completed in previous years are provided in the Annual Reports for the years concerned.

Notes to the consolidated financial statements

Note 17 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
3329003 Canada Inc	Canada	A Shares
3376249 Canada Inc	Canada	Common shares and Dividend Access shares
349 First Street Urban Renewal Corporation	United States	Common stock
4216849 Canada Inc	Canada	Common stock
777 8th Avenue LLC (50%)	United States	LLC Units
A1 Service Limited	Scotland	Guarantor
AA Buses Limited	Scotland	Ordinary shares
Aberdare Bus Company Limited	England	Ordinary shares
All West Coachlines Inc	United States	Common Stock
American Coach Lines of Atlanta Inc	United States	Common Stock
American New York Tours Corporation	United States	Common A and Common B non-voting
American Tour Connection Inc	United States	Common stock
Andrews (Sheffield) Limited	England	Ordinary shares
Atlanta Airport Shuttle Inc	United States	Common stock
B&B Bus Company Inc	United States	Common stock
Barclay Airport Service Inc	United States	Common stock
Barclay Transportation Services Inc	United States	Common stock
Basichour Limited	England	Ordinary shares
Bayline Limited	England	Ordinary shares
Bluebird Buses Limited	Scotland	Ordinary shares
Busways Travel Services (1986) Limited	England	Ordinary shares
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares
Busways Trustee (No. 1) Limited	England	Ordinary shares
Busways Trustee (No. 2) Limited	England	Ordinary shares
Butler Motor Transit Inc	United States	Common stock
CAM Leasing LLC	United States	LLC Units
Cambus Limited	England	Ordinary shares
Cape Transit Corporation	United States	Common stock
Central Cab Company Inc	United States	Common stock
Central Charters & Tours Inc	United States	Common stock
Central Jersey Transit Inc	United States	Common stock
Century Airline Services Inc	Canada	Common stock
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares
Cheltenham District Traction Limited	England	Ordinary shares
Chenango Valley Bus Lines Inc	United States	Common stock
Chesterfield Transport (1989) Limited	England	Ordinary shares
Chesterfield Transport EBT (number 2) Limited	England	Ordinary shares
Chesterfield Transport Limited	England	Ordinary shares
Chesterfield Transport PST Limited	England	Ordinary shares
Cisko Bus Company	United States	Common stock
Cleveland Transit Limited	England	Ordinary shares
Cleveland Transit Trustee (No. 1) Limited	England	Ordinary shares
Clinton Avenue Bus Company	United States	Common stock
Coach Leasing Inc	United States	Common stock
Coach USA Administration Inc	United States	Common stock
Coach USA Inc	United States	Common stock
Coach USA Investment Inc	United States	Common stock
Coach USA MBT LLC	United States	LLC Units
Coach USA Tours - Las Vegas Inc	United States	Common stock
Colonial Coach Corporation	United States	Common stock
Commodore Tours Inc	United States	Common stock
Community Bus Lines Inc	United States	Common stock
Community Coach Inc	United States	Common stock
Community Tours Inc	United States	Common stock
Community Transit Lines Inc	United States	Common stock
Community Transportation Inc	United States	Common stock
County Wide Travel Limited	England	Ordinary shares
Cumberland Motor Services Limited	England	Ordinary shares
Devon General Limited	England	Ordinary shares
Dillon's Bus Service Inc	United States	Common stock

Note 17 Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest
Douglas Braund Investments Limited	Canada	Class A, Common and preference shares
Dragon Bus LLC	United States	LLC Units
E&A Bus Company	United States	Common stock
East Coast Mainline Company Limited (90%)	England	Ordinary shares
East Kent Coaches Limited	England	Ordinary shares
East Kent Road Car Company Limited	England	Ordinary shares
East London Bus and Coach Company Limited	England	Ordinary shares
East London Bus Group Property Investments Limited	England	Ordinary shares
East London Bus Limited	England	Ordinary shares
East Midlands Trains Limited	England	Ordinary shares
East Midlands Transport Information Service Limited (28%)	England	Ordinary shares
Eastbourne Buses Limited	England	Ordinary shares
Elizabeth Bus Company	United States	Common stock
ELKO Inc	United States	Common stock
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares
Fleet Buzz Limited	England	Ordinary shares
Formia Limited	England	Ordinary shares
Frenchwood Holdings Limited	England	Ordinary shares
Friedman Transportation Inc	United States	Common stock
G&G Travel Limited	England	Ordinary shares
Gad About Tours Inc	United States	Common stock
Generic Holding Inc	United States	Common stock
Gilsam Bus Company Inc	United States	Common stock
GL Bus Lines Inc	United States	Common stock
Glenvale Transport Limited	England	Ordinary shares
Glossopdale Bus Company Limited	England	Ordinary shares
GM Buses South (EBT) Limited	England	Ordinary shares
Go West Travel Limited	England	Ordinary shares
Gray Line Air Shuttle Inc	United States	Class A and Class B stock
Gray Line New York Tours Inc (50%)	United States	Class A common stock and class B non-voting stock
Greater Manchester Buses South Limited	England	Ordinary shares
Greater Manchester Buses West Limited	England	Ordinary shares
Grimsby Cleethorpes Transport Company Limited	England	Ordinary shares
Halliday-HartleTravel (1988) Limited	England	Ordinary shares
HAML Corporation	United States	Common stock
Hartlepool Transport (1993) Limited	England	Ordinary B and Preference shares
Hartlepool Transport Limited	England	Ordinary shares
Hastings and District Transport Limited	England	Ordinary shares
High Adventure Tours Inc	United States	Common stock
Highland Country Buses Limited	Scotland	Ordinary shares
Hudson Transit Corporation	United States	Common stock
Hudson Transit Lines Inc	United States	Common stock
Independent Bus Company Inc	United States	Common stock
Inter City Railways Limited (90%)	England	A Shares
International Bus Services Inc	United States	Common stock
J&J Bus Company	United States	Common stock
J&J Transit Inc	United States	Common stock
J&L Bus Company	United States	Common stock
Jeredin Cruises LLC (50%)	United States	LLC Units
JMB Property LLC (50%)	United States	LLC Units
JW Coaches Limited	Scotland	Ordinary shares
Kansas Bus Company	United States	Common stock
Keeshin Charter Service Inc	United States	Common stock
Kerrville Bus Company	United States	Common stock
KHCT (ESOP) Limited	England	Ordinary shares
KHCT (Holdings) Limited	England	Ordinary shares
KILT of CT Inc (previously The Arrow Line Inc)	United States	Class A and Class B Common stock
KILT of MA Inc (previously Mini Coach of Boston Inc)	United States	Common stock
KILT of RI Inc (previously Bonanza Bus Lines)	United States	Common stock
Kingston Upon Hull City Transport Limited	England	Ordinary shares
Lakefront Lines Inc	United States	Common stock
Landylines Limited	England	Ordinary shares

Notes to the consolidated financial statements

Note 17 Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest
Leisure Time Tours	United States	Common stock
Lenzner Tours Inc	United States	Common stock
Lenzner Tours, Ltd	United States	Partnership interest
Lenzner Transit Inc	United States	Common stock
Lenzner Transportation Group Incorporated	United States	Common stock
LER Transportation Company	United States	Common stock
Liberty Bell Taxi Company Inc	United States	Common stock
Limousine Rental Service Inc	United States	Common stock
Lincoln City Transport Limited	England	Ordinary shares
Lincolnshire Road Car Company Limited	England	Ordinary shares
M&J Bus Company	United States	Common stock
Massachusetts Bay Transportation Services LLC	United States	LLC Units
Meadowlands Transit Inc	United States	Common stock
Megabus Acquisition LLC	United States	LLC Units
Megabus Northeast LLC	United States	LLC Units
Megabus Philadelphia LLC	United States	LLC Units
Megabus Southeast LLC	United States	LLC Units
Megabus Southwest LLC	United States	LLC Units
Megabus USA LLC	United States	LLC Units
Megabus West LLC	United States	LLC Units
Megabus.com BVBA	Belgium	Ordinary shares
Megabus.com Europe Limited	England	Ordinary shares
Megabus.com GmbH	Germany	Ordinary shares
Megabus.com SAS	France	Ordinary shares
Megabus.com SRL	Italy	Ordinary shares
Megabus.com (UK) Limited	England	Ordinary shares
Megacity Limited (35%)	Scotland	Ordinary shares
Midland Red (South) Limited	England	Ordinary shares
Midtown Bus Terminal New York Inc	United States	Common stock
Minsol Bus Company Inc	United States	Common stock
Mister Sparkle Inc	United States	Common stock
Mountaineer Coach Inc	United States	Common stock
National Transport Tokens Limited	England	Ordinary shares
New Delaware Coach Inc	United States	Common stock
New York Splash Tours LLC	United States	LLC Units
Niagara Scenic Bus Lines Inc	United States	Common stock
Nicecon Limited (50%)	Scotland	Ordinary shares
North Shore Dispatch Inc	United States	Common stock
NYCS LLC (50%)	United States	LLC Units
Olympia Trails Bus Company Inc	United States	Common stock
Orange, Newark, Elizabeth Bus Inc	United States	Common stock
P. Phythian and Son Limited	England	Ordinary shares
Pacific Coast Sightseeing Tours and Charters Inc	United States	Common stock
Paramus Northeast Management Company LLC	United States	LLC Units
Parfitts Motor Services Limited	England	Ordinary shares
PCSTC Inc	United States	Common stock
Penn-Mall Transit Inc	United States	Common stock
Pennsylvania Transportation Systems Inc	United States	Common stock
Perfect Body Inc	United States	Common stock
Phantom Cab Company Inc	United States	Common stock
Powder River Transportation Services Inc	United States	Common stock
Precis (1628) Limited	England	Ordinary shares
PSV Claims Bureau Limited	England	Ordinary shares
PTI (South East) Limited (20%)	England	Ordinary shares
R&W Inc	United States	Common stock
R&W Transit Inc	United States	Common stock
Red and Tan Charter Inc	United States	Common stock
Red and Tan Enterprises Inc	United States	Common stock
Red and Tan Tours Inc	United States	Common stock
Red and Tan Transportation Systems Inc	United States	Common stock
Red and Tan Unlimited Inc	United States	Common stock
Red and White Services Limited	England	Ordinary shares
Rhondda Buses Limited	England	Ordinary shares

Note 17 Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest
Rhondda Valley Buses Limited	England	Ordinary shares
Ribble Motor Services Limited	England	Ordinary shares
Road Runner Tours Inc	United States	Common stock
Rockland Coaches Inc	United States	Common stock
Rockland Transit Corporation	United States	Common stock
Route 17 North Realty LLC	United States	LLC Units
RTI Stagecoach Limited *	England	Ordinary-A shares, Ordinary-B shares and Preference shares
Sam Van Galder Inc	United States	A and B Common stock
Schoolbus Limited	Scotland	Ordinary shares
SCOTO Limited	England	Ordinary shares
SCOTO US Subsidiary Limited LLC	United States	LLC Units
Scottish Citylink Coaches Limited (35%)	Scotland	Ordinary shares
SCUSI Limited	England	Ordinary, A and B shares
SCUSI US Subsidiary Limited LLC	United States	LLC Units
Seven Bus Corporation	United States	Common stock
SGP Group Finance Sarl *	Luxembourg	Ordinary shares
Sharpton Limited	England	Ordinary shares
SHM Transit Inc	United States	Common stock
Short Line Terminal Agency Inc	United States	Common stock and preferred stock
Sightseeing Buses SL (24.5%)	Spain	Ordinary shares
Skipburn Limited	Canada	Ordinary shares
SL Capital Corporation	United States	Class A voting and Class B non-voting shares
South East London and Kent Bus Company Limited	England	Ordinary shares
South Orange Avenue Bus Association Inc	United States	Common stock
South Orange Avenue Bus Company	United States	Common stock
South West Trains Limited	England	Ordinary shares
South Yorkshire Supertram Limited	England	Ordinary shares
South Yorkshire Supertram Operating Company Limited	England	Ordinary shares
Southdown Motor Services Limited	England	Ordinary shares
Sporran AWC Inc	United States	Common stock
Sporran FL Inc	United States	Common stock
Sporran GBL Inc	United States	Common stock
Sporran GCBS Inc	United States	Common stock
Sporran GCTC Inc	United States	Common stock
Sporran GLS Inc	United States	Common stock
Sporran TI Inc	United States	Common stock
Stagecoach (North West) Limited	England	Ordinary shares
Stagecoach (South) Limited	England	Ordinary shares
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares
Stagecoach Cheetah Limited	England	Ordinary shares
Stagecoach Devon Limited	England	Ordinary shares
Stagecoach Glasgow Limited	Scotland	Ordinary shares
Stagecoach Holdings Limited	Scotland	Ordinary shares
Stage-coach International Services Limited	Scotland	Ordinary shares
Stagecoach London Midland Trains Limited	England	Ordinary shares
Stagecoach QUEST Trustee Limited	Scotland	Ordinary shares
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares
Stagecoach Rail North America LLC	United States	LLC units
Stagecoach Rail Passenger Services LLC	United States	LLC units
Stagecoach Rail Projects Limited	England	Ordinary shares
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares
Stagecoach Rail Replacement (South) Limited	England	Ordinary shares
Stagecoach Rail Replacement Limited	England	Ordinary shares
Stagecoach (Scotland) Limited	Scotland	Ordinary shares
Stagecoach Services Limited	England	Ordinary shares
Stagecoach South West Limited	England	Ordinary shares
Stagecoach South Western Trains Limited	England	Ordinary shares
Stagecoach SWT Oldco Limited	England	Ordinary shares
Stagecoach Supertram Maintenance Limited	England	Ordinary shares
Stagecoach Technology Limited	Scotland	Ordinary shares
Stagecoach Thameslink Trains Limited	England	Ordinary shares

Notes to the consolidated financial statements

Note 17 Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest
Stagecoach Transport Holdings Limited *	Scotland	Ordinary shares
Suburban Management Corporation	United States	Common stock
Suburban Trails Inc	United States	Common stock
Suburban Transit Corporation	United States	Common stock
SuperCAM Limited	England	A and B shares
Superior Bus Company	United States	Common stock
Swindon and District Bus Company Limited	England	Ordinary shares
Syracuse and Oswego Coach Lines Inc	United States	Common stock
Tanport Limited	England	Ordinary shares
Tees Valley Limited	England	Ordinary and A-Ordinary shares
Thames Transit Limited	England	Ordinary shares
The Barnsley and District Traction Company Limited	England	Ordinary shares
The Bus Exchange Inc	United States	Common stock
The Hudson Bus Transportation Company	United States	Common stock
The Mexborough and Swinton Traction Company Limited	England	Ordinary shares
The Valleys Bus Company Limited	England	Ordinary shares
The Viscount Bus and Coach Company Limited	England	Ordinary shares
The Yorkshire Traction Company (Trustee) Limited	England	Ordinary shares
The Yorkshire Traction Company Limited	England	Ordinary shares
Trans Maintenance Inc	United States	Common stock
Trans-Hudson Express Inc	United States	Common stock
Transit Advertising Limited	England	Ordinary shares
Transportation Management Services Inc	United States	Common stock
Trentway-Wagar (Properties) Inc	Canada	Class A and class B Common shares
Trentway-Wagar Inc	Canada	Common stock and first preference shares
Tri State Coach Lines, Inc	United States	Common stock
TRT Transportation Inc	United States	Common stock
Twenty-Four Corporation	United States	Common stock
Twin America LLC (50%)	United States	LLC Units
Tyburn Limited	United States	Common stock
Tyne and Wear Omnibus Company Limited	England	Ordinary shares
United Counties Omnibus Limited	England	Ordinary shares
Vailsburg Bus Company	United States	Common stock
Van Nortwick Bros Inc	United States	Common stock
Virgin Rail Group Holdings Limited (49%)	England	B shares
Virgin Rail Group Limited (49%)	England	Ordinary and Preference shares
Virgin Rail Projects Limited (49%)	England	Ordinary shares
Virgin Trains Sales Limited (49%)	England	Ordinary shares
Virgin Trains Limited (49%)	England	Ordinary shares
Welcome Passenger Transport Limited	England	Ordinary shares
West Coast Trains Limited (49%)	England	Ordinary shares
West Sussex Buses Limited	England	Ordinary shares
Western Buses Limited	England	Ordinary shares
Whites World Travel Limited	England	Ordinary shares
Wisconsin Coach Lines Inc	United States	Common stock
WJB Bus Company Inc	United States	Common stock
Wohlgemuth Bus Company	United States	Common stock
XYZ-JP Taxi Inc	United States	Common stock
XYZ-PBT Inc	United States	Common stock
Yellow Cab Leasing Company of San Diego	United States	Common stock
Yellow Cab of San Diego Inc	United States	Common stock
Yellow Cab Service Corporation	United States	Common stock
Yorkshire Terrier Limited	England	Ordinary shares

* Companies are directly held by Stagecoach Group plc

All subsidiary undertakings are included in these consolidated financial statements.

Note 17 Subsidiary and related undertakings (continued)

Asset purchase and non-controlling interests

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

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

The profit for the year ended 30 April 2016 allocated to the non-controlling interest is shown on the consolidated income statement. The accumulated non-controlling interest as at 30 April 2016 is shown on the consolidated balance sheet and the movement in that interest in the year (including any dividends paid to non-controlling interests) is shown in the consolidated statement of movements in equity.

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

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

The Group may be required to loan further amounts to East Coast Main Line Company Limited pursuant to the committed loan facilities shown in note 31(iii).

The consolidated balance sheet of Inter City Railways Limited as at 30 April 2016 and its financial performance for the year ended 30 April 2016 are summarised below. The amounts shown below are determined in accordance with the Group’s accounting policies before inter-company eliminations.

	2016	2015
	£m	£m
Non-current assets	78.6	80.8
Current assets	193.6	129.8
Current liabilities	(175.4)	(138.5)
Non-current liabilities	(78.4)	(63.0)
Net assets	**18.4**	**9.1**
Revenue	730.4	118.0
Expenses	(704.9)	(114.5)
Operating profit	**25.5**	**3.5**
Management recharge	(0.2)	–
Intangible asset expenses	(9.2)	(1.5)
Restructuring costs	(0.8)	–
Finance costs (net)	(1.0)	(0.1)
Taxation	(2.7)	(0.4)
Profit after tax	**11.6**	**1.5**
Other comprehensive expense	(2.4)	(5.7)
Total comprehensive income/(expense)	**9.2**	**(4.2)**

Notes to the consolidated financial statements

Note 18 Inventories

Inventories were as follows:

	2016	2015
	£m	£m
Parts and consumables	**27.5**	26.9

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:

	2016	2015
	£m	£m
At beginning of year	**(3.8)**	(2.3)
Charged to income statement	**(0.3)**	(1.8)
Amount utilised	**0.2**	0.3
At end of year	**(3.9)**	(3.8)

Note 19 Trade and other receivables

Trade and other receivables were as follows:	2016	2015
	£m	£m
Non-current:		
Prepayments	**5.4**	11.9
Other receivables	**0.2**	0.2
	5.6	12.1
Current:		
Trade receivables	**237.1**	204.7
Less: provision for impairment	**(2.5)**	(2.8)
Trade receivables – net	**234.6**	201.9
Other receivables	**30.8**	22.0
Loans to joint ventures	**–**	5.9
Prepayments	**44.2**	54.6
Accrued income	**38.5**	50.9
VAT and other government receivables	**34.1**	39.9
	382.2	375.2

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

	2016	2015
	£m	£m
At beginning of year	**(2.8)**	(2.1)
Impairment losses in year charged to income statement	**(0.7)**	(1.0)
Reversal of impairment losses credited to income statement	**0.3**	0.1
Amounts utilised	**0.7**	0.2
At end of year	**(2.5)**	(2.8)

Further information on credit risk is provided in note 26.

Note 20 Cash and cash equivalents

	2016	2015
	£m	£m
Cash at bank and in hand	**382.3**	395.6

The cash amounts shown above include £15.0m on 12 month deposit maturing by March 2017, £50.0m on 6 month deposit maturing by October 2016, £35.0m on 6 month deposit maturing by September 2016, £10.0m on 6 month deposit maturing by August 2016, £27.0m on 3 month deposit maturing by June 2016, £10.0m on 3 month deposit maturing by May 2016 and £10.0m on 2 month deposit maturing by June 2016. (2015: £10.0m on 9 month deposit maturing by August 2015, £15.0m on 6 month deposit maturing by August 2015, £15.0m on 6 month deposit maturing by September 2015, £15.0m on 3 month deposit maturing by May 2015, £22.0m on 3 month deposit maturing by June 2015, £40.0m on 1 month deposit maturing by May 2015 and £25.0m on 1 week deposit maturing by May 2015). The remaining amounts are accessible to the Group within one day (2015: 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 available to be loaned or distributed to other members of the Group (see note 31 (iii)) but 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 £382.3m (2015: £395.6m) above included the net balance on these offset accounts of £43.2m (2015: £49.4m), which comprised £152.8m (2015: £309.8m) of positive bank balances less £109.6m (2015: £260.4m) of bank overdrafts.

Note 21 Trade and other payables

Trade and other payables were as follows:

	2016	2015
	£m	£m
Current		
Trade payables	**270.3**	229.6
Accruals	**381.8**	436.4
Deferred income	**114.4**	122.9
Cash-settled share based payment liability	**0.6**	1.3
Deferred grant income	**20.6**	6.2
Loans from joint ventures	**1.7**	1.7
Loan from non-controlling interest	**5.3**	3.5
PAYE and NIC payable	**30.4**	28.5
VAT and other government payables	**0.1**	0.3
	825.2	830.4
Non-current		
Accruals	**6.0**	1.0
Deferred grant income	**18.7**	14.9
Cash-settled share based payment liability	**0.5**	1.2
PAYE and NIC payable	**0.3**	0.5
Other payables	**–**	0.5
Deferred income	**20.0**	21.9
	45.5	40.0

Notes to the consolidated financial statements

Note 22 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:	2016	2015
	£m	£m
On demand or within 1 year		
Loan notes	**19.3**	19.5
Hire purchase and lease obligations	**34.3**	32.1
	53.6	51.6
Within 1-2 years		
Hire purchase and lease obligations	**18.8**	30.8
Sterling 5.75% Notes	**–**	408.5
	18.8	439.3
Within 2-5 years		
Bank loans	**189.6**	172.1
Hire purchase and lease obligations	**23.7**	25.1
	213.3	197.2
Over 5 years		
Sterling 4.00% Notes	**403.8**	–
US Dollar 4.36% Notes	**102.3**	97.2
	506.1	97.2
Total borrowings	**791.8**	785.3
Less current maturities	**(53.6)**	(51.6)
Non-current portion of borrowings	**738.2**	733.7

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 1.90% (2015: 0.40% and 1.90%) over bank base rate or equivalent LIBOR rates, subject to certain minimum rates. Interest terms on overseas lease obligations are at fixed rates, which at 30 April 2016 averaged 2.0% per annum (2015: 2.3%). Interest terms on bank loans are at LIBOR plus margins ranging from 0.40% to 1.10% (2015: 0.40% to 1.10%). Interest on loan notes are at three months LIBOR. Loan notes amounting to £19.3m (2015: £19.5m) are backed by guarantees provided under Group banking facilities.

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

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

The minimum lease payments under hire purchase and lease obligations fall due as follows:	2016	2015
	£m	£m
Not later than one year	**35.7**	33.6
Later than one year but not more than five years	**43.7**	57.2
	79.4	90.8
Future finance costs on hire purchase and finance leases	**(2.6)**	(2.8)
Carrying value of hire purchase and finance lease liabilities	**76.8**	88.0

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 5.75% Notes

On 16 December 2009, the Group issued £400m of 5.75% Notes. Interest on the Notes was paid annually in arrears and all remaining Notes were redeemed in October 2015.

The consolidated carrying value of the Notes at 30 April 2016 was therefore £Nil (2015: £408.5m) after taking account of accrued interest, the discount on issue and issue costs.

(c) 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 30 April 2016 was £403.8m (2015: £Nil) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

(d) US Dollar 4.36% Notes

On 18 October 2012, the Group issued US$150m of 4.36% Notes as a private placement. Interest on the Notes is paid semi-annually in arrears and all remaining Notes are due to be redeemed at their principal amount on 18 October 2022. The consolidated carrying value of the Notes at 30 April 2016 was £102.3m (2015: £97.2m) after taking account of accrued interest, issue costs and the effect of fair value hedges.

Note 23 Deferred tax

The Group movement in deferred tax during the year was as follows:	2016	2015
	£m	£m
Due after more than one year:		
At beginning of year	**(25.1)**	(34.0)
Credited/(charged) to income statement	**13.6**	(6.3)
(Charged)/credited to equity	**(13.3)**	16.0
Foreign exchange movements	**(0.8)**	(0.8)
At end of year	**(25.6)**	(25.1)

Deferred taxation is calculated as follows:

	2016			2015		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	£m	**£m**	**£m**	£m	£m	£m
Accelerated capital allowances	**–**	**(99.3)**	**(99.3)**	–	(115.2)	(115.2)
Pension temporary differences	**21.0**	**–**	**21.0**	35.3	–	35.3
Short-term temporary differences	**52.7**	**–**	**52.7**	54.8	–	54.8
	73.7	**(99.3)**	**(25.6)**	90.1	(115.2)	(25.1)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:	2016	2015
	£m	£m
Accelerated capital allowances	**20.1**	(8.1)
Pension temporary differences	**1.7**	0.2
Short-term temporary differences	**(8.2)**	1.6
	13.6	(6.3)

Note 24 Provisions

The movements in provisions were as follows:	Token redemption provision	Insurance provisions	Environmental provisions	Redundancy provision	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	5.9	150.7	4.6	0.5	9.1	170.8
Provided during year (after discounting)	–	49.2	–	1.4	1.5	52.1
Unused amounts credited to income statement	(2.4)	–	–	–	–	(2.4)
Unwinding of discount	–	3.8	–	–	0.1	3.9
Utilised in the year	–	(57.2)	(0.6)	(1.7)	(6.1)	(65.6)
Arising on sale of tokens during year	0.3	–	–	–	–	0.3
Redemption of tokens	(0.5)	–	–	–	–	(0.5)
Foreign exchange movements	–	2.1	0.1	–	–	2.2
End of year	3.3	148.6	4.1	0.2	4.6	160.8
30 April 2016:						
Current	0.7	49.5	1.2	0.2	3.3	54.9
Non-current	2.6	99.1	2.9	–	1.3	105.9
	3.3	148.6	4.1	0.2	4.6	160.8
30 April 2015:						
Current	1.2	55.2	1.3	0.5	6.5	64.7
Non-current	4.7	95.5	3.3	–	2.6	106.1
	5.9	150.7	4.6	0.5	9.1	170.8

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

The insurance provisions relate to insurance reserves on incurred accidents up to 30 April in each year where claims have not been settled. These are based on actuarial reviews and prior claims history. Claims are typically settled within five years of origination.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required, and is expected to be utilised over the next five years.

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

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

Notes to the consolidated financial statements

Note 25 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom funded schemes

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

	Date as at which last scheme valuation was prepared
• Stagecoach Group Pension Schemes ("SPS");	30 April 2014
• The South West Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The Island Line section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Midlands Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Coast Main Line section of the Railways Pension Scheme ("RPS"); and	31 December 2013
• A number of UK Local Government Pension Schemes ("LGPS").	31 March 2013

During the year ended 30 April 2016, the East London and Selkent Pension Scheme was merged with the Stagecoach Group Pension Scheme. A separate East London and Selkent section of the Stagecoach Group Pension Scheme is now maintained.

The Stagecoach Group Pension Scheme and the Local Government Pension Schemes are closed to new members from the Group. All relevant sections of the Railways Pension Schemes are open to new members.

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 30 April 2016 of the expected benefit payments across all UK defined benefit schemes is estimated at 20.0 years (2015: 20.0 years).

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

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 1.1% (2015: 2.3%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 8.9% (2015: 8.9%) of the gross present value of pension obligations as at 30 April 2016 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 only recognises existing surpluses relating to these schemes, to the extent that these surpluses could be recouped through the reduction of future contributions.

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.

North America funded schemes

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

Unfunded schemes

The Group makes contributions to an unapproved employer-financed retirement benefit scheme ("EFRBS") in the UK and a non qualifying defined contribution scheme ("NQDC") in the US. In each case, the liabilities of these schemes are unfunded but the Group has set aside assets to meet its obligations under the schemes. In the case of the EFRBS, the scheme holds a guarantee over the assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 30 April 2016 was £4.7m (2015: £5.2m).

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

Note 25 Retirement benefits (continued)

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 30 April 2016 and 30 April 2015 are shown below:

	2016	2015
Discount rate	**3.7%**	3.7%
Retail Prices inflation assumption	**3.0%**	3.2%
Consumer Prices inflation assumption	**1.7%**	1.9%
Rate of increase in pensionable salaries		
SPS	**2.0%**	2.0%
Others	**2.2%**	3.2%
Rate of increase of pensions in payment		
SPS	**2.9%**	3.1%
Others	**1.7%**	1.9%
Post-retirement mortality (life expectancies in years)		
Current pensioners at 65 – male	**19.4**	19.3
Current pensioners at 65 – female	**23.7**	23.6
Future pensioners at 65 aged 45 now – male	**21.5**	21.4
Future pensioners at 65 aged 45 now – female	**25.6**	25.5

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

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

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £24.8m (2015: £25.5m) and retirement benefit obligations of £121.5m (2015: £186.0m), resulting in the net liability of £96.7m (2015: £160.5m) analysed below.

The amounts recognised in the balance sheet were as follows:

As at 30 April 2016	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
Equities	786.8	–	221.2	4.1	–	1,012.1
Private Equity	48.7	151.3	–	–	–	200.0
Infrastructure	–	55.0	–	–	–	55.0
Growth Pooled Fund*	–	1,204.6	–	–	–	1,204.6
Bonds	255.3	–	49.3	0.7	–	305.3
Cash	48.8	3.0	42.1	0.9	–	94.8
Property	116.7	–	20.2	–	–	136.9
Fair value of scheme assets	1,256.3	1,413.9	332.8	5.7	–	3,008.7
Present value of obligations	(1,366.5)	(1,691.7)	(299.2)	(8.5)	(3.8)	(3,369.7)
– adjustment for members' share of RPS deficit (40%)	–	111.1	–	–	–	111.1
– franchise adjustment	–	191.1	–	–	–	191.1
(Deficit)/Surplus in the scheme	(110.2)	24.4	33.6	(2.8)	(3.8)	(58.8)
Asset ceiling	–	–	(37.9)	–	–	(37.9)
Pension (liability)/asset before tax	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)

Notes to the consolidated financial statements

Note 25 Retirement benefits (continued)

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

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

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

(d) Funding arrangements and schemes

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

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

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

The regulatory framework in the UK requires the Trustees of the Stagecoach 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 longevity/life expectancy risk.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The actuarial valuation for the East London and Selkent Pension Scheme was completed last year, and showed that as at 5 April 2013, the scheme was 100% funded on the Trustees' technical provisions basis. Actuarial valuations were completed for the Local Government Pension Schemes, showing that the schemes were underfunded on the technical provisions basis as at 31 March 2013 with deficit contributions payable. The actuarial valuation for the Stagecoach Group Pension Scheme as at 30 April 2014 was finalised during the year, and showed that as at 30 April 2014, the scheme was 111% funded on the Trustees' technical provisions basis. The Group forecasts to contribute £69.6m (forecast at 30 April 2015 for year ended 30 April 2016: £73.4m) to its defined benefit schemes in the financial year ending 30 April 2017.

(e) Changes in net retirement benefit obligations

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

Year ended 30 April 2016	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(171.7)	24.4	(6.6)	(2.6)	(4.0)	(160.5)
Rail franchise changes	–	5.3	–	–	–	5.3
Expense charged to consolidated income statement	(27.1)	(57.1)	(1.2)	(1.0)	(0.1)	(86.5)
Recognised in the consolidated statement of comprehensive income	70.3	1.6	(3.5)	0.1	–	68.5
Employers' contributions and settlements	18.3	50.2	7.0	0.7	0.3	76.5
At end of year – (liability)/asset	(110.2)	24.4	(4.3)	(2.8)	(3.8)	(96.7)

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

Note 25 Retirement benefits (continued)

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

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

- The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities. A 10 basis points increase in the discount rate would result in a £18.7m decrease in the net pension liabilities as at 30 April 2016 (2015: £20.3m). A 10 basis points decrease in the discount rate would result in a £18.9m increase in the net pension liabilities as at 30 April 2016 (2015: £20.6m).
- 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 £11.6m increase in the net pension liabilities as at 30 April 2016 (2015: £11.4m). A 10 basis points decrease in the inflation rate would result in a £11.5m decrease in the net pension liabilities as at 30 April 2016 (2015: £11.4m).
- A 10 basis point increase in the rate of increase in pensionable salaries would result in a £1.7m increase in the net pension liabilities as at 30 April 2016 (2015: £1.2m). A 10 basis point decrease in the rate of increase in pensionable salaries would result in a £1.7m decrease in the net pension liabilities as at 30 April 2016 (2015: £1.3m).
- A 10 basis point increase in the rate of increase of pensions in payment would result in a £8.2m increase in the net pension liabilities as at 30 April 2016 (2015: £7.1m). A 10 basis point decrease in the rate of increase of pensions in payment would result in a £8.2m decrease in the net pension liabilities as at 30 April 2016 (2015: £7.1m).
- The longevity assumptions adopted are a best estimate of the mortality of scheme members both during and after employment, and are based on the most recent mortality data available from actuarial valuations. If life expectancy of the relevant individuals was to increase by one year, this would result in an increase of £42.4m in the net pension liabilities as at 30 April 2016 (2015: £36.2m). If life expectancy of the relevant individuals was to decrease by one year, this would result in a decrease of £43.9m in the net pension liabilities as at 30 April 2016 (2015: £36.2m).

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

(g) Pension amounts recognised in income statement

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded and DC Schemes	Total
Year ended 30 April 2016	£m	£m	£m	£m	£m	£m
Current service cost	(20.4)	(57.3)	(1.1)	(0.9)	–	(79.7)
Administration costs	(0.9)	(0.6)	–	–	–	(1.5)
Defined contribution costs	–	–	–	–	(20.2)	(20.2)
Included in operating profit	(21.3)	(57.9)	(1.1)	(0.9)	(20.2)	(101.4)
Net interest (expense)/income	(5.8)	(10.0)	1.0	(0.1)	(0.1)	(15.0)
Interest expense on asset ceiling	–	–	(1.1)	–	–	(1.1)
Unwinding of franchise adjustment	–	10.8	–	–	–	10.8
	(27.1)	(57.1)	(1.2)	(1.0)	(20.3)	(106.7)

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

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

Notes to the consolidated financial statements

Note 25 Retirement benefits (continued)

(h) Pension amounts recognised in statement of comprehensive income

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

Year ended 30 April 2016	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded Schemes £m	Total £m
Actual return on scheme assets (lower)/higher than the discount rate	(13.2)	42.7	(10.8)	(0.2)	–	18.5
Changes in financial assumptions	37.3	241.7	13.8	0.1	–	292.9
Changes in demographic assumptions	24.4	–	0.9	–	–	25.3
Experience on benefit obligations	21.8	(136.6)	(0.3)	0.2	–	(114.9)
Changes in asset ceiling (net of interest)	–	–	(7.1)	–	–	(7.1)
Change in franchise adjustment	–	(146.2)	–	–	–	(146.2)
	70.3	1.6	(3.5)	0.1	–	68.5

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

(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.

Year ended 30 April 2016	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded Schemes £m	Total £m
At beginning of year	1,431.2	1,314.2	314.7	8.8	4.0	3,072.9
Rail franchise changes	–	(5.3)	–	–	–	(5.3)
Current service cost	20.4	57.3	1.1	0.9	–	79.7
Interest on benefit obligations	51.7	40.0	11.4	0.4	0.1	103.6
Unwinding of franchise adjustment	–	(10.8)	–	–	–	(10.8)
Benefits paid	(54.1)	(53.9)	(13.9)	(1.7)	(0.3)	(123.9)
Contributions by employees	0.8	6.9	0.3	0.2	–	8.2
Actuarial losses/(gains) due to:						
– Changes in demographic assumptions	(24.4)	–	(0.9)	–	–	(25.3)
– Changes in financial assumptions	(37.3)	(241.7)	(13.8)	(0.1)	–	(292.9)
– Experience on benefit obligations	(21.8)	136.6	0.3	(0.2)	–	114.9
– Change in franchise adjustment	–	146.2	–	–	–	146.2
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,366.5	1,389.5	299.2	8.5	3.8	3,067.5

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

Note 25 Retirement benefits (continued)

(j) Scheme assets

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

Year ended 30 April 2016	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
	£m	£m	£m	£m	£m	£m
At beginning of year	1,259.5	1,338.6	337.8	6.2	–	2,942.1
Administration costs	(0.9)	(0.6)	–	–	–	(1.5)
Interest income	45.9	30.0	12.4	0.3	–	88.6
Employer contributions	18.3	50.2	7.0	0.7	0.3	76.5
Contributions by employees	0.8	6.9	0.3	0.2	–	8.2
Benefits paid	(54.1)	(53.9)	(13.9)	(1.7)	(0.3)	(123.9)
Remeasurements						
– Return on assets excluding amounts included in net interest	(13.2)	42.7	(10.8)	(0.2)	–	18.5
Foreign exchange movements	–	–	–	0.2	–	0.2
At end of year	1,256.3	1,413.9	332.8	5.7	–	3,008.7

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

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2016	2015
	£m	£m
At beginning of year	**(29.7)**	(19.8)
Interest expense	**(1.1)**	(0.9)
Remeasurements	**(7.1)**	(9.0)
At end of year	**(37.9)**	(29.7)

(l) Franchise adjustment

The movement in the franchise adjustment is shown below:

	2016	2015
	£m	£m
At beginning of year	**297.4**	204.9
Rail franchise changes	**29.1**	151.9
Amounts recognised in income statement:		
– Unwinding of franchise adjustment	**10.8**	10.1
Remeasurements:		
– Change in franchise adjustment	**(146.2)**	(69.5)
At end of year	**191.1**	297.4

Notes to the consolidated financial statements

Note 26 Financial instruments

(a) Overview

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

- Interests in subsidiaries and joint ventures accounted for in accordance with International Financial Reporting Standard 10 ("IFRS 10"), *Consolidated Financial Statements* and International Financial Reporting Standard 11 ("IFRS 11"), *Joint Arrangements.*
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

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

(b) Carrying values of financial assets and financial liabilities

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

	Other balance sheet notes	**2016** Carrying value £m	2015 Carrying value £m	**2016** Fair value £m	2015 Fair value £m
Financial assets					
Loans and receivables					
– Non-current assets					
– Other receivables	19	**0.2**	0.2	**0.2**	0.2
– Current assets					
– Accrued income	19	**38.5**	50.9	**38.5**	50.9
– Trade receivables, net of impairment	19	**234.6**	201.9	**234.6**	201.9
– Loans to joint ventures	19	**–**	5.9	**–**	5.9
– Other receivables	19	**30.8**	22.0	**30.8**	22.0
– Cash and cash equivalents	20	**382.3**	395.6	**382.3**	395.6
Total financial assets		**686.4**	676.5	**686.4**	676.5
Financial liabilities					
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals	21	**(6.0)**	(1.0)	**(6.0)**	(1.0)
– Other payables	21	**–**	(0.5)	**–**	(0.5)
– Borrowings	22	**(738.2)**	(733.7)	**(755.6)**	(760.4)
– Current liabilities					
– Trade payables	21	**(270.3)**	(229.6)	**(270.3)**	(229.6)
– Accruals	21	**(381.8)**	(436.4)	**(381.8)**	(436.4)
– Loans from joint ventures	21	**(1.7)**	(1.7)	**(1.7)**	(1.7)
– Loan from non-controlling interest	21	**(5.3)**	(3.5)	**(5.3)**	(3.5)
– Borrowings	22	**(53.6)**	(51.6)	**(53.6)**	(51.6)
Total financial liabilities		**(1,456.9)**	(1,458.0)	**(1,474.3)**	(1,484.7)
Net financial liabilities		**(770.5)**	(781.5)	**(787.9)**	(808.2)

Derivatives that are designated as effective hedging instruments are not shown in the above table. Information on the carrying value of such derivatives is provided in note 26(g).

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

- The carrying value of cash and cash equivalents, accrued income, trade receivables, loans to joint ventures and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, other payables, accruals, loan from non-controlling interest and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.

Note 26 Financial instruments (continued)

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

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

- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. Excluding the element hedged in a fair value hedge, we estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed-rate notes liability by around £37.7m (2015: £12.1m).

Fair value estimation

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

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

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2016.

	Note	**Level 2 & Total £m**
Assets		
Derivatives used for hedging	26(g)	**6.6**
Liabilities		
Derivatives used for hedging	26(g)	**(60.8)**

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2015.

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

The "Level 3" financial assets of £0.3m were written down to nil during the year ended 30 April 2015. The value of the assets is not material to the Group and therefore changes in valuations would not have a material effect on the financial statements.

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

The Group's use of financial instruments exposes it to a variety of financial risks, principally:

- Market risk – including currency risk, interest rate risk and price risk;
- Credit risk; and
- Liquidity risk.

This note (c) presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the year ended 30 April 2016. 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 1.6.10 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.

Notes to the consolidated financial statements

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

Foreign currency translation risk

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

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

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

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

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

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

	2016	2015
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**244.6**	249.4
– Cash	**25.9**	33.8
– Borrowings	**(198.7)**	(183.3)
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**23.6**	29.8
– Cash	**2.1**	1.0
Net exposure	**97.5**	130.7

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:

	2016	2015
US dollar		
US dollar balance sheet foreign exchange rate	**1.4649**	1.5368
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.3184**	1.3831
– Increase in consolidated equity (£m)	**8.0**	11.1
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.6114**	1.6905
– Decrease in consolidated equity (£m)	**(6.5)**	(9.1)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	**1.8349**	1.8614
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.6514**	1.6753
– Increase in consolidated equity (£m)	**2.9**	3.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**2.0184**	2.0475
– Decrease in consolidated equity (£m)	**(2.3)**	(2.8)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

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

	2016	2015
	£m	£m
US dollars		
– US$ element of North American operating profit	**14.0**	16.9
– Intangible asset expenses	**(1.8)**	(5.3)
– Redundancy/restructuring costs	**(0.6)**	(0.3)
– Share of (loss)/profit of joint ventures (excluding exceptional items)	**(0.8)**	2.0
– Exceptional items	**(37.9)**	(7.9)
– Net finance costs	**(9.0)**	(8.6)
– Net tax credit	**12.3**	0.5
Canadian dollars		
– C$ element of North American operating profit	**4.3**	4.7
– Redundancy/restructuring costs adjustment	**–**	0.1
– Net tax charge	**(1.0)**	(1.1)
Net exposure	**(20.5)**	1.0

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:

	2016	2015
	£m	£m
US$ element of North American operating profit shown above	**14.0**	16.9
C$ element of North American operating profit shown above	**4.3**	4.7
Share based payment adjustment denominated in sterling	**0.6**	0.5
Operating profit shown in segmental information	**18.9**	22.1

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

	2016	2015
US dollar		
US dollar average foreign exchange rate	**1.5031**	1.5988
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.3528**	1.4389
– Decrease in consolidated profit after taxation (£m)	**(2.6)**	(0.3)
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.6534**	1.7587
– Increase in consolidated profit after taxation (£m)	**2.2**	0.2
Canadian dollar		
Canadian dollar average foreign exchange rate	**1.9756**	1.8323
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.7780**	1.6491
– Increase in consolidated profit after taxation (£m)	**0.4**	0.4
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**2.1732**	2.0155
– Decrease in consolidated profit after taxation (£m)	**(0.3)**	(0.3)

The above sensitivity analysis is based on the following assumptions:

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

Notes to the consolidated financial statements

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

Foreign currency transactional risk

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

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

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 30 April 2016 there were no material net transactional foreign currency exposures (2015: £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 115.

Interest rate risk

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

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

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

At 30 April 2016, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	187.2	405.9	593.1	4.0%	9.4
US Dollar	156.9	41.8	198.7	2.0%	2.7
Gross borrowings	344.1	447.7	791.8	3.8%	8.8

At 30 April 2015, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

Currency	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
	£m	£m	£m	%	Years
Sterling	189.9	412.1	602.0	5.8%	1.6
US Dollar	149.3	34.0	183.3	2.3%	2.2
Gross borrowings	339.2	446.1	785.3	5.5%	1.7

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

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to six months based on market rates.

The maturity profile of the Group's borrowings is shown in note 22(a).

The Group's financial assets on which floating interest is receivable include cash deposits and cash in hand of £382.3m (2015: £395.6m). Loans to joint ventures of £Nil (2015: £5.9m) bear interest at a fixed rate of 6% (2015: fixed rate of 6%) per annum. As at 30 April 2016, the Group had no other financial assets on which fixed interest is receivable (2015: £Nil).

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

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

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

Price risk

The Group is exposed to commodity price risk. The Group's operations as at 30 April 2016 consume approximately 425.3m 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.

At 30 April 2016 and 30 April 2015, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2016	2015
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	**(66.5)**	(81.7)
– UK Bus (London)	**(7.1)**	(8.4)
– UK Rail	**(26.3)**	(25.1)
– North America	**(26.0)**	(33.2)
	(125.9)	(148.4)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(1.1)**	(2.1)
– megabus Europe	**(1.3)**	(2.6)
– UK Bus (London)	**(4.5)**	(6.1)
– UK Rail	**(1.7)**	(1.4)
– North America	**(4.6)**	(6.0)
	(13.2)	(18.2)
Total	**(139.1)**	(166.6)

The figures in the above table are after taking account of derivatives and applying the fuel prices and foreign exchange rates as at the balance sheet date.

If all of the relevant fuel prices were 10% higher at the balance sheet date, the amounts in the above table would change by the following:

	2016	2015
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(0.1)**	(0.2)
– megabus Europe	**(0.1)**	(0.3)
– UK Bus (London)	**(0.4)**	(0.6)
– UK Rail	**(0.2)**	(0.1)
– North America	**(0.5)**	(0.6)
Decrease in projected profit before taxation	**(1.3)**	(1.8)

Notes to the consolidated financial statements

Note 26 Financial instruments (continued)

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

(i) Market risk (continued)

If all of the relevant fuel prices were 10% lower at the balance sheet date, the amounts would change by the following:

	2016	2015
	£m	£m
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**0.1**	0.2
– megabus Europe	**0.1**	0.3
– UK Bus (London)	**0.4**	0.6
– UK Rail	**0.2**	0.1
– North America	**0.5**	0.6
Increase in projected profit before taxation	**1.3**	1.8

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

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

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

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

(ii) Credit risk

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

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

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

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

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

The movement in the provision for impairment of trade and other receivables is shown in note 19.

The table below shows the financial assets exposed to credit risk at the balance sheet date:

	Gross	**Impairment**	**Net exposure**	Gross	Impairment	Net exposure
	2016	**2016**	**2016**	2015	2015	2015
	£m	£m	£m	£m	£m	£m
Trade receivables	**237.1**	**(2.5)**	**234.6**	204.7	(2.8)	201.9
Loans, other receivables and accrued income	**69.5**	**–**	**69.5**	79.0	–	79.0
Cash and cash equivalents – pledged as collateral	**18.6**	**–**	**18.6**	18.8	–	18.8
Cash and cash equivalents – other	**363.7**	**–**	**363.7**	376.8	–	376.8
Excluding derivative financial instruments	**688.9**	**(2.5)**	**686.4**	679.3	(2.8)	676.5
Derivatives used for hedging	**6.6**	**–**	**6.6**	3.4	–	3.4
Total exposure to credit risk	**695.5**	**(2.5)**	**693.0**	682.7	(2.8)	679.9

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

Note 26 Financial instruments (continued)

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

(ii) Credit risk (continued)

The Group's total net exposure to credit risk by geographic region is analysed below:

	2016	2015
	£m	£m
United Kingdom & Europe	**644.6**	623.5
North America	**48.4**	56.4
	693.0	679.9

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

	2016	2015
	£m	£m
Sterling & Euros	**643.7**	623.2
US dollars	**46.5**	54.8
Canadian dollars	**2.8**	1.9
	693.0	679.9

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:

	2016	2015
	£m	£m
Amounts 1 to 90 days overdue	**4.7**	7.0
Amounts 91 to 180 days overdue	**0.8**	2.6
Amounts 181 to 365 days overdue	**0.8**	0.8
Amounts more than 365 days overdue	**2.0**	1.8
	8.3	12.2

The Group does not hold any collateral in respect of its credit risk exposures set out above (2015: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2016 (2015: £Nil).

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

As at 30 April 2016, the Group's credit facilities were £1,146.6m (2015: £1,141.1m), £686.5m (2015: £673.7m) 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:

	2016	2015
	£m	£m
Expiring within one year	**189.9**	168.1
Expiring beyond two years	**270.2**	299.3
	460.1	467.4

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding.

The Group has bank lines of credit arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit.

The Group's committed bank facilities as at 30 April 2016 are analysed below:

Expiring in	Facility £m	Loans drawn £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES					
– 2020	620.0	(189.6)	(160.2)	(2.5)	267.7
– 2018	15.0	–	(15.0)	–	–
– 2017	209.7	–	(181.4)	(28.3)	–
	844.7	(189.6)	(356.6)	(30.8)	267.7
LOCAL & SHORT-TERM FACILITIES					
– Various	23.0	–	(9.5)	–	13.5
	867.7	(189.6)	(366.1)	(30.8)	281.2

Notes to the consolidated financial statements

Note 26 Financial instruments (continued)

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

(iii) Liquidity risk (continued)

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, including interest payments.

As at 30 April 2016	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	(506.1)	(691.5)	(20.5)	(20.5)	(61.4)	(589.1)
Finance lease liabilities	(41.8)	(43.5)	(18.5)	(7.4)	(17.6)	–
Hire purchase liabilities	(35.0)	(35.9)	(17.2)	(12.0)	(6.7)	–
Loan notes payable	(19.3)	(19.3)	(19.3)	–	–	–
Trade and other payables	(665.1)	(665.1)	(659.1)	(6.0)	–	–
Bank loans	(189.6)	(189.8)	(0.2)	–	(189.6)	–
	(1,456.9)	(1,645.1)	(734.8)	(45.9)	(275.3)	(589.1)
Derivative financial liabilities:						
Derivatives used for hedging	(60.8)	(60.8)	(41.3)	(18.5)	(1.0)	–
	(1,517.7)	(1,705.9)	(776.1)	(64.4)	(276.3)	(589.1)

As at 30 April 2015	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured bond issues	(505.7)	(564.9)	(27.3)	(416.3)	(12.9)	(108.4)
Finance lease liabilities	(34.0)	(35.0)	(13.4)	(14.1)	(7.5)	–
Hire purchase liabilities	(54.0)	(55.8)	(20.2)	(17.6)	(18.0)	–
Loan notes payable	(19.5)	(19.5)	(19.5)	–	–	–
Trade and other payables	(672.7)	(672.7)	(671.2)	(1.5)	–	–
Bank loans	(172.1)	(172.5)	(0.4)	–	(172.1)	–
	(1,458.0)	(1,520.4)	(752.0)	(449.5)	(210.5)	(108.4)
Derivative financial liabilities:						
Derivatives used for hedging	(41.3)	(41.3)	(35.9)	(3.4)	(1.7)	(0.3)
	(1,499.3)	(1,561.7)	(787.9)	(452.9)	(212.2)	(108.7)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the value of the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted interest cash flows in respect of interest up to and including the next rollover date are shown and the principal is shown as repayable at the expiry date of the relevant facility.

Note 26 Financial instruments (continued)

(d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

(e) Collateral

Included within the cash and cash equivalents balance of £382.3m as at 30 April 2016 (2015: £395.6m) are £18.6m (2015: £18.8m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.2m (2015: £18.4m) has been pledged by the Group as collateral for £18.2m (2015: £18.4m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £0.4m (2015: £0.4m) is held in an escrow account in North America in relation to insurance claims.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 30 April 2016 and 30 April 2015.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2016 and 30 April 2015 and no loans payable were in default as at 30 April 2016 and 30 April 2015. The Group was in compliance with all bank loan covenants as at 30 April 2016 and as at 30 April 2015.

(g) Hedge accounting

A summary of the Group's current hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
	– Interest rate risks	– Derivatives (interest rate swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2016	2015
	£m	£m
Non-current assets		
Interest rate derivatives	**1.8**	0.1
Fuel derivatives	**3.8**	2.2
	5.6	2.3
Current assets		
Fuel derivatives	**1.0**	1.1
Current liabilities		
Interest rate derivatives	**(1.1)**	–
Fuel derivatives	**(40.2)**	(35.9)
	(41.3)	(35.9)
Non-current liabilities		
Interest rate derivatives	**–**	(0.8)
Fuel derivatives	**(19.5)**	(4.6)
	(19.5)	(5.4)
Interest rate derivatives	**0.7**	(0.7)
Fuel derivatives	**(54.9)**	(37.2)
	(54.2)	(37.9)

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Embedded derivatives

In accordance with IAS 39, Financial Instruments: Recognition and measurement, all significant contracts to which the Group is a party have been reviewed for embedded derivatives. There were no embedded derivatives as at 30 April 2016 (2015: None) which were separately accounted for.

Note 26 Financial instruments (continued)

(g) Hedge accounting (continued)

Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions.

The movements in the fair value of fuel derivatives in the year were as follows:

	2016	2015
	£m	£m
Fuel derivatives		
Fair value at start of year	**(37.2)**	(12.3)
Changes in fair value during year taken to cash flow hedging reserve	**(82.8)**	(56.0)
Cash paid during the year	**65.1**	31.1
Fair value at end of year	**(54.9)**	(37.2)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2016		
Within one year	1.0	(40.2)
1 to 2 years	2.9	(18.5)
2 to 3 years	0.9	(0.8)
More than 3 years	–	(0.2)
	4.8	(59.7)
As at 30 April 2015		
Within one year	1.1	(35.9)
1 to 2 years	2.2	(3.0)
2 to 3 years	–	(1.3)
More than 3 years	–	(0.3)
	3.3	(40.5)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Millions of litres
As at 30 April 2016		
Sterling denominated – UK Bus (regional operations)	(34.1)	634.1
Sterling denominated – UK Bus (London)	(4.5)	63.4
Sterling denominated – UK Rail	(5.6)	183.1
US dollar denominated – North America	(10.7)	152.4
	(54.9)	1,033.0
As at 30 April 2015		
Sterling denominated – UK Bus (regional operations)	(20.0)	398.8
Sterling denominated – UK Bus (London)	(3.7)	47.5
Sterling denominated – UK Rail	(3.3)	114.2
US dollar denominated – North America	(10.2)	143.9
	(37.2)	704.4

Fair value and cash flow hedges - interest

The Group uses a number of interest rate derivatives to hedge its exposure to movements in interest rates. In connection with the issue of the Group's US$150m Bonds in October 2012, the Group entered into a number of interest rate fair value hedges. In addition, during the year ended 30 April 2015, the Group entered into a number of interest rate derivatives as cash flow hedges of the Group's exposure to floating interest rates from December 2016. In September 2015, following the issue of the Group's £400m sterling notes, these sterling-denominated interest rate derivatives were subsequently cancelled. The Group entered into new interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from December 2016 on expiry of the existing US dollar-denominated fair value hedges.

	Cash flow hedges		Fair value hedges	
	2016	2015	**2016**	2015
	£m	£m	£m	£m
Interest rate derivatives				
Fair value at start of year	**(0.6)**	**–**	**(0.1)**	(0.3)
Changes in fair value reflected in carrying value of hedged item	**–**	**–**	**1.1**	0.6
Changes in fair value during the year taken to cash flow hedging reserve	**(1.4)**	**(0.6)**	**–**	–
Cash paid/(received) during the year	**2.0**	**–**	**(0.3)**	(0.4)
Fair value at end of year	**–**	**(0.6)**	**0.7**	(0.1)

Note 26 Financial instruments (continued)

(g) Hedge accounting (continued)

Fair value and cash flow hedges - interest (continued)

The fair value of the interest rate derivatives split by maturity as at 30 April 2016 was as follows:

	Assets	Liabilities
	£m	£m
As at 30 April 2016		
Within one year	–	(1.1)
1 to 2 years	0.5	–
2 to 3 years	1.3	–
	1.8	(1.1)

The fair value of the interest rate derivatives split by maturity as at 30 April 2015 was as follows:

	Assets	Liabilities
	£m	£m
As at 30 April 2015		
1 to 2 years	–	(0.4)
2 to 3 years	–	(0.4)
More than 3 years	0.1	–
	0.1	(0.8)

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

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest derivatives	Fuel derivatives	Total
	£m	£m	£m
Cash flow hedging reserve at 30 April 2014	–	(9.4)	(9.4)
Changes in fair value during the year taken to cash flow hedging reserve	(0.6)	(56.0)	(56.6)
Cash flow hedges reclassified and reported in profit for year	–	35.1	35.1
Tax effect of cash flow hedges	0.1	4.0	4.1
Cash flow hedging reserve at 30 April 2015	(0.5)	(26.3)	(26.8)
Changes in fair value during the year taken to cash flow hedging reserve	(1.4)	(82.8)	(84.2)
Cash flow hedges reclassified and reported in profit for year	2.0	65.8	67.8
Tax effect of cash flow hedges	(0.1)	3.0	2.9
Cash flow hedging reserve at 30 April 2016	–	(40.3)	(40.3)
Cash flow hedging reserve before tax	–	(49.8)	(49.8)
Tax to be credited to income statement in future periods	–	9.5	9.5
Cash flow hedging reserve after tax	–	(40.3)	(40.3)

During the year ended 30 April 2015, the Group entered into interest rate derivatives as cash flow hedges. These derivatives were intended to hedge against the variability of forecast future floating-rate interest payments on debt from December 2016. In September 2015, the Group issued £400m of new fixed-rate bonds to re-finance the previous £400m of fixed-rate bonds that were due to mature in December 2016. Following that issue of new bonds, the forecast floating-rate interest payments were no longer expected to occur because fixed-rate debt had been issued rather than the previously anticipated floating-rate debt. The derivatives were cancelled following the new bond issue.

There have been no other instances during the year ended 30 April 2016 (2015: None) from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

Hedge of foreign net investments

The Group's hedging of foreign net investments during the year ended 30 April 2016 is explained on page 112.

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:

	2016	2015
	£m	£m
US$ 4.36% notes		
Fair value at start of year	**97.6**	88.9
Changes in fair value during the year	**4.8**	8.7
Fair value at end of year	**102.4**	97.6
US$ bank loans		
Fair value at start of year	**52.1**	47.4
Changes in fair value during the year	**2.5**	4.7
Fair value at end of year	**54.6**	52.1

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

Notes to the consolidated financial statements

Note 27 Share capital

Under the Companies Act 2006, companies are no longer required to have an authorised share capital and a resolution was passed at the 2010 Annual General Meeting to take advantage of this deregulating measure. Therefore, the Company no longer has an authorised share capital. The allotted, called-up and fully paid ordinary share capital was:

	2016		2015	
	No. of shares	**£m**	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each				
At beginning and end of year	**576,099,960**	**3.2**	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 1,885,887 (2015: 1,371,639) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 30 April 2016, the QUEST held 300,634 (2015: 300,634) ordinary shares in the Company and the EBT held no (2015: 891,396) ordinary shares in the Company. The trusts have waived dividends on the shares they hold and therefore received no dividends during the year ended 30 April 2016 (2015: £Nil). The trust deed for the EBT obliges the trustee to waive the right to any dividend on the shares unless and until they are vested in an individual. The trustee is confirmed not to be liable for any lost income as a result of that waiver. The QUEST deed requires the trustee to waive any dividends payable on the shares and the QUEST confirms that waiver within the deed. This can be reversed by a direction from the Company to the trustee but is otherwise ongoing.

Note 28 Share based payments

The Group operates a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report in section 8 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 6, share based payment charges of £2.8m (2015: £4.8m) 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 2012	December 2012	June 2013	December 2013	June 2014	December 2014	June 2015	December 2015
Share price at time of grant/award (£)	2.6170	3.1210	3.1595	3.7200	3.8000	3.7920	4.1700	3.0470
Vesting period (years)	3	3	3	3	3	3	3	3
Option/award life (years)	3	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3	3
Expected dividends expressed as an average annual dividend yield	3.22%	2.70%	2.94%	2.50%	2.70%	2.71%	2.72%	3.72%
Fair value per Incentive Unit at grant date (£)	0.75	0.90	0.90	1.06	2.60*	2.59*	2.85*	2.08*
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

*Ignoring non-market vesting conditions.

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market-based performance criteria are reflected in the fair value of the LTIP awards.

Note 28 Share based payments (continued)

Long Term Incentive Plan

Under the LTIP, executives are awarded Incentive Units with a value equal to one of the Company's ordinary shares but subject to the same performance conditions disclosed in the Directors' remuneration report. The movements in the LTIP Incentive Units during the year to 30 April 2016 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 30 April 2016 £	TSR ranking at 30 April 2016**	Vesting date
27 June 2012	905,708	–	(905,708)	–	–	0.7523	–	–	29 June 2015
6 Dec 2012	764,475	–	(779,559)	15,084	–	0.8972	–	–	10 Dec 2015
27 June 2013	912,705	–	(71,796)	29,011	869,920	0.8987	0.3832	171	29 June 2016
12 Dec 2013	754,346	–	(55,610)	24,101	722,837	1.0574	0.5346	173	12 Dec 2016
26 June 2014	804,117	–	(53,905)	25,876	776,088	2.5999*	1.4836*	188	26 June 2017
11 Dec 2014	797,594	–	(56,680)	25,557	766,471	2.5945*	1.4446*	201	11 Dec 2017
25 June 2015	–	774,464	(53,846)	24,856	745,474	2.8531*	1.4740*	191	25 Jun 2018
10 Dec 2015	–	1,060,828	–	13,378	1,074,206	2.0847*	1.3851*	227	
	4,938,945	1,835,292	(1,977,104)	157,863	4,954,996				

*Ignoring non-market based vesting conditions.

**TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP 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 £
27 June 2012	891,396	–	(891,396)	–	–	–	30 June 2015	2,271,556	2.6190
27 June 2013	748,255	–	(2,168)	(22,583)	25,288	748,792	29 June 2016	2,289,350	3.1600
26 June 2014	673,119	–	(1,720)	(14,617)	22,957	679,739	26 June 2017	2,497,467	3.8100
25 June 2015	–	519,366	–	(14,905)	17,635	522,096	25 June 2018	2,165,756	4.1960
10 Dec 2015	–	26,253	–	–	344	26,597	10 Dec 2018	79,993	2.9800
	2,312,770	545,619	(895,284)	(52,105)	66,224	1,977,224			

Buy As You Earn Scheme

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

At 30 April 2016 there were 9,578 (2015: 8,732) participants in the BAYE scheme to which were attributed 5,848,847 (2015: 4,438,746) shares that they purchased, 1,831,550 (2015: 1,473,172) matching shares that the Company contributed and 458,081 shares (2015: 261,500) in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

Note 29 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 69.

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 (2015: £113.8m) has been written off against reserves in periods prior to 1 May 1998 in accordance with the UK accounting standards then in force and such goodwill will remain eliminated against reserves.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Details of own shares held are given in note 27. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Notes to the consolidated financial statements

Note 30 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated by operations

The operating profit of Group companies reconciles to cash generated by operations as follows:	**2016**	2015
	£m	£m
Operating profit of Group companies	**182.2**	189.8
Depreciation	**132.2**	120.1
Loss/(gain) on disposal of property, plant and equipment	**0.5**	(2.3)
Exceptional items	**6.0**	–
Intangible asset expenses	**15.8**	11.9
Equity-settled share based payment expense	**2.2**	2.2
Operating cashflows before working capital movements	**338.9**	321.7
(Increase)/decrease in inventories	**(0.5)**	3.4
Increase in receivables	**(11.2)**	(34.1)
(Decrease)/increase in payables	**(12.0)**	85.8
Decrease in provisions	**(16.2)**	(9.5)
Differences between employer pension contributions and pension expense in operating profit	**4.7**	0.4
Cash generated by operations	**303.7**	367.7

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

The (decrease)/increase in cash reconciles to the movement in net debt as follows:	**2016**	2015
	£m	£m
(Decrease)/increase in cash	**(14.8)**	152.5
Cash flow from movement in borrowings	**50.4**	(51.5)
	35.6	101.0
New hire purchase and finance leases	**(22.3)**	(6.4)
Foreign exchange movements	**(7.6)**	(14.1)
Other movements	**(23.7)**	(0.2)
(Increase)/decrease in net debt	**(18.0)**	80.3
Opening net debt (as defined in note 35)	**(381.3)**	(461.6)
Closing net debt (as defined in note 35)	**(399.3)**	(381.3)

(c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 35. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase/ finance leases £m	Foreign exchange movements £m	Other/ Charged to income statement £m	Closing £m
Cash	376.8	(14.6)	–	1.5	–	363.7
Cash collateral (see note 26(e))	18.8	(0.2)	–	–	–	18.6
Hire purchase and finance lease obligations	(88.0)	35.4	(22.3)	(1.9)	–	(76.8)
Bank loans and loan notes	(191.6)	(14.8)	–	(2.5)	–	(208.9)
Bonds	(497.3)	29.8	–	(4.7)	(23.7)	(495.9)
Net debt	(381.3)	35.6	(22.3)	(7.6)	(23.7)	(399.3)
Accrued interest on bonds	(8.5)	24.5	–	–	(25.5)	(9.5)
Effect of fair value hedges on carrying value of borrowings	0.1	–	–	–	(0.8)	(0.7)
Net borrowings (IFRS)	(389.7)	60.1	(22.3)	(7.6)	(50.0)	(409.5)

The cash amounts shown above include term deposits as explained in note 20 and cash held by train operating companies as explained in note 31(iii).

(d) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase and finance leases.

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at the inception of the contracts of £22.3m (2015: £6.4m) and no deposits paid up front.

Note 31 Contingencies

Contingent liabilities

(i) At 30 April 2016, the following bonds and bank guarantees were in place relating to the Group's rail operations:

	2016	2015
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**40.2**	36.8
– East Midlands Trains	**15.0**	30.5
– Virgin Trains East Coast	**20.0**	20.0
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– South West Trains	**60.5**	59.7
– East Midlands Trains	**6.6**	6.3
– Virgin Trains East Coast	**4.6**	4.0
Shareholder loan commitment backed by bank facilities		
– Virgin Trains East Coast	**82.5**	82.5

These contingent liabilities are not expected to crystallise.

(ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with train lease and maintenance arrangements.

(iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

The profit of Virgin Trains East Coast under the rail franchise that began on 1 March 2015 has been less than that forecast by the Group at the time of its bid for the franchise. Revenue growth has been slower than anticipated and that may affect the forecast of future years' profitability. Accordingly, the Group has updated its financial forecasts in respect of Virgin Trains East Coast for the full, core term of its franchise. Those forecasts anticipate that the business will earn a profit over the remaining term of its franchise and as a result, no onerous contract provision is required as at 30 April 2016. The forecasts are based on a number of assumptions, most significantly in respect of future revenue growth and on the application of relevant contracts. There can be no certainty that actual outcomes will be consistent with those currently forecast.

The Group assessed whether a provision for onerous contracts is required in respect of its other rail franchises. The Group has discounted the expected future cash flows related to its rail franchises to determine whether it is probable that the benefits to be derived by the Group from the franchises will be lower than the unavoidable costs of meeting its obligations under the franchises. Estimates of cash flows are consistent with management's plans and forecasts. The Group has determined that no provision is necessary. The estimation of future cash flows and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Under certain circumstances following a breach by the Group of one or more of its rail franchise agreements, the Department for Transport has the right to terminate the relevant franchises. Where the Group has defaulted on one franchise, the Department for Transport has cross-default rights in certain circumstances that might enable it (but not require it) to terminate another of the franchises. The financial effect on the Group of a termination of one or more franchises would depend on which, if any, of the Group's contingent liabilities that the Department for Transport sought to call. As at 30 April 2016, the capital at risk of the Group in this respect was:

	Virgin Trains East Coast	South West Trains	East Midlands Trains	**Total**
	£m	£m	£m	£m
Actual liabilities				
Net intra-group amounts payable to train operators	–	65.9	–	**65.9**
Contingent liabilities				
Season ticket bonds	4.6	60.5	6.6	**71.7**
Performance bonds	20.0	40.2	15.0	**75.2**
Parent company guarantees to suppliers	6.6	–	3.0	**9.6**
Undrawn committed loan facilities	131.0	25.0	40.9	**196.9**
Capital at risk as at 30 April 2016	162.2	191.6	65.5	**419.3**
Cash				
Cash in train operating companies	105.0	103.1	75.0	**283.1**
Pro forma impact on net debt	267.2	294.7	140.5	**702.4**

To the extent that any of the above 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.

We consider the likelihood of the contingent liabilities crystallising as being low. However, if all of the contingent liabilities had crystallised at 30 April 2016, the Group would have needed to have financed £419.3m (2015: £425.2m) and, subject to any amounts it recovered from Virgin Holdings Limited, its gross debt would have increased by this amount. In addition, some of the cash in the train operating companies would be transferred with the franchises.

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

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.

Notes to the consolidated financial statements

Note 31 Contingencies (continued)

Contingent liabilities (continued)

(iv) The US Department of Justice and the New York Attorney General (together, "the Government plaintiffs") initiated litigation against Twin America and its joint venture partners in 2012. The litigation alleged that the formation of the Twin America joint venture in 2009 was anti-competitive. A settlement was agreed with the US Department of Justice and the New York Attorney General's office, and has received court approval.

Related to the Twin America litigation involving the Group's North America Division, the Department of Justice is continuing to investigate the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Department of Justice has not taken any enforcement action related to these issues, and the Group is co-operating with the investigation.

(v) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 April 2016, the accruals in the consolidated financial statements for such claims total £0.1m (2015: £0.1m) in addition to the amounts recognised specifically in respect of the Twin America litigation noted in (iv) above. In addition, certain of the claims intended to be covered by the insurance provisions (see note 24) are subject to or might become subject to litigation against the Group and/or the Company.

Note 32 Guarantees and other financial commitments

(a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2016	2015
	£m	£m
Contracted for but not provided:		
For delivery within one year	**141.7**	146.0

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2016:

As at 30 April 2016	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2017	19.7	17.2	237.0	5.9	279.8
Year ending 30 April 2018	14.3	12.9	112.2	4.9	144.3
Year ending 30 April 2019	11.3	11.0	122.5	3.2	148.0
Year ending 30 April 2020	9.3	6.1	296.5	2.2	314.1
Year ending 30 April 2021	8.8	2.3	329.2	1.8	342.1
1 May 2021 and thereafter	30.4	0.1	638.6	3.2	672.3
	93.8	49.6	1,736.0	21.2	1,900.6

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2015:

As at 30 April 2015	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 30 April 2016	17.0	19.3	216.9	6.8	260.0
Year ending 30 April 2017	12.1	13.3	176.1	5.0	206.5
Year ending 30 April 2018	8.0	9.3	78.5	4.2	100.0
Year ending 30 April 2019	7.1	7.4	75.1	3.7	93.3
Year ending 30 April 2020	6.2	2.3	36.4	3.5	48.4
1 May 2020 and thereafter	28.5	–	3.5	8.8	40.8
	78.9	51.6	586.5	32.0	749.0

The amounts shown above do not include Network Rail charges, which are shown separately in note 32(c).

Note 32 Guarantees and other financial commitments (continued)

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). Commitments for payments, until the expected end of the franchises or the end of the current Network Rail regulatory control period, if earlier, under these contracts as at 30 April 2016 are as shown below.

.	**2016**
	£m
Year ending 30 April 2017	**88.2**
Year ending 30 April 2018	**46.4**
Year ending 30 April 2019	**51.0**
	185.6

Commitments for payments under these contracts as at 30 April 2015 were as follows:

	2015
	£m
Year ending 30 April 2016	**80.9**
Year ending 30 April 2017	**63.3**
Year ending 30 April 2018	**26.7**
Year ending 30 April 2019	**46.7**
	217.6

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below are based on the latest statutory financial statements of the relevant companies:

	2016	2015
	£m	£m
Annual commitments under non-cancellable operating leases	**71.3**	71.5
Franchise performance bonds	**10.3**	10.3
Season ticket bonds	**2.9**	2.8

Note 33 Related party transactions

Details of major related party transactions during the year ended 30 April 2016 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 30 April 2016, the Group earned fees of £60,000 (2015: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 30 April 2016, the Group had £60,000 (2015: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £0.2m (2015: £0.4m) from the group headed by Virgin Rail Group Holdings Limited, principally in respect of work undertaken on rail franchise bids, and had an outstanding receivable of £Nil as at 30 April 2016 (2015: £0.1m) in this respect.

The Group also earned £Nil (2015: £0.3m) from Virgin Holdings Limited (which holds a 51% joint venture interest in Virgin Rail Group Holdings Limited), in respect of work undertaken on rail franchise bids, and had an outstanding receivable of £Nil as at 30 April 2016 (2015: £Nil) in this respect.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see note 33(i)). In the year ended 30 April 2016, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2015: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited totalling £0.3m (2015: £1.4m). The outstanding amounts payable as at 30 April 2016 and 30 April 2015 were immaterial. The Group had £Nil receivable from West Coast Trains Limited as at 30 April 2016 (30 April 2015: £1.4m).

(iii) Alexander Dennis Limited

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2015: 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% (2015: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2016, the Group purchased £75.4m (2015: £64.0m) of vehicles from Alexander Dennis Limited and £9.8m (2015: £8.9m) of spare parts and other services. As at 30 April 2016, the Group had £1.0m (2015: £0.8m) payable to Alexander Dennis Limited, along with outstanding orders of £96.0m (2015: £64.0m).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 25.

Notes to the consolidated financial statements

Note 33 Related party transactions (continued)

(v) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2015: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 30 April 2016. The Group earned £22.0m in the year ended 30 April 2016 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2015: £23.8m). As at 30 April 2016, the Group had a net £0.5m (2015: £0.7m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) Twin America LLC

In the year ended 30 April 2016, the Group earned revenue of £2.4m (2015: £3.3m) from its joint venture, Twin America LLC, in respect of ticket sales made by Twin America LLC for tour services provided by Group subsidiaries. As at 30 April 2016, the Group had £0.2m (2015: £0.5m) receivable from Twin America LLC in this regard.

The Group had an outstanding receivable of £Nil as at 30 April 2016 (2015: £5.9m) in respect of a loan note to Twin America LLC. The interest receivable for the year ended 30 April 2016 was £Nil (2015: £0.1m).

(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 enters into various arm's length transactions with other Group companies. In the year ended 30 April 2016, other Group companies earned £16.3m (1 March 2015 to 30 April 2015: £4.4m) from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services. Other Group companies had a net payable to East Coast Main Line Company Limited of £0.8m as at 30 April 2016 (2015: £1.2m).

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £52.5m as at 30 April 2016 (2015: £35.0m) in respect of loans to East Coast Main Line Company Limited. The interest receivable for the year ended 30 April 2016 was £1.2m (1 March 2015 to 30 April 2015: £0.2m). Related to that, the Group had an outstanding payable of £5.3m (2015: £3.5m) in respect of a loan from Virgin Holdings Limited.

In addition, in the year ended 30 April 2016, East Coast Main Line Company Limited purchased services amounting to £2.2m (2015: £0.5m) from Virgin Holdings Limited. The Group had a payable balance of £Nil to Virgin Holdings Limited at 30 April 2016 in this respect (2015: £0.5m).

Note 34 Post balance sheet events

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

On 1 July 2016, the Group completed the sale of the retailing part of the megabus Europe business to FlixBus. The consideration was satisfied by the issue of a loan note and the Group expects that loan note to be fully settled by the end of 2017. The Group has also agreed that it will transfer a number of vehicles to FlixBus, or a nominee of FlixBus, at a future date. The Group may incur some costs as a result of the sale. After taking account of these costs, the Group expects to report an exceptional gain on the disposal of the business. In addition, the Group expects to profitably operate a number of inter-city coach services on behalf of FlixBus between the UK and mainland Europe for at least a further three years.

Note 35 Definitions

- **Adjusted earnings per share** is calculated by dividing profit attributable to equity holders of the parent excluding intangible asset expenses and exceptional items by the basic weighted average number of shares in issue in the period.
- **Like-for-like** amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods.
- **Operating profit or loss** for a particular business unit or division within the Group refers to profit or loss before net finance income/costs, taxation, intangible asset expenses, exceptional items and restructuring costs (except where shown otherwise in note 2(g)).
- **Operating margin** for a particular business unit or division within the Group means operating profit or loss as a percentage of revenue.
- **Exceptional items** means items which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.
- **Gross debt** is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest and the effect of fair value hedges on the carrying value of borrowings.
- **Net debt** (or net funds) is the net of cash and gross debt.

12. Independent auditors' report to the members of Stagecoach Group plc

Report on the parent company financial statements

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 30 April 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Stagecoach Group plc's financial statements comprise:

- the Company balance sheet as at 30 April 2016;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Stagecoach Group Annual Report and Financial Statements 2016 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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

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

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

12. Independent auditors’ report to the members of Stagecoach Group plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Responsibility statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Stagecoach Group plc for the year ended 30 April 2016.

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

8 July 2016

13. Separate Financial Statements of Parent, Stagecoach Group PLC

Company balance sheet

As at 30 April 2016

	Notes	2016 £m	2015 £m
ASSETS:			
Non-current assets			
Intangible assets	2	**0.3**	0.4
Property, plant and equipment	3	**0.1**	0.2
Investments	4	**1,197.7**	1,188.3
Derivative instruments at fair value	8	**4.5**	2.1
		1,202.6	1,191.0
Current assets			
Other receivables	5	**659.2**	783.7
Deferred tax asset	7	**0.9**	0.8
Derivative instruments at fair value	8	**0.7**	0.5
Cash and cash equivalents		**18.1**	18.4
		678.9	803.4
Total assets		**1,881.5**	1,994.4
LIABILITIES:			
Current liabilities			
Trade and other payables	6	**(350.3)**	(349.3)
Derivative instruments at fair value	8	**(38.5)**	(35.9)
		(388.8)	(385.2)
Non-current liabilities			
Other payables	6	**(695.7)**	(678.5)
Derivative instruments at fair value	8	**(19.5)**	(5.4)
Retirement benefit obligations	9	**(5.1)**	(4.9)
		(720.3)	(688.8)
Total liabilities		**(1,109.1)**	(1,074.0)
Net assets		**722.4**	920.4
EQUITY:			
Ordinary share capital	10	**3.2**	3.2
Share premium account	11	**8.4**	8.4
Retained earnings	11	**372.3**	518.1
Capital redemption reserve	11	**422.8**	422.8
Own shares	11	**(34.3)**	(32.1)
Total equity		**772.4**	920.4

These financial statements were approved for issue by the Board of Directors on 8 July 2016. 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 £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Total equity £m
Balance at 30 April 2014	**3.2**	**8.4**	**525.6**	**422.8**	**(25.7)**	**934.3**
Profit for the year	–	–	46.6	–	–	46.6
Total comprehensive income	**–**	**–**	**46.6**	**–**	**–**	**46.6**
Own ordinary shares purchased	–	–	–	–	(6.4)	(6.4)
Credit in relation to equity-settled share based payments	–	–	2.2	–	–	2.2
Dividends paid on ordinary shares	–	–	(56.3)	–	–	(56.3)
Balance at 30 April 2015	**3.2**	**8.4**	**518.1**	**422.8**	**(32.1)**	**920.4**
Loss for the year	–	–	(86.0)	–	–	(86.0)
Total comprehensive expense	**–**	**–**	**(86.0)**	**–**	**–**	**(86.0)**
Own ordinary shares purchased	–	–	–	–	(2.2)	(2.2)
Credit in relation to equity-settled share based payments	–	–	2.2	–	–	2.2
Dividends paid on ordinary shares	–	–	(62.0)	–	–	(62.0)
Balance at 30 April 2016	**3.2**	**8.4**	**372.3**	**422.8**	**(34.3)**	**772.4**

Notes to the Company financial statements

Note 1 Parent company accounting policies

The Company transitioned from UK Generally Accepted Accounting Practice ("UK GAAP") to Financial Reporting Standard 101, "Reduced Disclosure Framework" ("FRS101") for all periods presented. The transition from UK GAAP is not considered to have resulted in any material restatements. Full details of the transition are shown in note 15.

- **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 their estimated useful economic lives, 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 their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any 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.

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

Exchange differences arising on the translation of foreign currency equity investments and on foreign currency borrowings (including loans from other Group companies), to the extent the borrowings hedge the equity investments, are dealt 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 74.

Notes to the Company financial statements

Note 1 Parent company accounting policies (continued)

- **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.

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.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

Choice of settlement

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

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 77 and 78.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. However, these instruments and certain intra-group derivative financial instruments are accounted in the Company financial statements at fair value through profit or loss.

- **Investment in own shares**

Own shares held by the Group's Employee Benefit Trust and Qualifying Employee Share Ownership Trust are treated as deductions from equity in the Company's financial statements. 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**

The Company has no employees and is therefore not liable for a share in any of the Group defined benefit schemes that are disclosed in note 25 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:	2016
	£m
Cost	
At beginning and end of year	0.7
Accumulated amortisation	
At beginning of year	(0.3)
Amortisation charged to income statement	(0.1)
At end of year	(0.4)
Net book value at beginning of year	0.4
Net book value at end of year	0.3

Note 3 Property, plant and equipment

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

	£m
Cost	
At beginning and end of year	1.8
Depreciation	
At beginning of year	(1.6)
Depreciation charged to income statement	(0.1)
At end of year	(1.7)
Net book value at beginning of year	0.2
Net book value at end of year	0.1

Note 4 Investments

The movements in investments were as follows:

	Subsidiary undertakings £m
Cost and net book value	
At beginning of year	1,188.3
Additions	2.2
Foreign exchange movements	7.2
At end of year	1,197.7

Note 5 Other receivables

Other receivables were as follows:

	2016 £m	2015 £m
Current:		
Amounts owed by Group undertakings	**563.2**	720.4
Other receivables	**95.8**	63.1
Prepayments and accrued income	**0.2**	0.2
	659.2	783.7

Of amounts owed by Group undertakings £53.7m (2015: £258.4m) accrue no interest and are repayable on demand. The remaining £509.5m (2015: £462.0m) accrue interest at 6 month LIBOR plus margins ranging from 2.5% to 3.5%. These are all repayable on demand.

Note 6 Payables

Trade and other payables were as follows:

	2016 £m	2015 £m
Current:		
Bank overdrafts	**48.2**	147.5
Loan notes	**19.3**	19.5
Amounts owed to Group undertakings	**270.1**	176.4
Accruals and deferred income	**7.4**	2.4
Loan from non-controlling investor in subsidiary	**5.3**	3.5
	350.3	349.3
Non-current:		
Sterling 5.75% Notes	**–**	408.8
Sterling 4.00% Notes	**403.8**	–
US Dollar 4.36% Notes	**102.3**	97.5
Bank loans	**189.6**	172.1
Accruals and deferred income	**–**	0.1
	695.7	678.5

Of amounts owed by Group undertakings £120.1m (2015: £27.4m) accrue no interest and are repayable on demand. The remaining £150.0m (2015: £149.0m) accrue interest at 6 month LIBOR or bank rate plus a margin of 1.5%. These are all repayable on demand.

Notes to the Company financial statements

Note 6 Payables (continued)

Borrowings are repayable as follows:	2016 £m	2015 £m
On demand or within 1 year		
Bank overdraft	**48.2**	147.5
Loan notes	**19.3**	19.5
Repayable between 1 and 2 years		
Bank loans	**–**	–
Sterling 5.75% Notes	**–**	408.8
Repayable after 2 years, but within 5 years		
Bank loans	**189.6**	172.1
Repayable after 5 years		
US Dollar 4.36% Notes	**102.3**	97.5
Sterling 4.00% Notes	**403.8**	–
Total borrowings	**763.2**	845.4

Note 7 Deferred tax

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

	2016 £m	2015 £m
At beginning of year	**0.8**	0.8
Credit to the income statement	**0.1**	–
At end of year	**0.9**	0.8

Deferred taxation is calculated as follows:

	2016 £m	2015 £m
Pension temporary differences	**0.9**	1.0
Short-term timing differences	**–**	(0.2)
At the end of year	**0.9**	0.8

Note 8 Financial instruments

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

	2016 £m	2015 £m
Non-current assets:		
Interest rate derivatives – external	**1.8**	0.1
Fuel derivatives – external	**2.7**	2.0
	4.5	2.1
Current assets		
Fuel derivatives – external	**0.7**	0.5
Current liabilities		
Interest rate derivatives – external	**(1.1)**	–
Fuel derivatives – external	**(37.4)**	(35.9)
	(38.5)	(35.9)
Non-current liabilities		
Interest rate derivatives – external	**–**	(0.8)
Fuel derivatives – external	**(19.5)**	(4.6)
	(19.5)	(5.4)

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 (2015: None).

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 9 Retirement benefit obligations

	2016 £m	2015 £m
Retirement benefit obligations	**5.1**	4.9

The Company no longer has any employees but has unfunded retirement benefit liabilities in respect of former employees which are shown above. See note 25 to the consolidated financial statements for more details on retirement benefits.

Note 10 Share capital

Information on share capital is provided in note 27 to the consolidated financial statements.

Note 11 Equity reserves

The loss of £86.0m (2015: profit of £46.6m) 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 8 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 28 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £2.2m (2015: £2.2m) 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 (2015: 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 £1.2m (2015: £0.9m charge) 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 £252.7m (2015: £231.0m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £292.1m (2015: £302.1m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the Company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 31 (v) to the consolidated financial statements.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2016 £m	2015 £m
Contracted for but not provided:		
For delivery in one year	**99.1**	92.7

(c) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2016:

As at 30 April 2016	Land and buildings £m	Other £m	Total £m
Lease payments in respect of:			
Year ending April 2017	0.1	0.1	0.2
Year ending April 2018	0.1	0.1	0.2
Year ending April 2019	0.1	0.1	0.2
Year ending April 2020	0.1	0.1	0.2
Year ending April 2021	0.1	–	0.1
1 May 2021 and thereafter	0.3	–	0.3
	0.8	0.4	1.2

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2015:

As at 30 April 2015	Land and buildings £m	Other £m	Total £m
Lease payments in respect of:			
Year ending April 2016	0.1	0.1	0.2
Year ending April 2017	0.1	0.1	0.2
Year ending April 2018	0.1	0.1	0.2
Year ending April 2019	0.1	0.1	0.2
Year ending April 2020	0.1	–	0.1
1 May 2020 and thereafter	0.4	–	0.4
	0.9	0.4	1.3

Notes to the Company financial statements

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 33 to the consolidated financial statements.

Note 15 Transition to FRS 101

For all periods up to the year ended 30 April 2015, the Company prepared its financial statements in accordance with previously issued UK GAAP. For the year ended 30 April 2016, the Company has transitioned to FRS 101.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 May 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first time adoption of FRS 101. This note explains the principal adjustments made by the Company in restating its balance sheet as at 1 May 2014 prepared under previously issued UK GAAP and its previously published UK GAAP financial statements for the year ended 30 April 2015.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 “First time adoption of International Financial Reporting Standards”.

Restatement required on transition from UK GAAP to FRS 101

Reclassification of software assets

Under previously issued UK GAAP, software development costs were capitalised as tangible assets. Under FRS 101, these costs meet the criteria for capitalisation as intangible assets under IAS 38 “Intangible Assets” and as such have been reclassified from tangible assets to intangible assets in the balance sheet as at 1 May 2014 (£0.6m) and 30 April 2015 (£0.4m).

Note 16 Employees

The Company has no (2015: none) employees.

14. Shareholder information

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrars and clearly state the shareholder's name and address. Please write to: Capita Asset Services, Stagecoach Group Share Register, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Telephone +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@capita.co.uk. Registrar forms can be obtained on-line at http://www.stagecoach.com/investors/shareholder-services/registrar-forms/

Online share portal

You can register to access your share account online using the share portal service at www.capitashareportal.com. You will need your Investor Code, which is shown on shareholder correspondence, in order to register to use the portal.

Registering your account is quick and easy and you will immediately be able to benefit from the full range of services available on the share portal, including updating your personal details, adding a mandate to receive dividends direct to your bank account and registering proxy votes online. Using the online share portal reduces the need for paperwork and provides 24 hour access.

Stagecoach individual savings accounts

The Company has appointed Halifax Share Dealing Limited as an ISA provider and shareholders who would like further information should contact their help desk on +44 (0)8457 22 55 25. Lines are open 8.00am to 9.15pm, Monday to Friday.

The Company has also made arrangements with Stocktrade for ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR. Telephone +44 (0)131 240 0448. Lines are open 8.00am to 4.30pm, Monday to Friday.

Other organisations also offer ISA facilities.

Share dealing facilities

The Company has set up a range of execution only share dealing services to enable Stagecoach shareholders to buy and sell shares by phone, online or by post. The phone and online dealing services are provided by Capita Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services go to www.capitadeal.com or call +44 (0)371 664 0364 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday excluding public holidays in England and Wales). Please have your share certificate to hand when you log-in or call. Charges are 1.25% with a £30.50 minimum charge online and 1.5% with a £40.50 minimum charge by phone.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Charges are 0.5%, with a £17.50 minimum charge and 0.2% for trades exceeding £10,000. Shareholders who would like further information should write to Stocktrade, 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR or call +44 (0)131 240 0414, quoting dealing reference 'Stagecoach dial and deal'. Lines are open 8.00am to 4.30pm, Monday to Friday. Postal dealing packs are available on request.

Other organisations also offer facilities to buy and sell shares.

Payment of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder's bank or building society account. Shareholders who wish to benefit from this service should request the Company's registrars (address above) to send them a dividend/interest mandate form or alternatively complete the mandate form attached to the next dividend tax voucher they receive, or register their details through the Capita Share Portal.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at agreed rates. Shareholders who would like further information should telephone the Company's registrars, Capita Asset Services, on +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@capita.co.uk.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority ("FCA") has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

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

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at **www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/** to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on **0800 111 6768** if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

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

REPORT A SCAM

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

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

Notes

Notes

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
25 August 2016

Final Dividend
5 October 2016

Interim Dividend
March 2017

www.stagecoach.com

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10 Dunkeld Road, Perth PH1 5TW, Scotland
T: 01738 442111 | F: 01738 643648 | E: info@stagecoachgroup.com

Registered in Scotland | Number: 100764