STAGECOACH GROUP
greener smarter travel

A track record of performance

Annual Report and Financial Statements 2010

Stagecoach Group overview

Stagecoach Group is a leading international public transport company with bus and rail operations in the UK and North America. We employ around 30,000 people and run nearly 13,000 buses and trains.

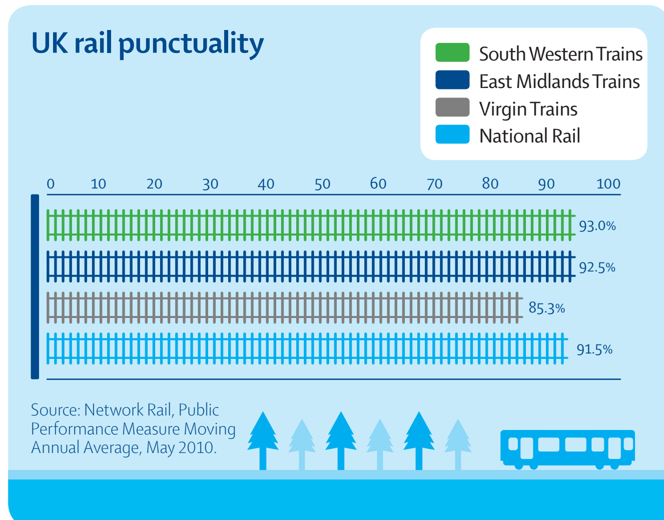
UK Bus	UK Rail	North America
18,800 employees	**7,200** employees	**3,800** employees
7,000 buses and coaches	**2,200** train services a day	**2,700** buses and coaches
700m journeys a year	**250m** journeys a year	**100m** vehicle miles a year

*Note: all figures are approximate.

Value for money

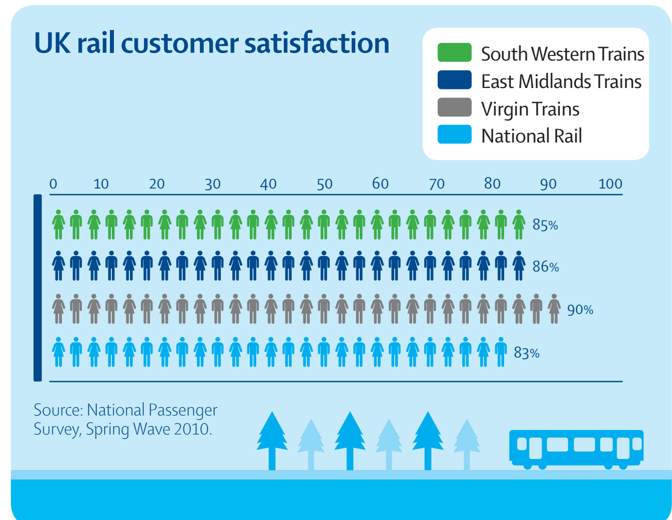
Comparative fares data extracted from TAS National Fares Survey 2009. The tables compare urban single fare levels by bus operator ownership.

Operational performance



Figures used refer to the measure of train punctuality – also known as PPM (public performance measure) – which is commonly used throughout Europe. For long distance operators, such as East Midlands Trains and Virgin Trains, this shows the percentage of trains arriving within ten minutes of timetabled arrival at final destination. London and south east operators (including South Western Trains), and regional operators show the percentage arriving within five minutes of the timetabled arrival. Data covers the period 3 May 2009 to 1 May 2010. National Rail average is for all franchised train operating companies.

Customer service

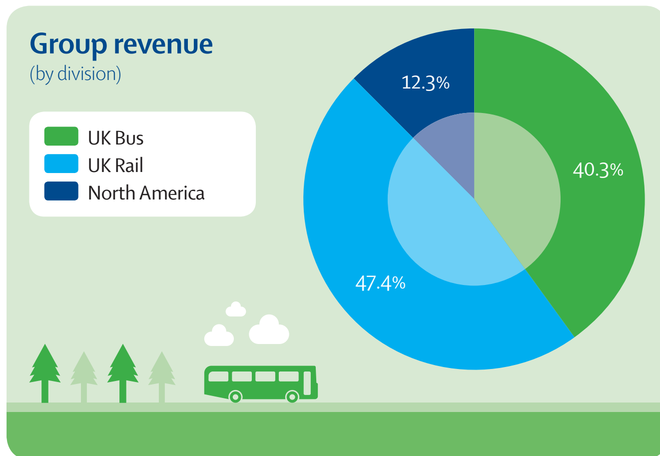


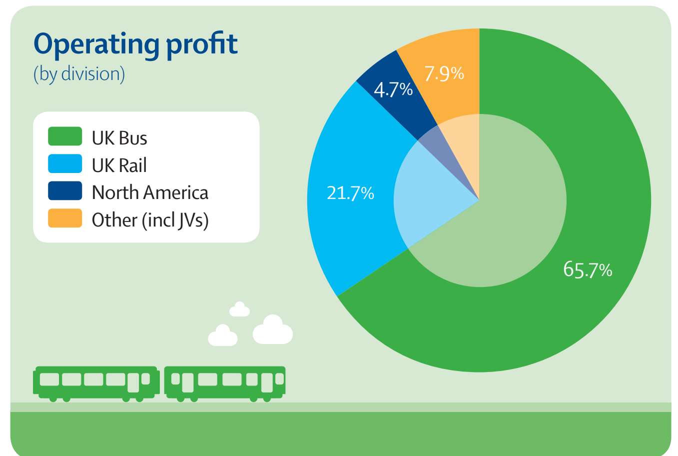
Data extracted from National Passenger Survey, Spring Wave 2010. Percentages are for overall satisfaction. The National Passenger Survey (NPS) is conducted twice a year from a representative sample of passenger journeys across the UK. It surveys passengers' overall satisfaction and satisfaction with 30 individual aspects of service for each individual train operating company (TOC). Passenger ratings are totalled for all TOCs across the country to provide a National Rail average.

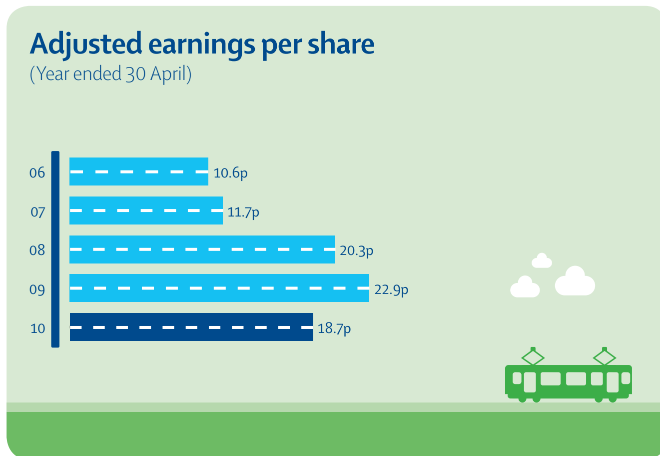
Highlights

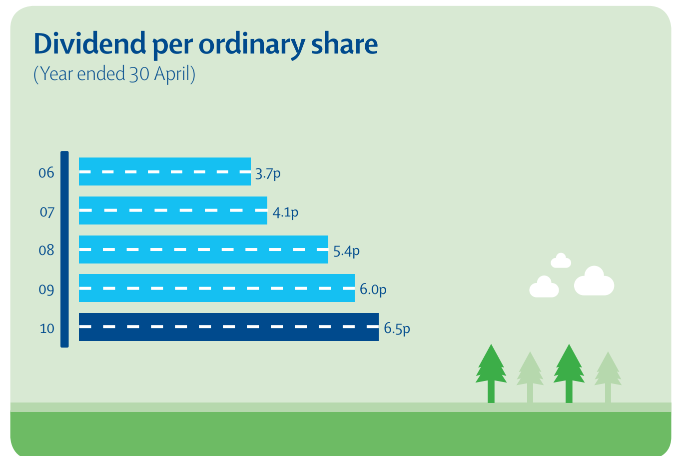
- Good results in challenging environment.
- Revenue growth in bus and rail operations in UK and recent improving revenue trends in UK Rail and North America.
- Sector-leading profit margin at UK Bus.
- High operational performance and customer satisfaction in UK Rail.
- Positive outcome from South Western Trains arbitration.
- Further passenger growth at Virgin Rail Group from improved high frequency timetable.
- Group in good financial health – successful issue of £400m seven-year bonds.
- Full year dividend up 8.3% at 6.5p.

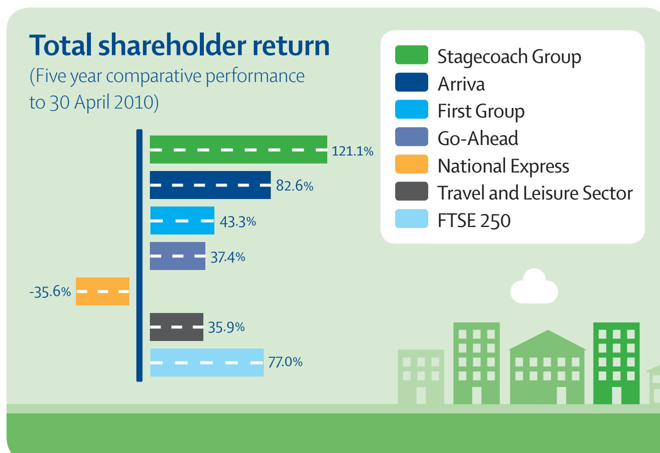
Financial overview











Notes

1. **Group revenue:**
   See Note 2 to the consolidated financial statements.
2. **Operating profit:**
   The chart shows the breakdown of total operating profit for the year ended 30 April 2010, excluding intangible asset expenses and exceptional items. See Note 2 to the consolidated financial statements.
3. **Adjusted earnings per share:**
   See Note 10 to the consolidated financial statements.
4. **Dividend per ordinary share:**
   See Note 9 to the consolidated financial statements.
5. **Total shareholder return:**
   The graph compares the performance of the Stagecoach Group Total Shareholder Return ('TSR') (share value movement plus reinvested dividends) over the 5 years to 30 April 2010 compared with that of Arriva, First Group, Go-Ahead, National Express, the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index.

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Financial summary

	Results excluding intangible asset expenses and exceptional items*		Reported results	
Year ended 30 April	**2010**	2009	**2010**	2009
Revenue (£m)	**2,164.4**	2,103.3	**2,164.4**	2,103.3
Total operating profit (£m)	**192.0**	227.8	**179.1**	202.4
Non-operating exceptional items (£m)	**–**	–	**(2.0)**	(0.2)
Net finance costs (£m)	**(30.7)**	(31.4)	**(51.2)**	(31.4)
Profit before taxation from continuing operations (£m)	**161.3**	196.4	**125.9**	170.8
Discontinued operations (£m)	**–**	–	**3.9**	–
Profit before taxation (£m)	**161.3**	196.4	**129.8**	170.8
Earnings per share (pence)	**18.7p**	22.9p	**15.6p**	18.7p
Proposed final dividend (pence)	**–**	4.2p	**–**	4.2p
Full year dividend (pence)	**6.5p**	6.0p	**6.5p**	6.0p

*See definitions in Note 38 to the consolidated financial statements.

1. Chairman's statement

I am pleased to report that we have achieved a strong set of results in a challenging business climate and we are well placed to benefit from the improving economic environment.

We have a clear strategy, strong business fundamentals and excellent relationships with key stakeholders. These strengths provide a good platform for continued growth in our greener, smarter bus and rail services. We look forward to working with the new UK Government with a view to capitalising on the potential of public transport to help combat the threat of climate change and to further contribute to the economy.

Our Group is in good financial health. Our relatively low net debt gives us the flexibility to respond to changing conditions and to capitalise on suitable growth opportunities. Although as a whole we are less susceptible than many other businesses to changes in the economic environment, we took decisive, early management action to reduce costs and improve efficiency as economic conditions weakened. We are now seeing improvement in revenue trends consistent with economic recovery and the actions we have taken leave us well positioned to benefit from the improving conditions.

The overall profitability of the Group has continued to be strong. The Group has achieved further revenue growth despite the challenging macro-economic environment and the severe weather in early 2010 which affected the transport sector. Positive recent trading trends, coupled with the benefit of ongoing cost control, give us confidence moving forward. Revenue for the 12 months ended 30 April 2010 was £2,164.4m (2009: £2,103.3m). Total operating profit (before intangible asset expenses and exceptional items) was £192.0m (2009: £227.8m). Earnings per share before intangible asset expenses and exceptional items was 18.7p (2009: 22.9p).

On 12 February 2010, the Group declared a second interim dividend of 4.5p per ordinary share in addition to the first interim dividend of 2.0p per share declared in December 2009. In light of this, the Group is not proposing a final dividend in respect of the year ended 30 April 2010. The total dividend for the year was up 8.3% on the previous year.

We have made a good start to the new financial year to 30 April 2011 and current trading remains in line with our expectations. We are seeing improvement in revenue trends, and whilst the sustainability and pace of economic recovery remains uncertain, the outlook for the Group is positive. Coupled with the anticipated reduction in its fuel costs and the availability of revenue support at South Western Trains, the Group is well placed to deliver increased earnings in the year to 30 April 2011.

Iain Duffin and Janet Morgan are standing down as Directors after nine years of service, and I would like to thank both of them for their tremendous contributions to the Company. They each leave with the appreciation and best wishes of the Board. We have been fortunate to find able replacements with the appointments of Helen Mahy and Phil White as new non-executive Directors. Both bring extensive experience across a wide range of business sectors and they will complement the Board's skills and knowledge.

Finally, I would like to thank our employees at all levels of our business for their contribution to the successful delivery of the Group's strategy over the past year. They have continued to put our passengers first. I am positive about the outlook for our business and confident we will deliver increased value to our shareholders and provide greener, smarter bus and rail services for our customers.

Robert Speirs
Chairman

23 June 2010

2. Chief Executive's review

The Group has met the challenges of a difficult trading year and is in a strong position to achieve our strategic objective of further organic growth in our bus and rail businesses.

We are seeing signs of economic recovery in both the UK and North America and, while the sustainability and pace of economic recovery remains unclear, the outlook for the Group is positive.

We are continuing to lead the sector in delivering an unrivalled package of high quality services, strong operational performance, excellent value travel, good customer service, and investment in our products.

The efficiency measures we put in place early in the global economic slowdown have ensured we have a low-cost business model that will allow the Group to move quickly to capitalise on the opportunities ahead.

Value pricing for our customers is at the heart of how we differentiate ourselves from our competitors. We are officially Britain's low fares major bus operator and offer budget products in each of our bus and rail markets.

We believe the environment and outlook for public transport is positive. Our smarter travel services can play a significant role in helping people lead greener lifestyles and delivering a low carbon economy. We look forward to working with the new UK Government to maximise the huge potential of public transport.

The Group has launched an ambitious new sustainability strategy with a five-year plan to reduce further the carbon emissions from our transport operations. It is supported by an £11m investment programme and a range of stretching targets for our bus and rail businesses. As well as making our business more efficient, we believe this will support our strategy of investing for long-term growth.

We are investing further in new technology solutions to make it easier for customers to access our services, including smartcards, online marketing and e-commerce channels.

Our UK Bus division has proved robust. We have maintained the reach of our bus networks during the recession and continued with our fleet investment programme to offer a high quality service to our customers and a real alternative to the car.

Outside London, the local bus market in the UK is vibrant and highly competitive and has seen substantial investment in recent years. The Competition Commission investigation into the market has been an unnecessary and expensive distraction for our management teams. However we are confident that common sense will prevail, never forgetting that the motor car is the ultimate competitor and that our business strategy in recent years has been all about converting car users to bus users. We look forward to an early resolution to the investigation that will highlight all of the positive existing qualities of the market and this will then allow us to focus once again on maximising the benefits for our customers.

In North America, the weak economy has continued to affect demand for scheduled and leisure bus and coach services. However, we have taken sensible steps to match supply to lower demand. We have expanded further our budget coach service, megabus.com, which has benefited from consumer demand for low cost products during the downturn.

We have been pleased with the performance of our UK Rail division, particularly in the second half of the year. There is growing evidence of returning passenger volumes and our targeted cost reduction plan has been implemented successfully while delivering high levels of operational performance and customer satisfaction. We are delivering strongly on our franchise commitments to Government, while investing in further improvements to stations and train services.

At Virgin Rail Group ("VRG"), extra train services and faster schedules on the West Coast franchise are making rail even more attractive and helping win market share from the airlines. VRG has achieved a step-change in operational performance and customer satisfaction, and is starting to build on the focus of Network Rail on improving infrastructure reliability on what is one of the UK's crucial rail arteries.

The Group is committed to working with Network Rail to improve performance on the rail network for our customers and we have a close working relationship with the senior management team. However, we support the view of the Office of Rail Regulation that Network Rail needs to be more responsive to its customers, particularly around timetable development and making the best use of network capacity. Virgin Rail Group, in particular, has suffered from poor performance by Network Rail on the West Coast main line, and improved infrastructure availability is crucial in delivering a more reliable railway to passengers.

However, we believe improvements must be made to the existing rail franchising model. There is an opportunity to give greater freedom to operators to invest in improving services for passengers, reduce the burden on taxpayers, cut unnecessary micro-management by government and better protect services in challenging economic times. We believe that the emphasis should be on targeting the achievement of high levels of customer satisfaction, with each train operating company given the latitude to determine the best way of achieving that objective. All of this can be achieved whilst ensuring a sensible risk transfer to the private sector which allows for shareholder returns commensurate with performance and capital put at risk. The current revenue share and revenue support arrangements do not work either for operators or the taxpayer and the model needs to better reflect the risks and responsibilities that the different parties have control over and are best able to manage.

As a Group, we will continue to consider all opportunities in the transport sector to create additional shareholder value. We are in a strong financial position and believe we are well positioned to take advantage of any emerging opportunities.

Last year, I predicted 2009-10 would be a difficult year, but that Stagecoach Group was better placed than most to come through the global recession. We have done so impressively and we can look forward with confidence with our strong portfolio of flexible bus and rail businesses. I would like to thank our people right across the Group for their key role in making that happen and delivering for our customers and our shareholders.

Brian Souter
Chief Executive

23 June 2010

3. Operating and Financial Review

3.1 Introduction

The Directors are pleased to present their report on the Group for the year ended 30 April 2010.

This section 3 contains the Operating and Financial Review, which includes the information that the Group is required to produce to meet the need for a business review in accordance with section 417 of the Companies Act 2006. The Operating and Financial Review also provides significant information over and above the statutory minimum. Biographies of each director are contained in section 4 of this Annual Report and the remainder of the Directors' report is set out in section 5.

The Operating and Financial Review that follows is intended largely to reflect the recommendations of the Accounting Standards Board's 2006 reporting statement of best practice on the Operating and Financial Review.

3.2 Cautionary statement

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

3.3 Description of the business

Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, United States and Canada. The Group employs around 30,000 people, and operates bus, coach, train and tram services. The Group has three main divisions – UK Bus, UK Rail and North America.

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".

3.3.1 UK Bus

Our UK Bus Division connects communities in more than 100 towns and cities across the UK on 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 current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's license may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality.

Our UK Bus Division operates a fleet of around 7,000 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director, reporting directly to the head of the UK Bus division.

In addition to local bus services in towns and cities, Stagecoach operates express interurban services linking major towns within its regional operating company areas. The Group also runs the market-leading budget inter-city coach service, megabus.com.

Our local and express bus and coach services carry an average of around 2 million passengers each weekday. Stagecoach's bus and coach services in the UK are operated on a commercial basis in a largely deregulated market. We also operate tendered services, including schools contracts, on behalf of local authorities. Around 13% of the UK Bus Division's revenue is receivable from local authorities in respect of such tendered and school services. Around 25% of the UK Bus Division's revenue is earned from concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying the elderly and disabled free of charge.

3.3.2 North America

Stagecoach, principally through its Coach USA and Coach Canada brands, provides transport services in North America. Our businesses include commuter/transit services, inter-city services, tour and charter, sightseeing and school bus operations.

The United States business is headed by a Chief Operating Officer. Stagecoach (excluding its joint ventures) operates approximately 2,200 vehicles in the United States where our operations are mainly in the states of New York, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, Illinois and Wisconsin. Our services operate in major cities such as New York City, Newark, Pittsburgh, Chicago and Milwaukee.

In Canada, we own two operating companies, which together operate around 500 vehicles in the Provinces of Quebec and Ontario. The Canadian business is also headed by a Chief Operating Officer.

3.3.3 UK Rail

Stagecoach Group has major rail operations in the UK. The UK train operating market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the Department for Transport ("DfT") on the basis of competitive bids. Train operating companies operate passenger trains on the UK rail network. The UK railway infrastructure is owned and operated by Network Rail, a "not for dividend" company that invests any profits into improving the railway. Network Rail runs, maintains and develops tracks, signalling systems, bridges, tunnels, level crossings and key stations.

Our principal wholly owned rail businesses are South Western Trains and East Midlands Trains. South Western Trains incorporates the South West Trains and Island Line networks. South West Trains runs around 1,700 train services a day in south west England out of London Waterloo railway station, while Island Line operates on the Isle of Wight. The South Western franchise is expected to run until February 2017. From 11 November 2007, we have operated the East Midlands Trains franchise. The franchise comprises main line train services running to London St Pancras, regional rail services in the East Midlands area and inter-regional services between Norwich and Liverpool. The franchise will run until 31 March 2015 assuming the Group meets agreed performance targets. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. In May 2007, we signed a contract with Greater Manchester Passenger Transport Executive ("GMPTE") to operate and maintain the Manchester Metrolink tram network and commenced operations under the 10-year contract in July 2007.

South Western Trains, East Midlands Trains and the tram operations each have a managing director, who report to the Group's Executive Directors.

3.3.4 Joint Ventures

3.3.4.1 Virgin Rail Group

Stagecoach Group has a 49% shareholding in Virgin Rail Group, which operates the West Coast Trains rail franchise. The West Coast Trains rail franchise runs until March 2012. The other shareholder in Virgin Rail Group is the Virgin Group of Companies.

Stagecoach's Group Finance Director is Joint Chairman of Virgin Rail Group. Virgin Rail Group has a Chief Executive, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.

3.3.4.2 Scottish Citylink Coaches Limited

In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro, to operate megabus.com and Scottish Citylink coach services. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading provider of express coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.

3.3.4.3 New York Splash Tours

In North America, Stagecoach has a joint venture, New York Splash Tours LLC, with Port Imperial Duck Charters LLC. Splash Tours began operating sightseeing tours in May 2007 using amphibious vehicles. The vehicles operated in the Hudson River and on land in the city of New York. Splash Tours ceased operations in March 2010 and it is evaluating options for its remaining assets.

3.3.4.4 Twin America

In North America, Stagecoach began operating a joint venture, Twin America LLC, with CitySights NY on 31 March 2009. The joint venture operates sightseeing services in New York under both the Gray Line and CitySights brands. The Group holds 60% of the economic rights and 50% of the voting rights in the joint venture. Twin America LLC is headed by a Chief Executive and overseen by a joint Board.

3.4 Resources and relationships

3.4.1 Resources

Stagecoach Group has a range of resources that underpin its business and support its strategy. These assist in giving the Group a competitive advantage in the markets in which it operates. We continue to invest in the areas listed below to maintain our position among the market leaders in the public transportation sector.

3.4.1.1 Employees
Stagecoach Group's most important resource is its employees. We seek to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service to our passengers. The Group's individual divisions invest significantly in the training and development of our people and we operate a successful graduate training scheme which provides one source of training for the managers of the future. We also encourage our people to give something back to their local community and many are regularly involved in fundraising, payroll giving and in-kind support to a wide range of good causes. Further information about our commitment to corporate social responsibility is set out on pages 16 and 17.

3.4.1.2 Market research
An important element of the Group's success in growing its customer base lies in a track record of product innovation and new ideas on developing effective public transport systems. The Group has an ongoing programme of market research. We have a dedicated telemarketing unit in the UK that communicates with current customers and non-users to build a detailed profile of what attracts people to use our services.

3.4.1.3 Corporate reputation, brand strength, and market position
Stagecoach is one of the best-known public transport operators in the UK and is consistently rated highly for the quality of its services in research by Government and other independent organisations. We value our reputation, both as a public transport provider and as a key part of the communities in which we operate. Stagecoach has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

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

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

3.4.2 Contractual and other relationships
Stagecoach Group works closely with a range of bodies in each of the markets where we provide public transport services. Our stakeholders include:

- Our People – 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.
- Investors and 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 are a constituent of the FTSE4Good index, which sets standards and tracks the performance of the leading socially responsible companies around the globe.
- Customers – millions of people use our services every day. We conduct extensive customer research to monitor our performance and to determine how we can improve the delivery and accessibility of our services.
- Customer Interest Groups – our businesses have a regular and ongoing dialogue with bus and rail user groups. This includes presentations from managers on detailed aspects of our service as well as consultation and information sharing on particular issues.
- Government – our managers have an ongoing dialogue with national and local government in all our countries of operation to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. In the UK, we work closely with the DfT, the Scottish Executive, Transport Scotland, the Welsh Assembly, and Transport for London ("TfL").
- Transport Authorities – we work closely 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.
- Government Advisory Bodies and Lobbying Groups – 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.
- Transport and Industry Representation Groups – we are active members of industry groups, such as the Confederation of Passenger Transport UK (which covers buses and light rail), the Association of Train Operating Companies and the American Bus Association.
- Suppliers – we rely on a range of suppliers to provide goods and services linked to our bus and rail operations. These include vehicle and rolling stock manufacturers, fuel suppliers, IT companies and clothing manufacturers.

We have contractual relationships with a number of parties which are essential to the business of the Group, including:

- The operation of our rail franchises depends upon a number of contractual relationships, the most critical of which include: contracts with the DfT governing the terms of the franchises; 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.
- All of our businesses have various contractual relationships including purchase contracts with fuel suppliers, vehicle suppliers, IT companies and spare part suppliers.
- We have contracts with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis.
- We have contractual arrangements with banks and other finance providers for the provision of funds and financial products to the Group.

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.

3.5 Group business objectives and long-term strategy

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

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

A fundamental objective underlying this strategy is the continued provision of safe and reliable services to passengers.

Stagecoach Group has demonstrated particular strength in managing bus and coach businesses that operate scheduled services in a relatively deregulated environment. The Group's focus is on operations with critical mass in their own local markets. In rail, Stagecoach's skill centres on organic revenue and passenger volume growth, the management of significant change projects, the delivery of improved operational performance, and driving up customer satisfaction.

Our overall business strategy is supported by a financial strategy whereby we seek to maintain a long-term efficient capital structure.

3.5.2 Business model
The Group's 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 add value through organic growth, targeted acquisitions and rail franchise wins. The overall model of the Group is based on a relatively decentralised management structure with short chains of command and close monitoring and direction from the centre. Across the Group, there is an emphasis on achieving strong operational performance as an underpin of strong financial performance.

The business model for the Group's UK Bus 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 Rail Division is different. The business is more highly regulated and its 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.

3.5.3 Key Performance Indicators

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level. The most important of these KPIs at a Group level focus on five key areas:

- Safety
- Profitability
- Organic growth
- Service delivery
- Staff retention

KPIs are also shown below for the Group's largest joint venture, Virgin Rail Group.

3.5.3.1 Safety

In addition to providing reliable services, we seek to ensure the safety of our passengers, staff and others. Safety is monitored in various ways, including through a range of KPIs. Disposed businesses are excluded from the safety KPIs.

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

	Target	**Year ended 30 April 2010**	Year ended 30 April 2009	Year ended 30 April 2008
UK Bus – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**21.9**	see below	see below
US – number of blameworthy accidents per 1 million miles travelled		**8.8**	9.3	see below
South West Trains – workforce lost time injuries per 1,000 staff		**2.0**	1.7	1.9
East Midlands Trains – workforce lost time injuries per 1,000 staff		**1.6**	2.6	2.1
West Coast Trains – workforce lost time injuries per 1,000 staff		**1.9**	1.6	1.5

Due to development of our safety reporting systems to standardise and enhance the reporting of safety indicators, certain KPIs are not presented above as they would not be comparable to later years.

3.5.3.2 Profitability

The Group seeks to increase long-term value to its shareholders. While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. For the Group as a whole, the key measure of short-term financial performance 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	**2010 pence**	2009 pence	2008 pence
Adjusted EPS	To increase in excess of inflation	**18.7p**	22.9p	20.3p

3.5.3.3 Organic growth

A key element underpinning the Group's strategy is to deliver organic growth in revenue. The following measures of organic growth are monitored in respect of the Group's three divisions:

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

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

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

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

The organic growth KPIs were as follows:

	Target	**Year ended 30 April 2010 Growth %**	Year ended 30 April 2009 Growth %	Year ended 30 April 2008 Growth %
UK Bus passenger journeys		**(0.4)%**	3.2%	3.6%
UK Rail passenger miles				
– South West Trains	Positive growth each year	**(1.1)%**	2.2%	5.7%
– East Midlands Trains		**(0.4)%**	1.6%	2.9%
– Virgin Rail Group – West Coast Trains		**20.4%**	(1.5)%	8.3%
North America revenue		**(3.4)%**	7.2%	4.6%

The growth in passenger miles shown above for East Midlands Trains in the year ended 30 April 2008 represents the growth for the period from 11 November 2007 (when the Group began operating East Midlands Trains) to 30 April 2008 when compared to the equivalent businesses under their previous ownership for the corresponding prior year period. During the year ended 30 April 2009, Virgin Rail Group experienced numerous Network Rail possessions, over-runs and days of poor performance and this is reflected in the decline in passenger miles shown above for that year.

The declines in passenger volumes at UK Bus and UK Rail and the decline in North America revenue, in the year ended 30 April 2010 shows the impact of the tough economic conditions during the year. At Virgin Rail Group the impact has been offset by the increase in services following a new timetable being introduced in December 2008.

3.5.3.4 Service delivery

We aim to provide a reliable service to support our organic growth strategy. Our measures of service delivery include:

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

Due to the nature of the North American business, there is no single measure of service delivery for the North American division as a whole.

The service delivery KPIs were as follows:

	Target	Year ended 30 April		
		2010 %	2009 %	2008 %
UK Bus reliability	>99.0%	**99.3%**	99.5%	99.4%
UK Rail punctuality				
– South West Trains	>90.0%	**93.0%**	93.3%	92.2%
– East Midlands Trains	>85.0%	**92.5%**	89.3%	87.2%
– Virgin Rail Group – West Coast Trains	>85.0%	**85.3%**	79.7%	85.9%

3.5.3.5 Staff retention

The strength of our business is built on the quality of our employees. We monitor staff turnover which is measured as the number of employees who left the Group (other than through business disposals) during the period as a proportion of the total average employees during the period.

Staff turnover for the last three years in our continuing businesses was as follows:

	Target	Year ended 30 April		
		2010 %	2009 %	2008 %
UK Bus staff turnover		**15.0%**	18.3%	24.0%
UK Rail staff turnover				
– South West Trains	To decrease each year	**7.4%**	11.3%	10.7%
– East Midlands Trains		**7.3%**	8.3%	5.8%
– Virgin Rail Group – West Coast Trains		**3.6%**	5.3%	5.5%
North America staff turnover		**20.1%**	20.2%	21.7%

The increases in staff turnover at South West Trains and East Midlands Trains in the year ended 30 April 2009 are driven by redundancies in relation to cost reduction plans.

3.6 Overview of financial results

Stagecoach Group has achieved continued strong financial and operational performance for the year ended 30 April 2010.

Revenue by division is summarised below:

REVENUE	2010	2009		2010	2009	
	£m		Functional currency	Functional currency (m)		Growth %
Continuing Group operations						
UK Bus	**875.4**	830.8	£	**875.4**	830.8	5.4%
North America	**266.1**	297.7	US$	**426.3**	499.5	(14.7)%
UK Rail	**1,026.7**	977.7	£	**1,026.7**	977.7	5.0%
Intra-Group revenue	**(3.8)**	(2.9)	£	**(3.8)**	(2.9)	31.0%
Group revenue	**2,164.4**	2,103.3				

Operating profit by division is summarised below:

OPERATING PROFIT	2010		2009			2010	2009
	£m	% margin	£m	% margin	Functional currency	Functional currency (m)	
Continuing Group operations							
UK Bus	**126.1**	14.4%	125.6	15.1%	£	**126.1**	125.6
North America	**9.1**	3.4%	25.2	8.5%	US$	**14.6**	42.3
UK Rail	**41.6**	4.1%	55.7	5.7%	£	**41.6**	55.7
Group overheads	**(11.6)**		(11.5)				
Restructuring costs	**(1.2)**		(2.5)				
Total operating profit from continuing Group operations	**164.0**		192.5				
Joint ventures – share of profit/(loss) after taxation							
Virgin Rail Group	**19.2**		34.0				
Citylink	**1.2**		1.0				
New York Splash Tours	**(0.9)**		(0.6)				
Twin America	**8.5**		0.9				
Total operating profit before intangible asset expenses and exceptional items	**192.0**		227.8				
Intangible asset expenses	**(11.1)**		(13.4)				
Exceptional items	**(1.8)**		(12.0)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**179.1**		202.4				

3.7 Divisional Performance

3.7.1 UK Bus

Financial performance

The financial performance of the UK Bus division for the year ended 30 April 2010 is summarised below:

	2010 £m	2009 £m	Change %
Revenue	**875.4**	830.8	5.4%
Like-for-like revenue*	**839.5**	805.9	4.2%
Operating profit*	**126.1**	125.6	0.4%
Operating margin	**14.4%**	15.1%	(0.7)%

The small reduction in margin reflects the increased operating costs, including a £21.7m increase in fuel costs and a £6.4m increase in pension costs. Despite these headwinds, operating profit was maintained at around its 2008/9 level.

Passenger revenue growth

We have delivered further passenger revenue growth at our UK Bus Division, which has achieved consistent sector-leading results over several years. Despite tough economic conditions, the adverse effect of severe weather and significant increases in operating costs, our business has remained robust. Like-for-like passenger volumes, incorporating full-fare and concessionary travel, were approximately the same as the equivalent prior year period.

High quality services

Stagecoach is delivering a high quality of service to its customers and we are consistently delivering reliability above 99%. We deliver a good level of punctuality across our regional operating companies and offer stable bus networks, resulting in high levels of customer satisfaction. We are committed to continuing to work closely with local transport authorities for more bus priority measures to allow us to provide an even better service to our customers. Our commitment to quality has been reflected in further awards for our UK Bus operation, including Stagecoach Bluebird being named UK Public Transport Operator of the Year at the 2009 National Transport Awards.

Fleet investment

We are investing strongly in our people and the quality and sustainability of our on-the-road product, as well as making our services easier to use. In 2009-10, we have invested more than £80m in around 500 buses and coaches for our networks. This has included an entire new fleet of greener vehicles for our Oxford Tube network linking London and Oxford, the most frequent express coach service in Europe. We were also the biggest winner of support funding from the Government's Green Bus Fund, which will result in a fleet of 56 double-decker hybrid vehicles, with 30% less carbon emissions than standard vehicles, going into service in our major city operations in Manchester and Oxford.

Pricing strategy

Stagecoach has consistently offered good value travel and we have now been officially recognised as offering the best value local bus fares of any major operator in Britain. Independent transport consultant, TAS, has found that Stagecoach offers significantly lower commuter, leisure and shopping fares than the UK's other major transport groups. TAS found that average prices paid by Stagecoach customers were up to 30% less than those charged by the other major UK bus operators and we regularly offered lower prices than independent operators.

Our market-leading position on low fares is despite significant increases in bus industry costs. Separate analysis published in December in the 2009 edition of the TAS Bus Industry Performance report found that rises in wages, fuel and pensions costs have meant bus operating costs have risen by more than 19% above inflation in five years.

Partnerships

Strong partnerships with our local stakeholders, including local authorities, are continuing to support our drive for organic growth. We are particularly focused on measures that will deliver bus priority to improve reliability and journey times for passengers, as well as pressing for investment in bus park and ride.

During the year, we signed a ground-breaking agreement with Oxfordshire County Council, together with the Oxford Bus Company, to deliver a more sustainable bus network for the city. It is the first use of new powers under the Local Transport Act 2008 designed to enable more effective partnership working between local transport authorities and bus operators to deliver more co-ordinated bus services. The partnership will deliver new low emission buses, more seats, and a new multi-operator integrated smartcard ticketing system.

In March 2010, we also published a strategy to revitalise bus services for passengers and improve the local environment in Sheffield over the next decade. The three-phase plan centres on a public-private partnership between bus operators, South Yorkshire Passenger Transport Executive and Sheffield City Council. It includes pledges on fares, ticketing and network levels; proposals for new strategic park and ride facilities linked to buses and trams; punctuality, reliability and customer satisfaction targets to raise standards; joint carbon reduction initiatives; and a dual-mode tram-bus service using hi-tech optical guidance technology.

Business development

We believe new solutions, such as smartcard technology and technical applications linked to smartphones, can help support our organic growth strategy. We have developed the StagecoachSmart brand to offer multi-modal ticketing on the Group's bus and rail services based on the Government's preferred ITSO technology platform. It also has potential to be integrated with other operators' services where infrastructure and commercial agreements are in place. We have launched a commercial pilot of the system in Cambridge. We are also at an advanced stage with the introduction of on-bus technology on all of our vehicles in the UK linked to concessionary travel schemes.

The UK Bus division has continued to grow its online offering into local bus service ticketing, with the online sales of Megarider tickets up 55% on the previous year

During the year, the Competition Commission cleared our acquisitions of Eastbourne Buses and Cavendish Motor Services. We have brought significant new investment to bus services in the Eastbourne area, ensuring local people have access to a sustainable, comprehensive high quality and affordable bus network, and we look forward to building on these improvements.

In December 2009, we appealed the Competition Commission's decision ordering the divestment of the Preston Bus business, which we acquired during the year ended 30 April 2009. We fundamentally disagreed with the Commission's decision, which in our view, was not in the best interest of bus passengers or employees. The Competition Appeal Tribunal ("CAT") ruled in May 2010 that a number of the Commission's findings were not supported by the evidence in the case. We are in discussions with the Competition Commission regarding the implications of the CAT decision.

The bus industry in the UK delivers one of the most comprehensive bus networks in Europe for one of the lowest levels of public subsidy. In association with our industry partners, we are continuing to work with the Competition Commission to bring its investigation into the local bus market to a speedy conclusion. Bus companies operate in highly competitive local markets where the biggest competitor is the car. We believe strongly that Stagecoach's track record on high investment, low fares, and stable bus networks demonstrates that we are continuing to deliver strongly for our passengers.

* See definitions in note 38 to the consolidated financial statements.

Greener travel

We are working with our key public transport partners on a major campaign to encourage people to make less use of cars and switch to sustainable bus and coach travel instead. The Greener Journeys campaign is targeting one billion fewer car journeys over the next three years. The target could be achieved by switching one in 25 journeys by car to bus and coach, delivering a huge reduction in carbon emissions. It is part of the Group's wider strategy on sustainability, which was published in April 2010 and incorporates a package of initiatives and targets linked to emissions from our fleet transport and buildings.

Outlook

Given the uncertainty on the sustainability and pace of economic recovery in the UK and our continued objective to offer good-value services, we are planning for relatively modest fare and revenue increases over the next year in the UK Bus division. The division will benefit from lower fuel costs in the year to 30 April 2011 because of the phasing of our fuel hedging, although these cost reductions could reverse the following year. We generally expect other costs to be subject to some increases in the year ahead. We remain alert to the potential direct and indirect effects of any government spending cuts on the UK Bus Division. On balance, we believe that the division is well placed to increase profit in the year to 30 April 2011.

3.7.2 North America

Financial performance

The financial performance of the North America division and North America joint ventures for the year ended 30 April 2010 is summarised below:

	2010 US$m	2009 US$m	Change %
Revenue			
Wholly owned	**426.3**	499.5	(14.7)%
Share of joint ventures	**64.1**	9.6	567.7%
Total	**490.4**	509.1	(3.7)%
Like-for-like revenue	**417.7**	432.3	(3.4)%
Operating profit			
Wholly owned	**14.6**	42.3	(65.5)%
Share of joint ventures	**12.8**	0.5	
Total	**27.4**	42.8	(36.0)%
Operating margin	**5.6%**	8.4%	(2.8)%

As expected, high levels of unemployment have impacted our bus and coach operations in North America where our business is more susceptible to changes in the economy than our bus operations in the UK. Performance has also been impacted by severe weather in February 2010. However, we have a flexible business model and have taken action to reduce costs and miles operated.

megabus.com

During the year, we expanded further our market-leading budget coach service megabus.com, capitalising on the demand for low-cost travel. Revenue for megabus.com in North America was US$45.1m (2009: US$32.8m) in the year ended 30 April 2010. We have added new destinations in the US states of Pennsylvania and Iowa, and locations in Canada. We have also invested in new double-decker vehicles to improve the product and add capacity. Our market research has found that 92% of megabus.com customers travel with us over other forms of transport to save money. We have seen a rapid increase in ticket sales during the year against a background of decline in the wider economy.

Outlook

We are expecting any revenue growth in the North America division to be modest in the year ahead, but the division will benefit from reduced fuel costs.

3.7.3 UK Rail

Financial performance

The financial performance of the UK Rail division for the year ended 30 April 2010 is summarised below:

	2010 £m	2009 £m	Change %
Revenue	**1,026.7**	977.7	5.0%
Like-for-like revenue, excluding tram	**968.9**	932.4	3.9%
Operating profit	**41.6**	55.7	(25.3)%
Operating margin	**4.1%**	5.7%	(1.6)%

The operating profit and margin in our UK Rail division has fallen because the growth in passenger revenue has not kept pace with the underlying growth in payments to the Department for Transport. Nevertheless, we are pleased with the financial performance. As a result of our cost reduction programme and improving revenue trends, the UK Rail operating profit has exceeded the expectations we had at the start of the financial year. We now have a new low-cost model for our rail operations whilst maintaining our management teams' focus on good customer service.

Operational performance

Across our rail portfolio, we have further improved passenger service, delivering above industry average levels of punctuality at both our South Western Trains and East Midlands Trains rail franchises. South Western Trains' punctuality for the year to 1 May 2010 was 93.0%, compared with 91.5% for all London and South East operators and 91.5% for all UK franchised operators. East Midlands Trains achieved 92.5% punctuality compared with an average of 88.9% for all long distance operators.

Customer satisfaction

Passenger satisfaction with our East Midlands Trains and South Western Trains services remains at a high level. The latest National Passenger Survey, which covers Spring 2010, shows overall passenger satisfaction of 85% at South Western Trains, above the national average of 83% and the London and South East average of 82%, making it the top commuter franchise south of the Thames. As one of the UK's largest and most complex passenger rail franchises, this is a particularly impressive achievement and we will continue to work hard to ensure that satisfaction amongst our passengers continues to grow. The investment and improvements we are making at East Midlands Trains is also flowing through into higher customer satisfaction. Overall passenger satisfaction has risen to 86%, a 5% year on year increase.

Value travel

Our marketing strategy has focused on responding to the demand for budget travel, offering good value travel options for families holidaying in the UK as well as generating day-trips to London through 2 for 1 partnership offers to key attractions. Passengers were able to travel anywhere on our South West Trains network over the 2009 summer months for £10 day return or £5 for children. Our successful Red Dot Days at East Midlands Trains offered similar excellent value, encouraging many people to try rail travel for the first time. We have launched a Best Fare Finder on the East Midlands Trains website to help our customers get our lowest prices and we are also offering easier online booking through our improved South West Trains website.

megatrain.com, our budget rail product, has significantly expanded the number of low-cost seats available on the South West Trains, East Midlands Trains and Virgin Trains networks. Passenger bookings have doubled in the last 12 months and at current levels annual passenger volumes are set to hit more than 500,000. megatrain.com now links 30 locations on the UK rail network, including some of the country's biggest destinations.

Passenger improvements

We are continuing to deliver on our franchise commitments to invest in our trains and stations and offer easier travel options to our customers.

From January 2010, customers travelling on our South West Trains services in the Greater London area have been able to use Oyster pay-as-you-go. This allows passengers to travel seamlessly across the network and switch between underground and all overground rail services. Separately, South West Trains has also extended its own smart ticketing scheme, the first of its kind on the national rail network. Following a successful trial on services between Staines and Windsor, the system is being rolled out to include stations between Weymouth and Basingstoke, Staines to Wokingham and the Isle of Wight.

During the year, we reached agreement with the DfT on the amount of compensation receivable from the DfT in respect of those elements of the smartcard project that were not delivered on time and where the risk of failing to deliver on time rested with the DfT.

Our £9m refurbishment programme bringing improvements to our High Speed Trains at East Midlands Trains is well underway, delivering improved levels of comfort and other benefits such as at-seat power points in First Class. We have also completed the £22m upgrade of Derby Etches Park depot, which will deliver improved maintenance of our fleet.

In December 2009, we launched an enhanced frequency of two trains an hour between Sheffield and London following the positive response to the introduction of faster services on this route in 2009. We extended the twice hourly services to the Chesterfield to London route in May 2010.

A package of funding has been secured by East Midlands Trains which will bring significant improvements to the busy Liverpool-Norwich route from May 2011. The funding, which has been agreed with the DfT, will enable East Midlands Trains to lease four additional trains, which will be used on services between Nottingham and Skegness, and from Lincoln to Leicester. This will allow a number of other refurbished trains to be cascaded to strengthen services on the busiest section of East Midlands Trains' Liverpool to Norwich route. From May 2011 an additional 1,500 seats a day will be available between Nottingham and Liverpool.

South Western Trains arbitration

As previously reported, South Western Trains was in dispute with the DfT over the determination of franchise payments, including revenue support payments. The disputes were submitted to arbitration under the Railway Industry Dispute Resolution and on 17 June 2010, we welcomed the arbitrator's decision.

There were two disputes that were subject to arbitration: one related to the period considered when calculating revenue support and the other related to the treatment of certain elements of car park revenue in determining franchise payments. The arbitrator ruled in favour of South Western Trains on the key issue of revenue support timing. The Arbitrator ruled in favour of the DfT in respect of the matter related to car park revenue.

South Western Trains will not receive the first revenue support amount until March 2011. Therefore, there will be an adverse working capital movement in the period to March 2011 that will reverse by April 2011.

The availability of revenue support for South Western Trains in respect of the period from April 2010 should enable the Group's UK Rail Division to remain profitable in the year ending 30 April 2011. The loss of the "car park revenue" dispute will, all other things being equal, mean that South Western Trains future profits will be less than they would otherwise have been. In the year ending 30 April 2011, the Group estimates this will affect pre-tax profit (of each of South Western Trains, the UK Rail Division and the Group) by around £8m.

We are pleased at the outcome of the arbitration process, which has ruled in our favour on the central issue of revenue support. We believed this was a matter of integrity over a contract signed in good faith and we had strong legal advice in support of our position.

Rail franchising

The Group has a good record of high operational performance, successful project management and major investment to improve services for passengers across our existing rail networks, and we will continue to evaluate franchise opportunities as they emerge.

Light rail

Stagecoach is Britain's biggest tram operator and we are continuing to work with our Passenger Transport Executive partners to improve the quality of public transport on the Sheffield Supertram and Manchester Metrolink systems. Passengers have responded well to our refreshed tram fleet in Sheffield. In Manchester, we completed significant track renewals in the city centre and also carried out a major renewal programme on the Bury line between Radcliffe and Whitefield stations. We have been working with the police, Greater Manchester Passenger Transport Executive ("GMPTE") and other agencies on targeted operations to improve safety and security for customers using the Metrolink network.

Outlook

The outlook for the UK Rail division has improved as the rate of underlying revenue growth has accelerated in recent months. Also, as explained earlier, it has been confirmed that revenue support is now available to South Western Trains. The UK Rail Division is therefore well positioned for the year ending 30 April 2011, to deliver another year of good profitability.

3.7.4 Joint Ventures

3.7.4.1 Virgin Rail Group

Financial performance

The financial performance of Virgin Rail Group for the year ended 30 April 2010 is summarised below:

	2010 £m	2009 £m	Change %
49% share of:			
Revenue	**355.3**	322.3	10.2%
Operating profit	**25.5**	42.7	(40.3)%
Net finance income	**0.2**	2.3	(91.3)%
Taxation	**(6.5)**	(11.0)	(40.9)%
Profit after tax	**19.2**	34.0	(43.5)%
Operating margin	**7.2%**	13.2%	(6.0)%

Virgin Rail Group has performed strongly during the year, with further growth in revenue. As we expected, profit has reduced, reflecting a step-up in costs after increasing capacity by around 30% and lower yield-per-journey as a result of weaker economic conditions during the year.

Passenger trends and operational performance

We are pleased with the continuing positive passenger trends at the West Coast franchise. Passenger volumes over the last financial year increased by around 20% with nearly 27 million journeys on VRG's trains. Effective marketing campaigns, competitive advance ticketing, the significant improvements to weekend travel through improved schedules, and reduced disruption caused by engineering work have resulted in further growth in the leisure market. VRG's share of the rail/air market on the Manchester/London route is over 80%, and on Glasgow/London has doubled in less than two years to 17% as customers have switched away from domestic air travel and turned to trains instead. Performance has steadied over the year, with almost 90% of trains now regularly running within 10 minutes of schedule. However, punctuality for VRG is below the national average and VRG is continuing to monitor Network Rail's performance on infrastructure availability as part its drive to deliver a more reliable railway to its customers.

Passenger improvements and customer satisfaction

Customers continue to respond well to the package of benefits introduced as part of the full high frequency timetable from February 2009. This has included extra trains and faster schedules across the network. The London to Manchester and London to Birmingham routes now have a train every 20 minutes. Wi-Fi services for customers are now available on all VRG's trains, which is a huge benefit for business travellers who can now work online during their journeys. A new improved website has been launched, offering a range of useful features, including an easier booking process, best fare finder, and handy time-saving tools. VRG has also expanded the number of spaces at key car parks and became one of the first flagship Bike 'n' Ride train companies by helping provide an additional 540 cycle storage spaces at stations. Customer satisfaction with VRG's services has increased to 90%, compared to an average of 87% for long distance operators, making it the top scoring major long distance operator.

3.7.4.2 Scottish Citylink Coaches

Our share of Scottish Citylink's profit after tax for the year ended 30 April 2010 was £1.2m (2009: £1.0m). Scottish Citylink has achieved further passenger growth on its inter-city coach services, with particular emphasis on marketing the benefits of coach travel to music festivals, concerts and sporting events. The joint venture has teamed up with the Scottish Football Association to introduce a series of new direct services to Hampden Park for Scotland fans attending the National Stadium on international match-days. Scottish Citylink offers a comprehensive network of extensive connections, faster services and low fares and has also added new journeys under the Scottish Government's national concessionary travel scheme.

3.7.4.3 Twin America

Our share of Twin America's profit after tax for the 12-month period ended 30 April 2010 was US$13.6m (one-month period ended 30 April 2009: US$1.5m). The tax treatment of our share of profit is such that the joint venture's own profit is partially taxed but an additional tax charge falls on the joint venture partners and the effect of that on the Group is included within "taxation" in the consolidated income statement.

3.8 Other financial matters

3.8.1 Depreciation and intangible asset expenses

Earnings before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £283.9m (2009: £300.1m) including the Group's share of its joint ventures' profit after tax. Depreciation, including non-exceptional impairment charges, for the year was £91.9m (2009: £72.3m). The income statement charge for intangible assets decreased from £13.4m to £11.1m, of which £5.1m (2009: £5.1m) related to joint ventures. The year on year decrease reflects certain intangible assets becoming fully amortised.

3.8.2 Exceptional items

The following exceptional items, before taxation, arose in the year ended 30 April 2010:

- An operating expense of £2.6m, being the cost to the Group, predominantly professional fees and consultancy fees, of its participation in the ongoing Competition Commission study of the UK local bus market.
- A £0.8m operating gain in relation to an unutilised restructuring provision that was released in the year but originally recorded as an exceptional cost in the previous year.
- A gain of £4.3m in relation to the disposal of properties across the Group.
- A loss of £0.8m in relation to the planned exit from certain operations in North America.
- A loss of £3.2m in relation to the disposal of certain operations in North America.
- An expense of £2.3m in relation to the aborted proposal to acquire certain National Express Group plc businesses from the CVC-Cosmen consortium, and in relation to the aborted proposal to merge with National Express Group plc.
- An expense of £20.5m in relation to certain interest rate swaps becoming ineffective following the Group issuing a £400m 5.75% bond in December 2009.
- A gain of £2.5m on the release of a liability related to previous disposals of businesses.
- A gain of £1.4m arising from the receipt of previously unrecognised contingent consideration related to disposals of businesses.

The net effect of exceptional items was a pre-tax charge of £20.4m (2009: £12.2m), of which a gain of £3.9m (2009: £Nil) was reported as profit from discontinued operations. A tax credit of £7.4m (2009: charge of £6.5m) arose in respect of exceptional items resulting in a net after-tax effect of exceptional items of £13.0m (2009: £18.7m).

3.8.3 Net finance costs

Pre-exceptional net finance costs decreased from £31.4m to £30.7m. The ratio of pre-exceptional EBITDA to net finance costs was 9.2 times for the year ended 30 April 2010 (2009: 9.6 times), reflecting decreased profit.

3.8.4 Taxation

The tax charge is analysed in Table A below. In the year ended 30 April 2009, a one-off exceptional tax charge of £10.6m was recognised in relation to an increase in the UK deferred tax liability arising on the abolition of Industrial Buildings Allowances ("IBAs"). This exceptional tax charge did not result in any immediate cash outflow.

3.8.5 Earnings per share

Earnings per share before intangible asset expenses and exceptional items was 18.7p, compared to 22.9p in 2009. Basic earnings per share decreased from 18.7p to 15.6p.

TABLE A SUMMARY OF TAX ON PROFIT	**Year ended 30 April 2010**			Year ended 30 April 2009		
	Pre-tax profit £m	Tax £m	Rate %	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	**168.7**	**(34.6)**	**20.5%**	207.8	(44.4)	21.4%
Intangible asset expenses	**(11.1)**	**1.7**	**15.3%**	(13.4)	2.2	16.4%
	157.6	**(32.9)**	**20.9%**	194.4	(42.2)	21.7%
Exceptional items	**(24.3)**	**7.4**	**30.5%**	(12.2)	(6.5)	n/a
	133.3	**(25.5)**	**19.1%**	182.2	(48.7)	26.7%
Reclassify joint venture taxation for reporting purposes	**(7.4)**	**7.4**	**n/a**	(11.4)	11.4	n/a
Reported in income statement	**125.9**	**(18.1)**	**14.4%**	170.8	(37.3)	21.8%

3.8.6 Fuel Costs

The Group's operations as at 30 April 2010 consume approximately 326m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel.

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

Year ending 30 April	2011	2012
UK Bus	98%	60%
North America	83%	77%
UK Rail	77%	50%

The Group has no fuel hedges in place for periods beyond 30 April 2012.

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 Group's like-for-like diesel fuel costs for the year ending 30 April 2011 are likely to be below 2009/10 costs because after taking account of the fuel hedges in place, the average fuel cost per litre will be less. If market fuel prices remain at current levels, the Group's fuel costs are likely to rise in the year to 30 April 2012 as the average cost per litre of the underlying product and the rate of duty are expected to be higher.

Further information on the Group's exposure to movements in fuel prices is provided in note 29 to the consolidated financial statements.

3.8.7 Cash flows

The strong cash generative nature of the Group is once again highlighted by net cash from operating activities after tax of £216.4m (2009: £277.8m) with the year-on-year reduction principally due to the lower operating profit and the significant increase in payables in the prior year. Net cash outflows from investing activities were £37.2m (2009: £101.6m) and net cash used in financing activities was £79.9m (2009: £168.7m).

3.8.8 Net debt

Net debt (as analysed in note 33 to the consolidated financial statements) reduced from £340.1m at 30 April 2009 to £296.7m at 30 April 2010, even after £76.7m of dividends paid to shareholders.

The closing net debt of £296.7m was lower than our recent expectations, principally because the cash held by train operating companies included amounts that were expected to have been paid to the Department for Transport prior to 30 April 2010 as a result of a delay in agreeing the industry arrangements for the change from Rail Industry Control Period 3 to Control Period 4.

The Group's net debt at 30 April 2010 is further analysed below:

	Fixed rate	Floating rate	Total
	£m	£m	£m
Unrestricted cash	Nil	127.1	127.1
Cash held within train operating companies	Nil	182.8	182.8
Restricted cash	Nil	65.8	65.8
Total cash and cash equivalents	**Nil**	**375.7**	**375.7**
Sterling bond*	(252.4)	(150.0)	(402.4)
Sterling hire purchase	(9.4)	(176.0)	(185.4)
US dollar finance leases	(51.2)	Nil	(51.2)
Canadian dollar finance leases	(3.9)	Nil	(3.9)
Loan notes	Nil	(26.2)	(26.2)
Preference shares	Nil	(3.3)	(3.3)
Net debt	**(316.9)**	**20.2**	**(296.7)**

* The split between fixed rate and floating rate sterling bank borrowings is after taking account of the effect of interest rate derivatives that synthetically convert floating rate debt to fixed rate debt.

Net cash from operating activities before tax for the year ended 30 April 2010 was £217.1m (2009: £281.5m) and can be further analysed as follows:

	2010	2009
	£m	£m
Operating profit of Group companies	**156.2**	172.2
Depreciation	**77.2**	72.1
Intangible asset expenses	**6.0**	8.3
Impairment of plant and equipment	**14.7**	0.2
EBITDA of Group companies before exceptionals	**254.1**	252.8
Loss on disposal of plant and equipment	**2.0**	2.0
Equity-settled share based payment expense	**6.3**	3.1
Working capital movements	**(10.7)**	43.7
Net interest paid	**(53.1)**	(33.0)
Dividends from joint ventures	**35.7**	44.9
Net cash from operating activities before excess pension contributions	**234.3**	313.5
Pension contributions in excess of pension costs	**(17.2)**	(32.0)
Net cash inflow from operating activities before taxation	**217.1**	281.5

The impact of purchases of property, plant and equipment for the year on net debt was £154.9m (2009: £183.5m). This comprised cash outflows of £89.2m (2009: £94.9m) and new hire purchase and finance lease debt of £65.7m (2009: £88.6m). £53.0m (2009: £12.8m) was received from the disposal of property, plant and equipment.

3.8.9 Liquidity

The Group has comfortably complied with all of its banking covenants throughout the financial year. The Group is subject to certain market standard banking covenants, which include a limit on the level of net debt compared to EBITDA, and a minimum level of EBITDA to interest, in each case as defined in the relevant agreements.

As a result of its strong financial position, the Group has not been subject to any significant problems arising from the difficulties in the banking and credit markets. Our strong financial position is evidenced by:

- The ratio of net debt at 30 April 2010 to pre-exceptional EBITDA for the year ended 30 April 2010 was 1.0 times (2009: 1.1 times).
- Pre-exceptional EBITDA for the year ended 30 April 2010 was 9.2 times (2009: 9.6 times) pre-exceptional net finance costs.
- The successful issue of a £400m 5.75% 7-year bond in December 2009, which was substantially oversubscribed.
- After taking account of bank facilities that the Group cancelled following the successful bond issue, undrawn, committed bank facilities analysed below totalled £345.9m at 30 April 2010 (2009: £508.0m). This included £24.9m (2009: £17.0m) that is only available for non-cash utilisation. In addition, the Group continues to secure new asset finance.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.
- The Group is cash generative and has the flexibility to vary capital expenditure and other cash outflows where appropriate.

The Group's principal lines of credit have been arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit.

The Group's committed bank facilities and related surety arrangements as at 30 April 2010 are analysed below:

Expiring in	Facility £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES				
– 2013	59.9	(59.9)	Nil	Nil
– 2012	420.0	(97.3)	(15.8)	306.9
– 2011	54.3	(45.2)	(9.1)	Nil
– 2010	20.8	(20.8)	Nil	Nil
	555.0	(223.2)	(24.9)	306.9
LOCAL & SHORT-TERM FACILITIES				
– Various	16.4	(2.3)	Nil	14.1
	571.4	(225.5)	(24.9)	321.0

The facility shown above that expires in 2010 was used to provide a performance bond and was replaced in May 2010 by a new arrangement that runs through to November 2013.

The Group's US$293.1m US dollar bonds matured in November 2009 and these were initially re-financed from the Group's existing bank facilities. The Group's main bank facilities are committed through to 2012. The Group issued a £400m 5.75% bond in December 2009, which matures in December 2016.

The Group also maintains facilities in relation to asset finance ("Asset Finance Facilities"). Asset Finance Facilities are typically agreed in principle one year in advance and are arranged for the purpose of funding bus vehicle expenditure and for specific UK Rail operating assets. Asset Finance Facilities include finance leases, hire purchase agreements and operating leases. The terms of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years.

The majority of the Group's committed bank facilities were entered into in March 2007 and run for five years to March 2012. The Group aims to re-finance these facilities over the next twelve months in order to have completed the re-financing well in advance of the March 2012 expiry. Whilst there is always some risk that a lack of available finance (for example, for railway rolling stock or for major acquisitions) constrains future expansion of the Group or prevents it from re-financing existing debt, the Group approaches the re-financing with confidence. The successful bond issue in December 2009 reduced the Group's reliance on bank debt and no loans are currently drawn on the committed bank facilities. Credit market conditions have improved over recent months. Whilst the Group expects lending margins in new bank facilities to exceed those in the facilities it agreed in 2007, lending margins have decreased from their recent peak and there has been a lengthening in the available tenors of facilities. In addition to the banks that provide the existing committed bank facilities, the Group is seeing strong interest from other banks in participating in the re-financing. Therefore, notwithstanding the market risks arising from sovereign risks, Basel 3 regulation and a wave of corporate re-financings, the Group is optimistic of a satisfactory re-financing of its bank facilities.

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 rail operations maintain cash balances to meet working capital requirements and the franchise agreements restrict the transfer of this cash. Unless DfT consent is obtained, cash can only be transferred by loan or dividend to the extent that the relevant train operating company has distributable profits, and the franchise is compliant with the liquidity covenants specified in its franchise agreement.

3.8.10 Capital expenditure

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

	2010 £m	2009 £m
UK Bus	**97.1**	113.8
North America	**14.5**	36.7
UK Rail	**45.1**	37.8
	156.7	188.3

The differences between the amounts shown above and the impact of capital expenditure on net debt arose from movements in fixed asset deposits and creditors.

3.8.11 Acquisitions

The UK Bus Division made one small acquisition during the year ended 30 April 2010. The acquisition is immaterial to the Group.

3.8.12 Shares in issue

The weighted average number of ordinary shares during the year used to calculate basic earnings per share was 716.2m (2009: 714.5m). The number of ordinary shares ranking for dividend at 30 April 2010 was 717.8m (2009: 715.0m), with a further 2.3m (2009: 4.5m) of ordinary shares held by employee trusts and not ranking for dividend.

3.8.13 Net assets

Net assets at 30 April 2010 were £12.7m (2009: net liabilities of £9.6m) with the increase primarily reflecting the strong results for the year and movements on cash flow hedges of £72.1m after tax, partly offset by actuarial losses on Group defined benefit pension schemes of £99.9m after tax.

3.8.14 Retirement benefits

The reported net assets of £12.7m (2009: net liabilities of £9.6m) that are shown on the consolidated balance sheet are after taking account of net retirement benefit liabilities of £202.1m (2009: £80.6m) as analysed in note 28 to the consolidated financial statements.

The values of financial investments have risen significantly in the year ended 30 April 2010 but the reported net retirement benefit liabilities have nevertheless increased due to the reduction in the discount rate applied to the liabilities. The Group recognised pre-tax actuarial losses of £138.7m (2009: £144.5m) on Group defined benefit pension schemes in the year ended 30 April 2010.

3.8.15 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 30 April 2010, the Group's capital comprised:

	2010 £m	2009 £m
Market value of ordinary shares in issue	**1,418.6**	944.3
Cash	**375.7**	277.3
Gross debt	**(672.4)**	(617.4)
Net debt (see section 3.8.8)	**(296.7)**	(340.1)

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 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.

3.8.16 Treasury policies and objectives

Risk management is carried out by a treasury committee and a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close 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 29 to the consolidated financial statements, for details of:

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

Major financing transactions

During the year, the Group sold vehicles for £3.6m (2009: £20.3m), which it then leased back on finance leases. The Group also entered into various hire purchase and finance lease arrangements for new assets as described in note 33(f) to the consolidated financial statements.

The following new financing arrangements were put in place during the year ended 30 April 2010 and subsequently:

- In May 2010, a new c.£20m 3.5-year rail bonding arrangement was agreed to replace a bank facility that was due to expire in November 2010.
- In February 2010, a new one-year c.£54m rail bonding arrangement was entered into to replace an arrangement that was due to expire in March 2010.
- In January 2010, a c.£50m bank facility was extended by two years to March 2012.
- In December 2009, £400m 5.75% 7-year sterling bonds were issued.
- In August 2009, a new 3.5-year c.£60m rail bonding arrangement was agreed to replace an arrangement that was due to expire in early 2010.
- New asset finance continued to be secured.

3.8.17 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 our reported financial performance and/or financial position. The discussion below should be read in conjunction with the full statement of accounting policies.

Taxation

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

Onerous contracts

The Group has a number of contractual commitments, most significantly in respect of its rail franchises. In certain circumstances, IFRS requires a provision to be recorded for a contract that is "onerous". 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 whether a contract is onerous and the amount of any provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value. There is uncertainty over the future cash flows from the Group's rail franchises. Estimates of cash flows are consistent with management's plans and forecasts. The estimate of future cash flows and the discount rate involves a significant degree of judgment. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Goodwill and impairment

In certain circumstances, IFRS requires property, plant, equipment and intangible assets to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant cash generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Group's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the CGU. Estimates of cash flows are consistent with management's plans and forecasts. The estimation of future cash flows and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Insurance

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

Pensions

The determination of the Group's pension benefit obligation and expense for defined benefit pension plans is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in note 28 to the consolidated financial statements and include among others, the discount rate, expected long-term rate of return on plan assets, annual rate of increase in future salary levels and mortality rates. A portion of the plan assets is invested in equity securities. Equity markets have experienced volatility, which has affected the value of the pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

Property, plant and equipment

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

Rail contractual positions

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

3.9 Current trading and outlook

Our Group has made a good start to this financial year to 30 April 2011 and current trading remains in line with our expectations. We have a strong portfolio of bus and rail businesses, and a robust financial position. Our strategy remains centred on organic growth and capitalising on targeted acquisition opportunities. We are looking to maximise the opportunities from consumer demand for good value products and sustainable forms of transport.

The Group is seeing improvement in revenue trends, consistent with economic recovery in both the UK and North America. Whilst the sustainability and pace of economic recovery remains uncertain, the outlook for the Group is positive. Coupled with the anticipated reduction in its fuel costs and the availability of revenue support at South Western Trains, the Group is well placed to deliver increased earnings in the year to 30 April 2011.

3.10 Principal risks and uncertainties

Like most businesses, there are a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

Generally, the Group is subject to risk factors both internal and external to its businesses. External risks include global political and economic conditions, competitive developments, supply interruption, regulatory changes, foreign exchange, materials and consumables (including fuel) prices, pensions funding, environmental risks, industrial action, litigation and the risk of terrorism. Internal risks include risks related to capital expenditure, acquisitions, regulatory compliance and failure of internal controls. Details of risk management procedures are given on page 27.

The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's performance.

3.10.1 Catastrophic events

There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises.

The Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the unlikely event that a major incident did occur, the Group has procedures in place for responding to such incidents.

3.10.2 Terrorism

There have been multiple acts of terrorism on public transport systems and other terrorist attacks that whilst not directly targeting public transport have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance. The Group has plans in place designed to reduce the financial impact of a terrorist incident and these plans take account of the Group's experience of managing the North American business during the period of depressed demand following the major terrorist attack on 11 September 2001.

3.10.3 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 GDP and Central London Employment. In North America, a greater proportion of the revenue is derived from tour, charter and sightseeing services than in the UK and these services tend to be more susceptible to economic changes. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.

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.

3.10.4 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 in sections 3.10.2 and 3.10.3) will impact profit in the UK Rail Division.

3.10.5 Sustainability of rail profits

A significant element of the Group's revenue and profit is generated by UK rail franchises. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises. 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.

3.10.6 Breach of franchise

The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues and cash flows. The Group may also lose some or all of the amounts set aside as security for the shareholder loan facilities, the performance bonds and the season ticket bonds. The Group can do more to prevent breaches of franchise where it has sole control than where it has joint control. As the holder of a 49% joint venture interest in Virgin Rail Group, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the Virgin Rail Group franchise agreement.

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.

3.10.7 Pension scheme funding

The Group participates in a number of defined benefit pension schemes. There is a risk that the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Any increase in contributions will reduce the Group's cash flows.

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.

3.10.8 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.

3.10.9 Regulatory changes and availability of public funding

Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects.

Similarly, many of the Group's businesses benefit from some form of financial support from government including direct financial support, the provision of equipment, government contracts and concessionary fare schemes. There is a risk that the availability of sufficient government financial support changes due to regulatory or other reasons. The new UK Government's stated policy to reduce spending has increased the likelihood of this risk crystallising. The UK Bus profit for the year ended 30 April 2010 included £80.0m of Bus Services Operators Grant, £230.0m of concessionary revenue and £106.3m of tendered and school bus revenue.

In the UK, the study of the UK bus market by the competition authorities is an example of a regulatory matter affecting our business. Whilst at this stage, we do not expect this to have a material impact on the Group's financial performance or financial position, we continue to monitor developments closely. We will also scrutinise European Commission proposals on passenger rights particularly where there is a potential financial impact on the Group.

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.

3.10.10 Management and Board succession

The Group values the continued services of its senior employees, including its Directors and management who have operational, marketing, engineering, technical, project management, financial and administrative skills that are important to the operation of the Group's business.

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 8.3) and the Board. The appropriate level of management deals with recruitment and retention of other staff.

3.10.11 Disease

There have been concerns in recent years about the risk of a swine flu pandemic, which follows previous concerns over bird flu and SARS. 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.

3.10.12 Treasury risks

Details of the Group's treasury risks are discussed in note 29 to the consolidated financial statements, and include the risks arising from movements in fuel prices.

3.11 Corporate social responsibility

The Group has published a separate corporate social responsibility document and provides additional information on its website so we have limited this section to providing a flavour of our approach to corporate social responsibility.

Responsible business remains central to what we do every day – from the principles that underpin our business, to the way we support our employees and the steps we take to engage with our stakeholders. We are committed to reporting on our performance and striving to keep on improving.

For nearly 30 years, Stagecoach has been a key part of communities around the world. As well as providing lifeline transport services and significant job opportunities, our Group is an integral part of local communities in the UK and North America. We want to grow our business in a sustainable way, enhancing the communities in which we operate and playing our part in meeting the global challenge of climate change.

People and partnership are at the heart of the way we do business. We provide greener, smarter travel for our customers, helping create a more inclusive society and providing attractive travel opportunities for people to live fuller lives and access work, education, healthcare, leisure and shopping.

Stagecoach Group is consistently rated highly against the other UK major transport groups in comparative studies examining social, environmental and ethical policies and performance.

Our corporate responsibility strategy focuses on a number of specific key areas:

- Our people
- Safety and security
- Accessibility and affordability
- Environmental performance
- Building community relationships
- Corporate governance
- Code of Business Conduct

Many stakeholders are involved in the success of our business and we work in partnership with a range of organisations in each of the markets where we provide public transport services. Further information on our stakeholders and how we build relationships with them can be found on our website at http://www.stagecoachgroup.com/scg/csr/stakeholders/

During the past 12 months, we have undertaken further initiatives to improve and make a difference in many of these areas. The information below provides just a few highlights of our commitment in action.

3.11.1 Supporting our people

Stagecoach has joined forces with the UK's largest independent hospital provider, BMI Healthcare, to launch a voluntary heart health screening programme for employees in our UK Bus division.

A state-of-the-art 'Healthy Heart Bus' – the first of its kind in the UK – is touring our bus depots, providing free heart health check-ups for thousands of staff. The double-decker vehicle has been specially designed and refurbished as a mobile cardio-screening unit equipped with patient consultation facilities and the latest exercise electrocardiogram ("ECG") equipment. Over the next three to four years, all Stagecoach UK Bus employees with more than three years' service will be given the opportunity to undergo a voluntary assessment of their cardiovascular health, receive individual advice on ways to improve their heart health and access further medical tests through their GP if required.

3.11.2 Promoting safety through partnership

We have continued our strong partnership with international development charity Transaid by providing vital driver training for bus and coach drivers in Zambia. Stagecoach has provided funding for Inverness-based Stagecoach driving instructor, Neil Rettie, to spend 12 months helping to improve driving standards in Zambia as part of Transaid's Professional Driver Training Project.

Road crashes are the third highest cause of premature death in Africa after HIV/AIDS and malaria. In Zambia, the Road Transport and Safety Agency estimates that road accidents cost the country around £167m each year, which equates to around 3% of Zambia's GDP. Many accidents can often be attributed to poor driving skills and poor vehicle maintenance, which Transaid's project is trying to address. Stagecoach's funding and practical assistance has delivered direct professional training for dozens of bus and coach drivers in Zambia, as well as providing support for the Zambian Road Transport and Safety Agency (RTSA) in developing and implementing its own curriculum.

In Scotland, funding by Stagecoach has seen every secondary school pupil in Aberdeenshire being issued with a credit card-sized torch as part of an initiative to urge youngsters to stay safe travelling to and from school. More than 12,500 Aberdeenshire pupils travel to school by bus every day, with many others being transported by car, walking or cycling. More child pedestrians are killed or seriously injured in Scotland than in the rest of the UK per head of the population. In September 2008, two young North-east school pupils were killed in separate incidents when they were hit by cars while crossing the road after getting off a school bus. Stagecoach is supplying all 15,500 pupils at the region's 17 secondary schools with the free flashcards to support Aberdeenshire Council's drive to improve road safety.

3.11.3 Affordable travel

During 2009-10, Stagecoach has extended the reach of its budget inter-city coach service, megabus.com, in both the UK and North America, providing travel from just £1 or $1 (plus booking fee) to many new destinations. megabusplus.com, our innovative budget coach and rail service, has grown in popularity and we are exploring the potential for extending the concept to further locations. As well as offering a range of train ticket options to suit customers' varying needs, our budget rail service, megatrain.com, gives passengers travel for as little as £1 to around 30 locations in the UK on the South West Trains, East Midlands Trains and Virgin Trains networks.

Stagecoach has now been officially recognised by independent transport consultants, TAS, for offering the best value bus fares of any major operator in Britain. TAS found that Stagecoach offers significantly lower commuter, leisure and shopping fares than the UK's other major transport groups and the average prices paid by Stagecoach customers were up to 30% less than First Group, Arriva, Go Ahead and National Express. The consultancy carried out a major national survey of fare levels in different markets up and down the country. On each journey type, Stagecoach was rated as offering the lowest average fares of any of the UK's "Big Five" bus companies, and consistently offered lower prices than independent operators.

3.11.4 Sustainable business

The Group launched a new sustainability strategy in April 2010 with a plan to reduce further the carbon emissions from its transport operations in the UK and North America. We are backing up the new strategy, Revolution in the Way We Travel, with an £11m investment programme and a range of targets for our bus and rail businesses.

Stagecoach Group is targeting an overall reduction of 8% in buildings CO_2e (carbon dioxide equivalent) emissions and a cut of 3% in annual fleet transport CO_2e emissions. It follows a reduction in the carbon intensity of its UK businesses of 5.7% in the three years to 30 April 2009. It is estimated the new five-year programme, from 2009-10 to 2013-14, will save a total of nearly 150,000 tonnes of CO_2e over the five year period, with the Group's annual emissions reduced by around 40,000 tonnes CO_2e by April 2014.

Our carbon reduction initiatives will include the introduction of eco-driving techniques and technology, a partnership project to introduce regenerative braking on trains, energy efficiency measures at our depots and workplaces, sourcing a significant proportion of our electricity from renewables, and communication programmes to raise awareness and encourage greener workplace practices.

Earlier this year, Stagecoach Group was awarded the prestigious Carbon Trust Standard, which covers all of our bus and rail operations in the UK. We are one of only two listed UK public transport operators to have achieved the stretching carbon reduction benchmark. We continue to report annually on our carbon emissions through our website, as well as through the Carbon Disclosure Project, the world's largest corporate greenhouse gas emissions database.

Stagecoach has won a number of awards in the past year for its environmental initiatives. It was named Best Green Travel Provider at the inaugural 2009 Scottish Green Awards as well as being recognised for the Best Green PR Campaign. The Group's groundbreaking BioBus initiative – which involves running buses on recycled cooking oil – was also a winner at the 2009 VIBES (Vision in Business for the Environment) of Scotland Awards.

3.11.5 Supporting community projects

We help local people share in our success by funding the vital work of local, national and international charities. During the year ended 30 April 2010, £0.6m (2009: £0.7m) was donated by the Group to help many worthwhile causes, including many health charities and local community projects. Our continuing partnership with the educational charity business dynamics is helping encourage young people to understand and get more involved in business. We are supporting the work of PiggyBankKids to give children in the UK the best possible chance of living a healthy and happy life. We also provide matched funding to complement many fund-raising activities by our employees for national campaigns or local good causes.

3.11.6 Corporate Governance

Stagecoach Group is committed to the principles of good corporate governance. The Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group by ensuring conformance with the Combined Code on Corporate Governance. The Group's corporate governance arrangements include appropriate management structures, Board and committee composition, commitments on disclosure, performance evaluation, remuneration, shareholder relations, risk management and internal control, the employment of external auditors and the operation and oversight of the Group's pension schemes. More details of these arrangements are provided in section 6 and on our Group website at http://www.stagecoachgroup.com/scg/about/corpgov/

3.11.7 Code of Business Conduct

We have a clear set of values that underpin our business and are firmly embedded in our Group's culture. Our Code of Business Conduct confirms our core values and policies in a number of areas: how we deal with our employees, suppliers, customers, competitors, and the wider communities in which we work. These values apply to every director, manager and employee in all our companies across our global operations. A copy of our Code of Business Conduct is available online at http://www.stagecoachgroup.com/scg/media/publications/policydocs/codeofconduct.pdf

We are currently reviewing and updating the Code of Business Conduct and expect to publish the updated version later in 2010.

3.11.8 Further information

Full details of our corporate social responsibility strategy and further case studies can be found on the Stagecoach Group website at http://www.stagecoachgroup.com/scg/media/publications/policydocs/csr-strategy.pdf

A copy of the Group's sustainability strategy is available online at http://www.stagecoachgroup.com/scg/media/publications/policydocs/sustainability_strategy_v2.pdf.

Annual updates on our environmental measures and performance are available at http://www.stagecoachgroup.com/scg/csr/environment/performance/

4 Directors' biographies

Details of corporate governance, including the operation of the Board of Directors, are given in section 6 of this Annual Report. A brief biography of each director is given below.

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Executive Directors

4.1 Brian Souter

Position: Chief Executive

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

Age: 56

Committee Membership: None

External appointments: None

Previous experience: A Chartered Accountant, Brian Souter co-founded Stagecoach, which won Scottish plc of the year 2008. Brian Souter was named Businessman of the year at the Insider Elite Awards 2004.

Executive responsibilities: Brian Souter is the architect of the Group's strategy and philosophy. He has extensive knowledge of the ground transportation industry around the world and is responsible for managing all of the Group's operations.

4.2 Martin Griffiths

Position: Finance Director

Appointment to the Board: 2000

Age: 44

Committee Membership: Pension Oversight and Health, Safety and Environmental

External appointments: Virgin Rail Group (Co-Chairman), Robert Walters plc (Non-Executive Director), Troy Income & Growth Trust Plc (previously Glasgow Income Trust plc) (Non-Executive Director).

Previous experience: A Chartered Accountant, Martin Griffiths is a member and former Chairman of the Group of Scottish Finance Directors and former Director of Trainline Holdings Limited, Road King Infrastructure (HK) Limited and Citybus (HK) Limited. He was Young Scottish Finance Director of the Year in 2004.

Executive responsibilities: Martin Griffiths is responsible for the Group's overall financial policy, taxation, treasury, employee benefits and pensions management. He supports the Chief Executive in all aspects of the management of the operations and new business development.

Non-Executive Directors

4.3 Robert Speirs

Position: Non-Executive Chairman

Appointment to the Board: 1995

Age: 73

Committee Membership: Nomination (Chair)

External appointments: None

Previous experience: Member of the Board since 1995 and Non-Executive Chairman since 2002. Previously a Group Finance Director of the Royal Bank of Scotland plc, Chairman of the Miller Group Limited and Non-Executive Director of Securysis Ltd.

4.4 Ewan Brown CBE

Position: Non-Executive Director

Appointment to the Board: 1988

Age: 68

Committee Membership: Pension Oversight (Chair) and Nomination

External appointments: Noble Grossart Holdings Ltd (Non-Executive Director), Creative Scotland 2009 Limited (Chairman), Senior Governor of St Andrews University, Deputy Chair of the Edinburgh International Festival.

Previous experience: Executive Director of Noble Grossart until 2003, a former Chairman of TIE and Lloyds TSB Scotland and Non-Executive Director of the Wood Group and Lloyds Banking Group plc.

4.5 Iain Duffin OBE

Position: Non-Executive Director

Appointment to the Board: 2001

Age: 63

Committee Membership: Remuneration (Chair), Audit and Health, Safety and Environmental

External appointments: Origo Services (Non-Executive Chairman) and Scottish Leather Group (Non-Executive Director).

Previous experience: Executive positions with a number of organisations including Macfarlane Group plc, Lucas Varity plc, ITT Corporation and Hughes Aircraft.

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4.6 Ann Gloag OBE

Position: Non-Executive Director

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

Age: 67

Committee Membership: Health, Safety and Environmental

External appointments: Mercy Ships (International Board Member)

Previous experience: Ann Gloag co-founded Stagecoach and served as Executive Director until 2000.

4.7 Sir George Mathewson

Position: Non-Executive Director

Appointment to the Board: 2006

Age: 70

Committee Membership: Remuneration and Nomination

External appointments: Cheviot Asset Management (Chairman), Arrow Global Limited (Chairman), Council of Economic Advisers to the Scottish Parliament (Chairman), member of Banco Santander International Advisory Board, Royal Botanic Garden Edinburgh Board of Trustees (Chairman).

Previous experience: Former Chairman of the Royal Bank of Scotland Group plc. Former Chief Executive of the Scottish Development Agency (now Scottish Enterprise). Former Director of Scottish Investment Trust plc. Former member of the Board of Directors of the Institute of International Finance. Former member of the Financial Reporting Council. Former Chairman of Wood Mackenzie Limited. Past President of the International Monetary Conference.

4.8 Dr Janet Morgan CBE

Position: Non-Executive Director (Senior Independent)

Appointment to the Board: 2001

Age: 64

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

External appointments: Nuclear Liabilities Fund (Chairman), Nuclear Liabilities Financing Assurance Board (Chairman), Albion Enterprise VCT plc (Non-Executive Director), Scottish Oriental Smaller Companies Investment Trust (Non-Executive Director).

Previous experience: Former member of the Central Policy Review Staff of the Cabinet Office.

4.9 Garry Watts

Position: Non-Executive Director

Appointment to the Board: 2007

Age: 53

Committee Membership: Audit (Chair), Remuneration and Nomination

External appointments: SSL International plc (Chief Executive).

Previous experience: A Chartered Accountant, Garry Watts is a former Non-Executive Director of Medicines and Healthcare Regulatory Authority and Protherics plc and Executive Director of Celltech plc, Finance Director of Medeva plc and partner with KPMG.

4.10 Helen Mahy

Position: Non-Executive Director

Appointment to the Board: 2010

Age: 49

Committee Membership: Health, Safety and Environmental

External appointments: National Grid plc (Group Company Secretary and General Counsel, member of Executive Committee).

Previous experience: Former Non-Executive Director of Aga Rangemaster Group plc and Group General Counsel and Company Secretary of Babcock International Group PLC.

4.11 Phil White CBE

Position: Non-Executive Director

Appointment to the Board: 2010

Age: 60

Committee Membership: None

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

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

5. Directors' report

5.1 Principal activity

The Group's principal activity is the provision of public transport services in the UK and North America. A fuller description of the Group's business is provided in section 3.3 of this Annual Report.

5.2 Business review

The Group is required to produce a business review complying with the requirements of the Companies Act 2006. The Group has complied with these minimum requirements as part of the Operating and Financial Review, which also provides significant information over and above the statutory minimum. The Operating and Financial Review, which forms part of the Directors' report, is contained in section 3 of this Annual Report.

5.3 Group results and dividends

The results for the year are set out in the consolidated income statement on page 41.

A first interim dividend of 2.0p per ordinary share was paid on 3 March 2010 and a second interim dividend of 4.5p per ordinary share was paid on 31 March 2010. The Directors do not recommend a final dividend in respect of the year ended 30 April 2010 because a second dividend was already paid during the year.

5.4 Directors and their interests

The names, responsibilities and biographical details of the Directors appear on pages 18 and 19. Their participation in full Board meetings and meetings of committees is given in the Corporate governance report on page 26.

The following directors will be proposed for election or re-election at the 2010 Annual General Meeting:

Name of director	**Reason for proposal**
Ewan Brown	Offered for annual re-election in recognition of the factors suggested by the Combined Code for determining independence.
Helen Mahy	Appointed to the Board on 1 January 2010 and now proposed for election by the shareholders.
Ann Gloag	Non-Executive Director that the Board does not regard as independent and who is therefore offered for annual re-election.
Robert Speirs	Chairman who is offered for annual re-election.
Garry Watts	Retires by rotation at the Annual General Meeting in accordance with the Articles of Association and is offered for re-election.
Phil White	Appointed to the Board on 1 June 2010 and now proposed for election by the shareholders.

The Board reviews the development plans for the Board at least annually as part of its performance evaluation. The assessment involves a consideration of the balance of skills, knowledge and experience of the Directors. The Board also considers whether the Directors have sufficient time to properly discharge their duties, which includes a consideration of any other appointments that each director has. The proposed re-elections and elections of directors are consistent with the results of the Board's assessment. The Board believes that the performance of each of these directors continues to be effective and that they continue to demonstrate commitment to their respective roles. The Board therefore considers it is appropriate that each of these directors be elected or re-elected at the 2010 Annual General Meeting.

The Listing Rules of the Financial Services Authority (LR 9.8.6 R(1)) require listed companies such as Stagecoach to disclose in their Annual Reports the interests of each director. The Directors' interests set out in Tables A and B below 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 Services Authority. Accordingly, the interests of Brian Souter and Ann Gloag shown below do not represent their voting rights determined in accordance with the Disclosure and Transparency Rules which as at 30 April 2010, including vested but unexercised options, were 99,651,620 (2009: 99,066,464) and 66,426,031 (2009: 66,426,031) respectively.

TABLE A	Number of ordinary shares	
	30 April and 23 June 2010	30 April and 24 June 2009
Brian Souter	108,574,304	108,221,606
Martin Griffiths	200,160	19,350
Ewan Brown	See below	See below
Iain Duffin	22,359	22,359
Ann Gloag	78,125,900	78,105,900
Sir George Mathewson	35,800	35,800
Helen Mahy (appointed 1 January 2010)	5,691	Nil
Janet Morgan	1,323	1,323
Robert Speirs	19,414	19,414
Garry Watts	20,000	20,000
Phil White (appointed 1 June 2010)	Nil	Nil

TABLE B	Number of ordinary shares under option and/or Executive Participation Plan units	
	30 April and 23 June 2010	30 April and 24 June 2009
Brian Souter	449,543	657,881
Martin Griffiths	324,162	245,633

Ewan Brown has an indirect interest in the share capital of the Company. He and his connected parties own approximately 22% (2009: 22%) of the ordinary shares of Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 4,084,999 shares in the Company at 30 April and 23 June 2010 (2009: 4,084,999).

No Non-Executive Director had an interest in share options or the Executive Participation Plan at 30 April 2009, 24 June 2009, 30 April 2010 and 23 June 2010.

In addition to their individual interests in shares, Brian Souter and Martin Griffiths are potential beneficiaries of the Stagecoach Group Employee Benefit Trust 2003, which held 2,003,075 (2009: 4,153,570) ordinary shares of 56/57th pence each as at 30 April 2010. Martin Griffiths is also a potential beneficiary of the Stagecoach Group Qualifying Employee Share Trust ("QUEST"), which held 333,372 (2009: 333,372) ordinary shares of 56/57th pence each as at 30 April 2010. Full details of options and other share based awards held by the Directors at 30 April 2010 are contained in the Directors' remuneration report on pages 32 to 38.

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

5.5 Indemnification of directors and officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors. In accordance with the Company's Articles of Association, and as 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 offices. In May 2010, the indemnities were extended to the fullest extent permitted by law.

5.6 Substantial shareholdings

By 23 June 2010 (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 5.4 of this report):

Standard Life Investments Ltd	3.97%
JPMorgan Chase & Co.	4.74%
Legal & General Group plc	3.99%
Blackrock Inc	4.90%
Aegon UK Group of Companies	4.09%

5.7 Employment policies

The Group employs around 30,000 people.

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and to maintain and, where possible, improve operational performance. The Group is also committed to providing equality of opportunity to employees. This applies to appropriate training, career development and promotion opportunities for all employees regardless of physical disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. The Group gives full consideration to applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The Group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes. There have been several invitations to UK employees to subscribe to the Group's Sharesave ("SAYE") scheme, all of which have met with encouraging levels of response.

The Group periodically arranges meetings that bring together representatives from management and trade unions. Discussions take place regularly with the trade unions representing the vast majority of the Group's employees on a wide range of issues. The Group also produces a range of internal newsletters and information circulars that keep employees abreast of developments. Employees are encouraged to discuss matters of interest to them and subjects affecting day-to-day operations of the Group with management.

The Group is committed to developing a culture of openness across all its businesses and ensuring the highest standards of probity and accountability. The Board actively encourages employees with serious concerns about the interests of others or the Group to come forward. The Group has a policy in place called "speaking up" which is designed to ensure processes exist whereby employees can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage.

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group or as the case may be, the Company, will continue in business.

The Directors are responsible for the maintenance and integrity of financial information on the Company's corporate website, www.stagecoachgroup.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 4 of the annual report confirm that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report contained in sections 3 to 5 of this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

5.9 Conflicts of interest

Under the Companies Act 2006, from 1 October 2008 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. At the Group's 2008 AGM, a new article was adopted which gave the Directors authority to approve conflict situations including other directorships held by the Directors.

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

From the period since 1 October 2008, being the date that this new provision came into force, 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.

5.10 Suppliers payment policy and practice

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions, and to abide by those terms based on the timely submission of satisfactory invoices. The policies followed by each of the major UK operating subsidiaries are disclosed in the financial statements of those companies. The Company normally settles trade creditors on 30 to 45 day terms. For the Group as a whole, the trade creditors outstanding at the year end represented 35 days' purchases (2009: 39 days).

5.11 Land and buildings

In the opinion of the Directors, there is no material difference between the open market value of the Group's interest in land and buildings and its net book value.

5.12 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 29 to the consolidated financial statements.

5.13 Charitable and political contributions

The Group made charitable donations of £0.6m (2009: £0.7m) during the year.

It is the Group's policy not to make political contributions and, accordingly, there were no contributions for political purposes during the year (2009: £Nil).

5.14 Authority for company to purchase its own shares

At the 2009 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 60,000,000 of its ordinary shares. During the year, no ordinary shares were repurchased. Under the existing authority, the Company may therefore repurchase up to 60,000,000 ordinary shares. This authority will expire at the conclusion of the 2010 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 10% of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2009 Annual General Meeting and will lapse at the conclusion of the 2011 Annual General Meeting.

5.15 Shareholder and control structure

At 30 April 2010, the Company's issued share capital comprised two classes of shares, referred to as "ordinary shares" and "B shares".

As at 30 April 2010, there were 720,066,186 (2009: 719,478,434) ordinary shares in issue with a nominal value of 56/57th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned.

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Group require the approval of the Company to deal in the Company's securities; and
- shares held by employee benefit trusts may only be transferred by those trusts in accordance with the relevant trust deeds.

None of the ordinary shares in issue provide the holders with special control rights.

As at 30 April 2010, there were 5,187,055 (2009: 8,527,488) B shares in issue with a nominal value of 63 pence each.

The holders of the B shares are entitled to payment of a non-cumulative preferential dividend paid twice yearly in arrears on 31 May and 30 November calculated at a pre-specified annual rate expressed as 70% of LIBOR for six month deposits in pounds sterling on the nominal amount per B Share. The holders of B Shares are entitled to payment of their dividend in priority to any payment of dividend or other distribution to ordinary shareholders and before any profits are carried to reserves. Furthermore, on a return of capital on a winding up, the holders of any unredeemed B Shares are entitled to the amount paid up or treated as paid up on the nominal value of each B Share plus the relevant proportion of any dividend payable on those B Shares before any payment to ordinary shareholders. The holders of the unredeemed B Shares shall not be entitled to any further right of participation in the assets of the Company. The holders of the unredeemed B Shares are not entitled to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting. The holders of any unredeemed B Shares will have the opportunity to redeem their B Shares twice yearly on 31 May and 30 November. The Company may now also redeem the B Shares at their nominal value at any time.

Section 5.6 of this Directors' report gives details of any shareholders (other than the Directors) that hold major interests in the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 5.4 of this Directors' report. Two directors of the Company, Brian Souter and Ann Gloag, who are siblings were interested in 25.9% of the ordinary shares in issue as at 30 April 2010 (2009: 25.9%). The other directors of the Company held less than 0.1% of the ordinary shares in issue as at 30 April 2010 (2009: less than 0.1%).

In addition to the Directors' individual interests in shares, two employee benefit trusts held a further 0.3% of the ordinary shares in issue as at 30 April 2010 (2009: 0.6%). The shares held by the trusts are for the benefit of employees of the Group, and the voting rights are exercised by the trustees.

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 appointed 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 appointment 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 an ordinary resolution at a general meeting of holders of ordinary shares. Section 5.14 of this Directors' report sets out the current authority for the Company to purchase its own shares.

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

- The Group operates the South Western Trains and East Midlands Trains rail franchises. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these three franchises each contain provisions that would enable the Department for Transport to terminate the franchises on a change of control of the franchise.
- Each of the three rail franchises referred to above lease trains. The leases generally contain termination rights for the benefit of the lessor on a change of control of the Group.
- The Group's bank facilities contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Group's arrangements with surety companies for the issue of rail performance bonds and season ticket bonds would terminate following a change of control of the Group.
- The Company's £400m 5.750% Guaranteed Bonds due 2016 contain provisions that would require repayment of the outstanding bonds following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.

The impact of a change of control of the Group on remuneration arrangements is explained in section 10.19.

5.16 Disapplication of pre-emption rights

The Company seeks approval at least annually from its shareholders for the disapplication of pre-emption rights. The approval sought is generally to disapply pre-emption rights in respect of the issue of equity securities for cash up to approximately 5% of those in issue. The following ordinary shares have been issued on a non pre-emptive basis over the last five years:

Year ended 30 April	Shares issued on a non pre-emptive basis	Shares in issue at start of year	Shares issued on a non pre-emptive basis as a percentage of shares in issue
2010	587,752	719,478,434	0.1%
2009	1,333,135	718,145,299	0.2%
2008	10,360,416	1,100,998,707	0.9%
Total last 3 years	12,281,303		1.2%
2007	7,398,394	1,093,600,313	0.7%
2006	24,055,086	1,069,545,227	2.2%
Total last 5 years	43,734,783		4.1%

The non pre-emptive issues by reason are summarised below:

Year ended 30 April	Issued in connection with employee share schemes	Issued as non-cash consideration to acquire businesses	Total
2010	587,752	Nil	587,752
2009	1,333,135	Nil	1,333,135
2008	10,360,416	Nil	10,360,416
Total last 3 years	12,281,303	Nil	12,281,303
2007	7,398,394	Nil	7,398,394
2006	20,033,016	4,022,070	24,055,086
Total last 5 years	39,712,713	4,022,070	43,734,783

At 30 April 2010, the Company had 720,066,186 ordinary shares in issue. The cumulative shares issued on a non pre-emptive basis as a percentage of the ordinary shares in issue at 30 April 2010 were:

Year ended 30 April 2010	0.1%
Three years ended 30 April 2010	1.7%
Five years ended 30 April 2010	6.1%

During the year ended 30 April 2008, the ordinary shares of the Company were consolidated with 9 shares issued for every 14 shares previously held. No adjustments have been made to the shares issued as shown in the table above to take account of the consolidation.

5.17 Post balance sheet events

On 31 May 2010, holders of 723,770 redeemable 'B' preference shares elected to have these shares redeemed leaving 4,463,285 redeemable 'B' preference shares in issue.

In the 2010 budget on 22 June 2010, the UK Government announced its intention to reduce the UK corporate income tax rate from 28% to 24% by 1% per annum over a four-year period. At 30 April 2010, no change in the rate of tax was substantively in law, but a 1% decrease in the rate to 27% is expected to be enacted in the year ending 30 April 2011. Had this change of rate to 27% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in deferred tax liabilities of £0.7m, from £19.2m to £18.5m.

5.18 Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. As part of the assessment of going concern, executive management provided a paper to the Audit Committee covering matters such as financial projections, sensitivity analysis, available debt facilities, credit ratings, financial risk management and bank covenants. The Board's assessment of going concern takes account of its view of the principal business risks facing the Group. Section 3.8.9 of this Annual Report comments on liquidity, a key element of the Directors' assessment of going concern.

5.19 Auditors

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

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

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Directors be authorised to fix the remuneration of the auditors.

By order of the Board

Ross Paterson
Company Secretary

23 June 2010

6. Corporate governance report

6.1 Introduction

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group in conformity with the Combined Code on Corporate Governance ("the Combined Code").

This section of the report discusses Stagecoach Group's corporate governance arrangements and management structures. It also includes the disclosures recommended by the Combined Code, and describes how the principles of good corporate governance that are set out in the Combined Code have been applied. In line with best practice, separate reports are provided from each of the Audit Committee, Nomination Committee, Health, Safety and Environmental Committee and Remuneration Committee.

Corporate governance is again under intense focus in light of recent, perceived governance failures, particularly in the financial services sector. The Stagecoach Board remains committed to maintaining a corporate governance structure appropriate to the Group and its strategy. Good corporate governance remains central to delivering our objectives in the areas of safety, risk management, shareholder value, financial performance, organic growth, service delivery and staff. As explained later in this report, we have again undertaken a review of the effectiveness of the Board and its Committees and we consider the corporate governance structure to remain appropriate for the Group.

6.2 Compliance with the Combined Code

The Financial Reporting Council ("FRC") issued the current edition of the Combined Code in June 2008, which applies to accounting periods beginning on or after 29 June 2008 and is available on the FRC's website at http://www.frc.org.uk/corporate/combinedcode.cfm. The Directors believe that throughout the year ended 30 April 2010 the Group has complied with all of the recommendations of the Combined Code. The Group also complies with the corporate governance requirements of the Financial Services Authority's Listing Rules, and Disclosure and Transparency Rules.

In May 2010, the FRC renamed the Combined Code as the UK Corporate Governance Code and made changes to it. This new edition of the Code will apply to financial years beginning on or after 29 June 2010 and the Company will consider what changes are appropriate to its own corporate governance arrangements in light of the new edition.

6.3 Composition of the Board

The Company's Board now comprises the following directors:

	Date of appointment (if later than 1 May 2009)	Planned date to leave Board	Proposed for re-election at 2010 AGM	Proposed for election at 2010 AGM
Directors that will remain on the Board after 30 June 2010				
Robert Speirs			✓	
Ewan Brown			✓	
Helen Mahy	1 January 2010			✓
Sir George Mathewson				
Garry Watts			✓	
Phil White	1 June 2010			✓
Ann Gloag			✓	
Brian Souter				
Martin Griffiths				
Directors that will leave the Board on 30 June 2010				
Iain Duffin		30 June 2010		
Janet Morgan		30 June 2010		

The Combined Code suggests that independent non-executive directors should make up at least half of the Board (excluding the Chairman). From 1 May 2009 to 31 December 2009, the Company's Board comprised nine directors. From 1 January 2010 to 30 April 2010, the Company's Board comprised ten directors. From 1 July 2010, the Company's Board will comprise nine directors. Excluding the Chairman, the Board considers that five of these directors are independent non-executive directors, as follows:

		Independent Chairman	Independent Non-Executive Director	Other Director
Robert Speirs	Chairman	✓		
Ewan Brown	Non-Executive Director		✓	
Helen Mahy	Non-Executive Director		✓	
Sir George Mathewson	Non-Executive Director		✓	
Garry Watts	Non-Executive Director		✓	
Phil White	Non-Executive Director		✓	
Ann Gloag	Non-Executive Director			✓
Brian Souter	Chief Executive			✓
Martin Griffiths	Finance Director			✓

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

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

Ewan Brown, one of the five independent non-executive directors shown in the above table, has served on the Board since 1988 and is a non-executive director of Noble Grossart, which is an advisor to the Company. The Company recognises and understands investor concerns over longer-serving non-executive directors but nevertheless continues to regard Ewan Brown as independent. Ewan Brown's long association with the Group enables him to provide a robust and effective challenge to management because of the sound and detailed knowledge of the Group's business that he has developed. The Board believes that Ewan Brown's length of service, when taken in the context of the Board as a whole, enhances his effectiveness as a non-executive director and that he remains independent in character and judgement. In recognition of the factors suggested by the Combined Code for determining independence, Ewan Brown stands for annual re-election as a director. In addition, Ewan Brown does not serve on the Remuneration Committee or the Audit Committee.

6.4 Operation of the Board

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

The Chairman ensures that meetings of the Board and shareholders are properly conducted and is responsible for setting and moving forward the Board's agenda. Leadership of the Board (by the Chairman) is not the same as the leadership required (from the Group Chief Executive) to turn the Board's strategic and policy decisions into actions. The Group Chief Executive has day-to-day responsibility for all business of the Group and carries out the agreed strategy and policies of the Board. The split of the Chairman's and Chief Executive's responsibilities is in writing and has been approved by the Board.

The Directors' biographies appear on pages 18 and 19 of this Annual Report

and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Non-Executive Directors bring an independent viewpoint and create an overall balance.

The Executive and Non-Executive Directors have a complementary range of experience that ensures no one director or viewpoint is dominant in the decision-making process. The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors, led by the Senior Independent Non-Executive Director, 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.

All the Directors submit themselves for election by shareholders at the Annual General Meeting following their appointment and all the Directors are required to stand for re-election by shareholders at least every three years. Non-Executive Directors, including the Chairman, who are not considered by the Board to be independent, or are considered independent but have served on the Board for more than nine years, submit themselves for annual re-election.

Each director receives induction training on appointment and subsequently such training or briefings as are considered necessary to keep abreast of matters affecting their roles as directors. Training can encompass environmental, social and governance matters. The Chairman endeavours to ensure that all the Directors (including any newly appointed directors) attend the Annual General Meeting, providing an opportunity for shareholders to meet the Directors and to address questions to them.

The number of full Board meetings during the year was seven. The full Board typically meets once a year at an operational location and regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. In May 2010, the Board visited the Group's bus operations in Cambridgeshire. Some of the Directors also attended health and safety meetings of operating companies during the year.

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 2010 included:

- Evaluating the potential opportunity to acquire all or parts of National Express Group plc;
- Assessing the Group's overall strategy in light of developments in the bus and rail sector;
- Reviewing the Group's financing arrangements, including considering of the issue of a new corporate bond that was completed in December 2009;
- In conjunction with the Group's management, monitoring the financial performance of the Group during weaker macroeconomic conditions and determining appropriate responses, particularly in the UK Rail Division;
- Monitoring the progress of the South Western Trains arbitration and;
- Reviewing the composition of the Board and agreeing the appointment of new directors.

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.

6.5 Operational management of the Group

The Board delegates the operational management of the Group to the Group Chief Executive and Group Finance Director ("Executive Directors"). The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-board senior management. There are three principal operating divisions (UK Bus: headed by a Managing Director, North America: headed by two Chief Operating Officers and UK Rail: headed by a Chief Executive up until he left the Group on 28 February 2009 and since then headed by the Executive Directors) which each comprise a varying number of autonomous business units, each headed by a chairman or managing director who is responsible for the day-to-day performance of the business unit. Each chairman or managing director is supported by his/her own management teams.

A Rail Business Development Committee, comprising the Executive Directors and other senior management, oversees the performance and development of the Group's rail business, including bidding on new rail franchises.

A Chief Executive heads the Group's joint venture, Virgin Rail Group. The Group has two representatives on the Board of Virgin Rail Group. Similarly, the Group has three representatives on the Board of Twin America LLC, which is headed by a chief executive.

6.6 Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Senior Independent Non-Executive Director co-ordinates the Board's assessment of the performance of the Chairman. As part of the assessment process, the Non-Executive Directors meet without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present. The Chairman obtains feedback from each individual director on the performance of the Board and other Board members – this involves the completion of a questionnaire and a follow-up discussion. In the same way, the Senior Independent Non-Executive Director obtains feedback from each individual director on the performance of the Chairman. A similar process is undertaken to assess the performance of each of the Board's committees.

The Directors have reviewed the effectiveness of the Board as a whole and its committees. Each director has assessed the effectiveness of the Board and each committee of which he or she is a member.

The assessment of effectiveness included consideration of:

- The effectiveness of the formal Board and committee meetings;
- The nature and extent of the Board's interaction with the management of the Group;
- The timeliness, relevance and accuracy of the information provided to the Board and its committees;
- The allocation of the Board's time between differing priorities including the time spent on strategic considerations relative to other matters; and
- The composition of the Board and its committees.

The Board has considered the results of these assessments and has concluded that overall the Board and its committees continue to operate in an effective and constructive manner.

Succession planning in respect of the Directors was previously identified from the assessment of effectiveness as a key area where focus was required and the appointments of Helen Mahy and Phil White during the last six months reflect the attention given to refreshing the composition of the Board. Succession planning for the Chairman has been identified as an important area and the Nomination Committee is overseeing the plans in this regard.

6.7 Composition of Committees

The composition of the various Board Committees has been updated to reflect the changes in the composition of the Board, as summarised below:

Audit Committee

Number of members of Committee: 3

All members are independent Non-Executive Directors.

Chairman and designated member with recent and relevant financial experience

Garry Watts

Other members

Iain Duffin	Until 30 June 2010
Helen Mahy	From 30 June 2010
Janet Morgan	Until 30 June 2010
Phil White	From 30 June 2010

Remuneration Committee

Number of members of Committee: 3

All members are independent Non-Executive Directors.

Chairman

Iain Duffin	Until 30 June 2010
Sir George Mathewson	From 30 June 2010

Other members

Sir George Mathewson	Chairman from 30 June 2010
Garry Watts	
Phil White	From 30 June 2010

Nomination Committee

Number of members of Committee: 4 (except for the period from 26 February 2010 until 30 June 2010, when there has been and will be 5 members)

All members are independent Non-Executive Directors except Robert Speirs who is Chairman of the Company.

Chairman

Robert Speirs

Chairman for succession planning in respect of the Chairman of the Company

Ewan Brown

Other members

Sir George Mathewson	
Janet Morgan	Until 30 June 2010
Garry Watts	From 26 February 2010

Health, Safety and Environmental Committee

Number of members of Committee: 4 (except for the period from 1 January 2010 until 30 June 2010, when there has been and will be 5 members)

Chairman

Janet Morgan	Until 30 June 2010
Helen Mahy	From 30 June 2010

Other members

Martin Griffiths	
Iain Duffin	Until 30 June 2010
Ann Gloag	
Helen Mahy	From 1 January 2010 and Chairman from 30 June 2010
Phil White	From 30 June 2010

6.8 Reports from the Committees

Reports from each of the Committees of the Board are set out on pages 29 to 38 of this Annual Report.

6.9 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by director during the year ended 30 April 2010:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee		Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Robert Speirs	7	7	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Brian Souter	7	7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1	1
Martin Griffiths	7	7	n/a	n/a	n/a	n/a	4	4	n/a	n/a	1	1
Ewan Brown	7	7	n/a	n/a	n/a	n/a	n/a	n/a	1	1	1	1
Iain Duffin	7	7	3	3	3	3	4	4	n/a	n/a	1	1
Ann Gloag	6	7	n/a	n/a	n/a	n/a	3	4	n/a	n/a	1	1
Helen Mahy	1	1	n/a	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a
Sir George Mathewson	7	7	n/a	n/a	3	3	n/a	n/a	1	1	1	1
Janet Morgan	7	7	3	3	n/a	n/a	4	4	1	1	1	1
Garry Watts	7	7	3	3	3	3	n/a	n/a	n/a	n/a	1	1
Phil White	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

6.10 Relations with shareholders

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

The programme of investor relations includes presentations in London of the full-year and interim results and meetings with institutional investors in the UK and overseas. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are being effectively communicated and shareholder objectives are known. Written responses are given to letters or e-mails received from shareholders and all shareholders can receive annual reports.

The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants. The Senior Independent Non-Executive Director is available to shareholders where contact through the normal channels is inappropriate, or has failed to resolve concerns.

Private and institutional 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, including the chairmen of the Audit, Remuneration, Nomination and Health, Safety and Environmental Committees are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. Resolutions are proposed annually in respect of the financial statements and the Directors' remuneration report. At each Annual General Meeting, the Chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution, and the number of votes withheld. Details of the proxy votes are also published on the Group's website at http://www.stagecoachgroup.com/scg/ir/shareholder/agm/. The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

6.11 Risk management

The Group has an ongoing process for identifying, evaluating and managing the significant risks that it faces. The Board regularly reviews the process, and the Board considers that the process accords with the Turnbull Guidance on internal control.

The principal risks and uncertainties facing the Group are discussed on pages 15 and 16.

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. Although the system can provide only reasonable and not absolute assurance of material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that any risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

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

The Group's risk management process was embedded throughout the businesses for the whole of the financial year ended 30 April 2010 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 internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit.

Self-assessment of risk conducted by the Directors and senior management is ongoing and has been considered at several levels, with each division maintaining a separate risk profile.

The Group Risk Assurance (or internal audit) function, which is outsourced to and managed by Deloitte LLP, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented. A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving where possible the Group's risk management process in the context of the Group's overall goals.

The Audit Committee reviews Group Risk Assurance plans, as well as external audit plans and any business improvement opportunities that are recommended by the external auditors.

Virgin Rail Group has its own audit committee and internal audit function. The Group's risk management process does not specifically cover Virgin Rail Group, but the Group maintains an overview of Virgin Rail Group's business risk management process through representation on the board and audit committee. Stagecoach management representatives also meet regularly with representatives of Virgin Rail Group to ensure that the joint venture follows appropriate risk management procedures.

6.12 Internal control

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

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities. All budgets are presented to a panel consisting of executive directors and/or senior managers by each business unit's management team, before being approved by the Board.
- reporting of financial information to the Board encompassing income statement, cash flow, balance sheet and key performance indicators. Group management monitors the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically by the Group of areas where significant inherent risks have been identified, such as health and safety, treasury management, insurance provisioning, pensions strategy and competition policy.
- a decentralised organisational structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- control over the activities of joint ventures and associated undertakings 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 covers the Group's senior management and is based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis is placed on cash flow management. Bank balances are reviewed on a daily basis and cash flows are compared to budget on a four-weekly basis.
- regular 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.

A number of minor internal control weaknesses that these procedures identified will be monitored and addressed in the normal course of business. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report. This process is considered to be an integral part of the maintenance and improvement of our risk management procedures.

6.13 Process for preparing consolidated financial statements

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

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept 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 workpapers for material joint ventures and associates that are audited by a different firm of auditors.

6.14 Pension schemes

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

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

7. Audit Committee report

7.1 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 6.7. Garry Watts is the current Chairman of the Audit Committee and is a Chartered Accountant, a former audit partner, a former Finance Director and a serving Chief Executive of a FTSE 350 company, and therefore is competent in both accounting and auditing. The designated Committee member with recent and relevant financial experience is therefore Garry Watts. Phil White, who joins the Committee on 30 June 2010, is a former Finance Director and former Chief Executive of a FTSE 350 company and is also a Chartered Accountant.

7.2 Operation of the Audit Committee

The Audit Committee met three times during the year and has met a further two times in May and June 2010. 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 Company Secretary;
- The Deputy Company Secretary, who is Secretary to the Committee;
- Representatives from the external auditors;
- Representatives from the Risk Assurance Function.

In addition, the Group Tax Director is expected to present to the Committee at least annually.

Other directors, including the Chairman of the Company, are also welcome to attend meetings of the Committee and do so from time to time.

The Committee receives reports from major business functions including the Risk Assurance Function (internal audit), which is outsourced and managed by Deloitte. It also receives reports from the external auditors. It considers the scope and results of the audit, the half-year and annual financial statements and the accounting and internal control systems in place throughout the Group. The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at
http://www.stagecoachgroup.com/scg/csr/corpgov/committees/audit.pdf

7.3 Review of External Auditors

The Audit Committee has responsibility delegated from the Board for making recommendations on the appointment, reappointment, removal and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 per annum which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

The Committee formally assesses the effectiveness of the external audit process on an annual basis.

Whilst the Group has no set frequency for tendering the external audit, the Group's external audit was last tendered in 2002 and resulted in a change of external auditors. The audit engagement partner last changed in 2006. The Group is not aware of any restrictions that would limit its choice of external auditors.

The Audit Committee, having considered the external auditors' performance during their period in office, recommends re-appointment. The audit fees of £0.7m (2009: £0.7m) for PricewaterhouseCoopers LLP and non-audit related fees of £0.4m (2009: £0.2m) were discussed by the Audit Committee and considered appropriate given the current size of the Group and the level of corporate activity undertaken during the year. The non-audit fess of £0.4m include £0.3m in relation to the issue of corporate bonds and the proposal to acquire certain businesses of, or merge with, National Express Group plc. This related to work that was best undertaken by the auditors. 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.

7.4 Policy on the Auditors Providing Non-Audit Services

Procedures in respect of other services provided by the auditors are:

- Audit related services - These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to approval by the Audit Committee.
- Tax consulting - It is the Group's policy to select the advisor for each specific piece of tax consulting work who has the most appropriate skills and experience for the work required. The Group uses a range of advisors for tax consulting, including the auditors where they are best suited to the work being undertaken, subject to approval by the Audit Committee.
- General consulting - For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken. The auditors are only permitted to provide general consulting when the Group, the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest.

7.5 Review of Risk Assurance Function

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

The Audit Committee conducts a continuous review of the relationship between the Group and the Risk Assurance Function. This review includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

The Committee formally assesses the effectiveness of the risk assurance function on an annual basis.

7.6 "Speaking Up" Policy

The Audit Committee reviews the Group's "Speaking Up" policy, which provides a mechanism for employees with serious concerns about the interests of others or the Group to come forward. The Committee ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. The Committee takes a particular interest in any reports of possible improprieties in financial reporting. Any known instances of fraud affecting the Group are reported to the Audit Committee.

Garry Watts
Chairman of the Audit Committee

23 June 2010

8. Nomination Committee report

8.1 Composition of the Nomination Committee

The membership of the Nomination Committee is summarised in section 6.7. The Committee also includes, by invitation, the other Non-Executive Directors, as necessary.

8.2 Operation of the Nomination Committee

The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, and where appropriate suggesting new appointments. Based on its assessment, the Committee will prepare a description of the role and the required attributes for each particular appointment. The description will include a job specification, the estimate of the time commitment expected, and the Group's policy on directors having other significant commitments. Potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their other commitments as they arise. The Committee will identify suitable candidates and make proposals for each appointment, although final appointments are the responsibility of the Board as a whole.

Potential new non-executive directors are chosen based on a shortlist compiled by the Nomination Committee taking account of known candidates and candidates suggested by the Group's advisors. For example, the selection of each of Helen Mahy and Phil White, the most recent appointments to the Board, were made following a recruitment process that involved the use of external recruitment consultants and the consideration of a number of candidates.

Non-executive directors receive a letter of appointment. For any new appointments, the letter of appointment sets out the expected time commitment.

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

The terms of reference of the Nomination Committee are available on the Group's website at
http://www.stagecoachgroup.com/scg/csr/corpgov/committees/nom.pdf

The appointments of Helen Mahy and Phil White to the Board help maintain the balance of skills and experience of the Board. Both have wide-ranging experience with large publically quoted groups. In addition, Helen brings particular skills and experience of legal, regulatory, and health and safety matters. Phil has particular expertise in the management of bus and rail operations as well as broader operations and financial management experience.

8.3 Succession Planning Arrangements

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

The Nomination Committee is mindful of the need to ensure appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seeks to identify new directors and senior managers to ensure succession of directors is conducted in a managed way, without significant disruption to the ongoing business of the Group.

In the 2009 Annual Report, the Nomination Committee noted that two non-executive directors, Iain Duffin and Janet Morgan, would reach nine years' service as directors of the Company in 2010 and that it was intended that they would each step down as directors once appropriate successors were in place. The appointments of Helen Mahy and Phil White mean that both Iain Duffin and Janet Morgan will step down as directors in June 2010. The Committee is also mindful of the need to plan the succession of the Chairman and continues to plan for this. The Committee recognises that the Board has a strong pool of Non-Executive Directors, which includes individuals with experience of chairing similar companies and/or the potential to chair the Company. Accordingly, in planning the succession of the Chairman, the Committee examines both the scope for succession from within the existing Board as well as from elsewhere.

The Committee also recognises that as co-founder of the Company, the Chief Executive has had a long and integral association with the Company. This close association of Chief Executive and Company brings different challenges in planning for the succession of the Chief Executive. Whilst the Committee recognises that the Chief Executive remains committed to his role for the foreseeable future, it nevertheless reviews the succession plans for the Chief Executive and other executive management.

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

Robert Speirs
Chairman of the Nomination Committee

23 June 2010

9. Health, Safety and Environmental Committee report

9.1 Composition of the Health, Safety and Environmental Committee

The membership of the Health, Safety and Environmental Committee is summarised in section 6.7.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at http://www.stagecoachgroup.com/scg/csr/corpgov/committees/health07.pdf

9.2 Operation of the Health, Safety and Environmental Committee

The Committee considers health, safety and environmental 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.

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework.

Managers from each of the Group's key divisions attend meetings of the Committee from time to time providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters. The Committee also receives reports from the Group's Environmental Strategy Group, which comprises a number of managers and is responsible for overseeing the development and implementation of the Group's environmental strategy.

The Committee visits operational locations to observe health, safety and environmental management in practice. Committee members attend meetings of the Safety Committees of individual business units from time to time, such as the South West Trains' Strategic Safety Group.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant accidents involving the Group. Key performance indicators are provided and reviewed in respect of each major operating division. Training is provided to the Committee on health, safety and environmental matters.

The Committee liaises with the Remuneration Committee in determining any health and safety objectives to form part of the Executive Directors' personal non-financial objectives.

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

Janet Morgan
Chairman of the Health, Safety and Environmental Committee

23 June 2010

10. Directors' remuneration report

The Board supports the principles of good corporate governance relating to directors' remuneration and has applied them as described below. Those paragraphs that have been audited have been highlighted as such.

10.1 Composition of the Remuneration Committee

The membership of the Remuneration Committee is summarised in section 6.7.

The Committee has responsibility for approving the remuneration and terms of employment for the Executive Directors and the Chairman, including pensions rights and any compensation payments. The Remuneration Committee also monitors and makes appropriate recommendations with respect to the remuneration of other senior management.

The Committee retained Addleshaw Goddard LLP as its remuneration consultant to provide access to independent research and advice. Addleshaw Goddard LLP provided no other services to the Group. Prior to Addleshaw Goddard LLP's appointment, KPMG had provided remuneration advice to the Committee during the year ended 30 April 2009. KPMG continues to provide certain other services to the Group such as due diligence, tax advice, actuarial services and pension scheme audits.

Both the constitution and operation of the Remuneration Committee comply with the principles and provisions incorporated in the Combined Code. In preparing the Directors' remuneration report, the Remuneration Committee has followed the provisions of the Combined Code. The terms of reference of the Remuneration Committee are available on the Group's website at http://www.stagecoachgroup.com/scg/csr/corpgov/committees/remun.pdf.

10.2 Remuneration of Non-Executive Directors

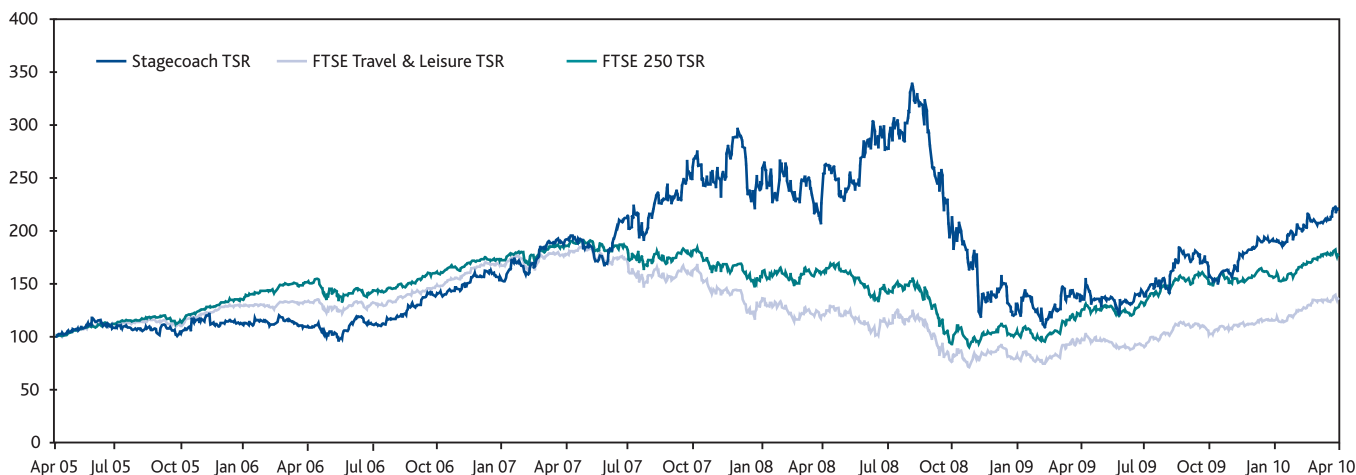
Other than the Chairman, each non-executive director generally receives the same level of fixed annual fee. The fee for each non-executive director is set out in Table 2 on page 34. The Board balances the responsibilities of each non-executive director (for example, Chairmanship and/or membership of Committees) such that over the medium-term each non-executive director has a similar level of workload and commitment.

The Board of Directors as a whole, having given due regard to the required time commitment and responsibilities, sets the fees and expenses payable to the non-executive directors. Non-executive directors do not hold any share options, nor do they participate in any incentive plans or pension schemes with the exception of Ann Gloag who receives a pension accrued when she was an executive director. The members of the Remuneration Committee have no personal interest in the matters to be decided by the Committee other than as shareholders, have no conflicts of interest arising from cross-directorships and no day-to-day involvement in running the businesses of the Group.

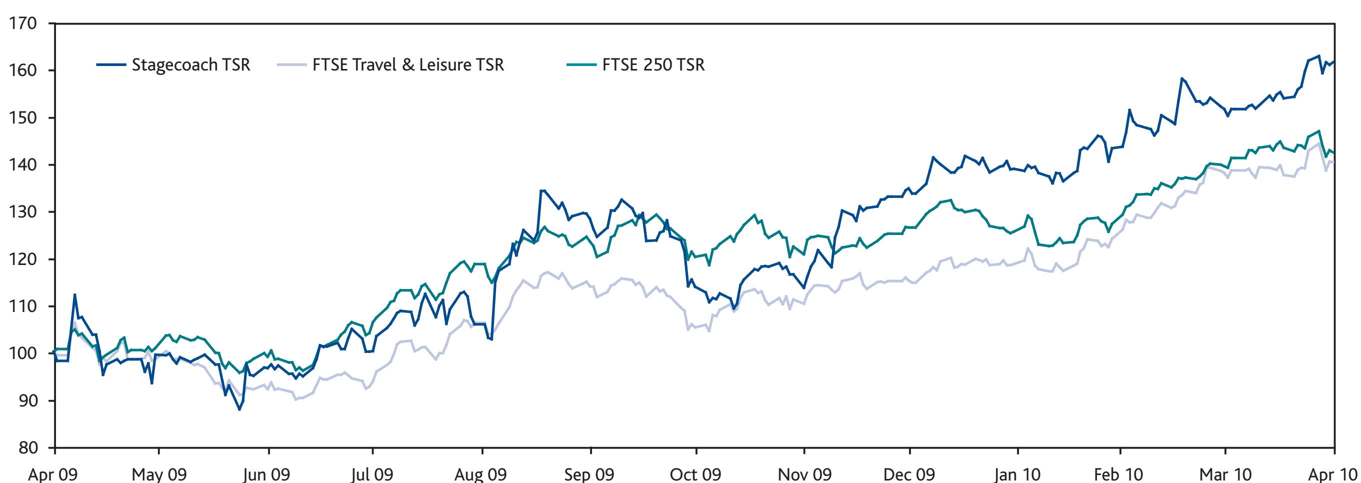
10.3 Performance graph

The graph below charts the performance of the Stagecoach Group Total Shareholder Return ("TSR") (share value movement plus reinvested dividends) over the 5 years to 30 April 2010 compared with that of the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index used by the Company for the performance criterion for the 2005 LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index. We have included a further graph to highlight the Company's more recent performance, charting TSR for the 12 months up to 30 April 2010.

Stagecoach 5-Year TSR Comparative Performance to 30 April 2010



Stagecoach 1-Year TSR Comparative Performance to 30 April 2010



10.4 Remuneration Policy

The Remuneration Policy was approved by our shareholders at the 2009 Annual General Meeting. The Remuneration Committee follows the Combined Code in designing performance-related remuneration schemes.

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive in the UK and will attract, retain and motivate high quality executives capable of achieving Stagecoach Group's objectives and to ensure that they are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance. The Remuneration Committee believes that such packages should contain significant performance-related elements and that these performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders. The Remuneration Committee is able to consider all relevant factors when setting Executive Directors' remuneration, including environmental, social and governance matters. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-term and long-term targets. Performance targets can include financial measures as well as personal targets, such as successful investment, innovation, staff development, customer satisfaction, regulatory requirements and achievement of health, safety and environmental targets. The incentive arrangements for the Executive Directors are structured so as not to unduly increase environmental, social and governance risks by inadvertently motivating irresponsible behaviour. A separate Health, Safety and Environmental Committee report is included in section 9 of this annual report.

The Remuneration Committee regularly reviews the existing remuneration of the Executive Directors, in consultation with the Chief Executive, 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. The Remuneration Committee is also kept informed of the salary levels of other senior executives employed by the Group. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations.

10.5 Intended balance of remuneration package

The total remuneration for each Executive Director includes meaningful elements of performance related pay.

Notwithstanding this, it is intended that the balance of the overall remuneration package of the Executive Directors is broadly structured as shown in Figure 1, with the proportions shown being based on the expected value of awards. For example, where the Remuneration Committee has made awards of Incentive Units under the Long Term Incentive Plan to the Executive Directors equivalent to say 150% of basic salary, the expected value of the Incentive Units at the time of award to a director is less than 150% of basic salary because of the challenging performance conditions that apply. Likewise, while Executive Directors can earn a cash-settled annual bonus of up to 50% of basic salary, the maximum award is only earned to the extent that the challenging performance objectives are met.

Figure 1: Balance of Executive Directors' expected remuneration package

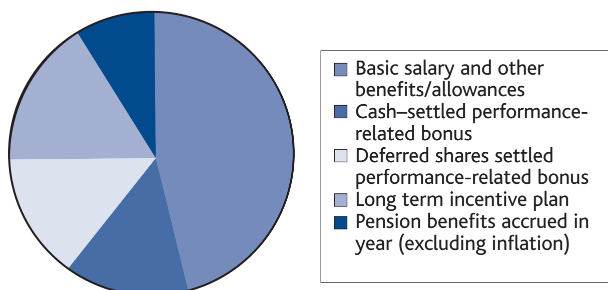
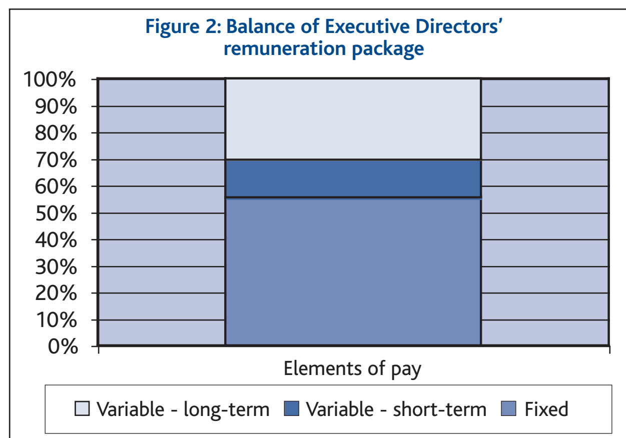


Figure 2 provides a further analysis of the intended balance of Executive Directors' pay between fixed elements (for example, basic salary and pension benefits), variable short-term elements (for example, annual cash bonuses) and variable long-term elements (for example, awards under share based incentive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

Shareholders are invited specifically to approve all new long-term remuneration plans (whether equity-settled or cash-settled plans) and any significant changes to existing plans, except where changes are otherwise permitted by the Listing Rules. The current arrangements were approved by shareholders at the 2005 Annual General Meeting and the Committee considers that they remain appropriate.



The Remuneration Committee believes that remuneration packages should reward the efforts of all staff since a motivated workforce is a key element of Group performance. The Committee recognises that the Executive Directors bear the greatest responsibility for delivering corporate strategy that underpins long-term sustainable performance. While the Remuneration Committee's report focuses on the incentive schemes for Executive Directors and senior executives, there are also a number of other performance-related bonus schemes of more general application within Group companies not discussed in this report, in addition to the approved SAYE scheme accessible to all UK employees.

10.6 Remuneration of Executive Directors and other executives (audited)

The remuneration of the Executive Directors and other executives may comprise a number of elements from the following:

- Basic salary;
- Performance-related annual cash bonuses;
- The Executive Participation Plan ("EPP");
- Benefits in kind and other allowances;
- Pension arrangements;
- Share options (no awards made since 2004); and
- The Long Term Incentive Plan ("LTIP").

The participation of the two Executive Directors in the above arrangements during the year ended 30 April 2010 is summarised in Table 1 on page 34. The Executive Directors have not received executive share options since December 2004.

Each Executive Director's remuneration package is tailored to the individual to ensure an appropriate balance of reward for responsibilities, motivation, retention and share participation, whilst ensuring the overall packages are appropriate to recruit and retain high quality executives capable of achieving the Group's objectives.

Directors' remuneration for the year ended 30 April 2010 is shown in Table 2 and Table 3 on page 34, along with information on share options and LTIP awards in sections 10.12 and 10.14 respectively.

TABLE 1 – DIRECTORS' PARTICIPATION	Basic Salary/Annual bonus	EPP	Benefits in kind	Pension	Share Options	LTIP
Brian Souter	YES	YES	YES	YES	NO*	YES
Martin Griffiths	YES	YES	YES	YES	NO*	YES

*The Executive Directors have not received awards of executive share options following the approval of the EPP and LTIP at the 2005 AGM.

TABLE 2 – DIRECTORS' REMUNERATION (amounts in £000)	Salary/fees **		Performance related bonus (cash)**		Performance related bonus - deferred shares (EPP)**		Benefits in kind		Non-pensionable allowances†		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Executive directors												
Brian Souter	**553**	553	**96**	Nil	**96**	525	**17**	17	**Nil**	Nil	**762**	1,095
Martin Griffiths	**374**	374	**187**	Nil	**187**	374	**19**	19	**85**	86	**852**	853
Non-executive directors												
Ewan Brown	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Iain Duffin	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Ann Gloag	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Helen Mahy (appointed 1 January 2010)	**15**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**15**	Nil
Sir George Mathewson	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Janet Morgan	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Robert Speirs	**150**	150	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**150**	150
Garry Watts	**44**	44	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil	**44**	44
Total	**1,356**	1,341	**283**	Nil	**283**	899	**36**	36	**85**	86	**2,043**	2,362

† Non-pensionable allowances represent additional taxable remuneration paid to provide pension benefits. The non-pensionable allowance for Martin Griffiths above of £84,660 (2009: £86,000) is stated gross of notional pension contributions under the salary sacrifice arrangements, which is in practice deducted from the allowance that is made to him, so he actually received £73,824 (2009: £74,691).
** Brian Souter waived elements of his remuneration for the period, with the amounts waived being used to support funding medical screening for the employees of our UK Bus division. The amounts shown in Table 2 for Brian Souter for the period therefore reflect reductions of £250,000 apportioned equally to the cash and deferred shares bonus. The salary for Brian Souter above of £553,000 (2009: £553,000) is stated gross of notional pension contributions that are deducted as part of participating in the pension salary sacrifice arrangement. His notional pension contributions during the year were £49,522 (2009: £47,987). These contributions are shown within the increase in transfer value less pension contributions in Table 3.

TABLE 3 – DIRECTORS' PENSION BENEFITS (amounts in £000)	Additional accrued benefits in the year		Accrued pension		Accrued lump sum		Transfer value of increase (excluding inflation)		Increase in transfer value less Directors' contributions	Transfer value of pension	
	Excluding inflation	**Including inflation**	**2010**	2009	**2010**	2009	**2010**	2009		**2010**	2009+
Executive directors											
Brian Souter*	**72**	**57**	**348**	332	**705**	664	**300**	146	251	**5,397**	5,097
Martin Griffiths*	**15**	**12**	**45**	42	**135**	126	**30**	24	19	**426**	396

*Brian Souter and Martin Griffiths participated in pension salary sacrifice arrangements during the year. The Directors' contributions set against the increase in transfer value in the table above include salary sacrificed by the directors and paid directly to the pension scheme by the employer.

+The transfer value of pension for 2009 has been updated to reflect market conditions at 30 April 2010.

Martin Griffiths was subject to the statutory pensionable earnings cap that existed until 5 April 2006 and since then the Company has continued to impose a notional pensionable earnings cap. The Company makes cash contributions to Martin Griffiths for the part of his salary that exceeds the notional earnings cap. Only basic salary is pensionable. The additional cash contribution equates to one-third of the excess above the notional earnings cap. Brian Souter joined the pension scheme prior to the application of the statutory pensionable earnings cap and was therefore not subject to such cap and is therefore not subject to the notional earnings cap.

Directors who are members of the Stagecoach Group Pension Scheme have the option to pay additional voluntary contributions ("AVCs"). Neither the contributions nor the resulting benefits of any AVCs are included in the tables above.

Each of the elements of remuneration is discussed further below.

10.7 Basic salary

The salary of each Executive Director is reviewed at 1 May each year. Account is taken of individual achievements, together with any changes in responsibilities that may have occurred and, as stated above, the salaries for similar roles in comparable companies. In recognition of the challenging macro-economic environment and the need for strong cost controls and restraint on pay settlements across the Group, the pay review performed as of 1 May 2009 determined that there should be no increase to basic salaries of the Executive Directors and other senior executives or to the fees of the Non-Executive Directors for the year ended 30 April 2010.

10.8 Performance-related annual cash bonuses

At the start of each financial year, the Committee agrees specific objectives for each Executive Director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each Executive Director for the year just ended. This is based on the Director's performance in achieving the objectives agreed. These comprise both financial objectives for the Group and personal objectives for each director. For each Executive Director, the Group financial objectives for the year ended 30 April 2010 were to better the Group's financial targets with respect to measures of earnings before interest and taxation, earnings per share, and net debt. The personal objectives are specific to each Executive Director and cover matters such as safety targets, environmental targets, successful investment, innovation, staff development, customer satisfaction, successful business acquisitions/disposals and regulatory requirements.

For the year ended 30 April 2010, Brian Souter and Martin Griffiths each had a maximum potential bonus of up to 100% of basic salary, 70% for meeting Group financial objectives and 30% for meeting personal objectives. In accordance with the rules of the EPP, 50% of any actual bonus will be deferred as shares under the EPP.

In making its judgement of performance for the last financial year, the Remuneration Committee had particular regard to the results as recorded elsewhere in the Annual Report, and relative total return to shareholders over the year, as well as other strategic developments and operating improvements. Performance related bonuses awarded to the Executive Directors in respect of the year ended 30 April 2010 are shown in Table 4 below.

TABLE 4 – DIRECTORS' BONUSES	Actual bonus as a percentage of basic salary		Maximum potential bonus as a percentage of basic salary	
Director	Cash	Shares	Cash	Shares
Brian Souter	17.4%*	17.4%*	50%	50%
Martin Griffiths	50.0%	50.0%	50%	50%

* As noted in Table 2, Brian Souter waived entitlement to cash and deferred shares bonus awards during the year. Save for the waiver, he would have been entitled to a bonus of 80% of basic salary divided equally between cash and deferred shares.

10.9 Executive Participation Plan

The 2005 Executive Participation Plan ("EPP") was approved at the 2005 Annual General Meeting.

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

Awards under the EPP can be made to Executive Directors and other managers. Participants are required to sacrifice part of their actual annual bonus award and are awarded deferred shares with an initial market value approximately equal to the amount of the actual cash bonus foregone.

Absolute and full entitlement to the shares is deferred for three years.

There are no specific performance conditions attaching to the release of deferred shares because the annual bonus is already subject to performance conditions and there are no awards of matching shares in respect of annual bonuses - the EPP requires executives to invest an element of their annual bonus (normally a minimum of 50% of any annual bonus award) in the Company's shares. The EPP is an effective retention programme in that participants would lose their entitlement to the deferred shares if they left of their own volition during the three-year deferral period.

Where an individual receives an award under the EPP, he or she generally does not also receive an award of executive share options in the same financial year. Awards made to the Executive Directors under the EPP, are shown in Table 5.

10.10 Benefits in kind and other allowances

The benefits in kind shown in Table 2 on page 34 for the year ended 30 April 2010 are made up as follows:

- Brian Souter received £17,200 (2009: £17,200) of cash allowance in lieu of company car and £252 (2009: £251) in re-imbursement of home telephone expenses.
- Martin Griffiths received £18,000 (£2009: £18,000) of cash allowance in lieu of company car, £884 (2009: £850) of healthcare benefits and £556 (2009: £636) in re-imbursement of home telephone expenses.

10.11 Pension arrangements

Under the terms of their service agreements Executive Directors are entitled to become members of one of the Stagecoach Group's defined benefit pension schemes or, if preferred, to receive payment of a proportion of salary for personal pension schemes. For pensions purposes, the Executive Directors have a normal retirement age of 60. The Stagecoach Group pension schemes are designed to provide a pension for Executive Directors equivalent to up to two-thirds of final pensionable salary completed up to normal retirement age.

Following the new pensions regime introduced in the UK by the Pensions Act 2004, the Group introduced a notional pensionable earnings cap to replace the previous statutory pensionable earnings cap in the Group's main pension scheme. Further to this, during the year ended 30 April 2007, the Group also introduced an annual cap of 3.5% on pensionable salary growth under the scheme and this cap also applies to the notional pensionable earnings cap.

Pension benefits accruing to Martin Griffiths under the Stagecoach Group defined benefit scheme are limited both by the notional pensionable earnings cap and by the 3.5% cap on pensionable salary growth as explained above. The Company makes cash contributions to Martin Griffiths for the part of his basic salary that exceeds the notional cap. Life assurance of four times basic annual salary is provided under the scheme.

10.12 Share options (audited)

Executive Share Options

The Executive Directors are generally not expected to receive further awards of executive share options following the approval of the EPP and LTIP by shareholders at the 2005 AGM. However, the Executive Directors held

TABLE 5 — EPP AWARDS Grant Date	As at 1 May 2009 (deferred shares)	Awards granted in year (deferred shares)	Dividends in year (deferred shares)	Vested in year (deferred shares)	As at 30 April 2010 (deferred shares)	Vesting Date	Expected total value of award at time of grant	Closing share price on date of grant
Brian Souter								
30 June 2006	193,255	Nil	5,069	(198,324)	Nil	10 Dec 2009 *	204,466	1.1525
28 June 2007	148,793	Nil	5,581	(154,374)	Nil	8 March 2010 **	256,829	1.8075
26 June 2008	98,748	Nil	6,196	Nil	104,944	26 June 2011	252,527	2.6825
10 Dec 2009	Nil	332,758	11,841	Nil	344,599	10 Dec 2012	525,259	1.6060
	440,796	332,758	28,687	(352,698)	449,543			
Martin Griffiths								
30 June 2006	97,208	Nil	2,550	(99,758)	Nil	10 Dec 2009 *	102,849	1.1525
28 June 2007	74,305	Nil	2,787	(77,092)	Nil	8 March 2010 **	128,258	1.8075
26 June 2008	70,387	Nil	4,416	Nil	74,803	26 June 2011	179,998	2.6825
10 Dec 2009	Nil	237,187	8,439	Nil	245,626	10 Dec 2012	374,400	1.6060
	241,900	237,187	18,192	(176,850)	320,429			

* The vesting date of EPP awards is generally the third anniversary of the award date, although it may be postponed if it could potentially contravene any securities or transaction rules. Due to the corporate activity with National Express, in accordance with these rules the Group was restricted both in permitting awards to directors and certain others from vesting and from making new awards to directors and certain others while such activity was ongoing. When that activity formally ceased on 29 October 2009, the Committee decided that vesting of the awards granted on 30 June 2006 should be further delayed until after the Group's interim results had been announced on 9 December 2009. The closing share price on the vesting date was £1.6060.

** The awards granted to Executive Directors on 28 June 2007 would in the normal course of events be due to vest on 28 June 2010. In light of the approach adopted for the 2008-09 bonus award, which was awarded wholly in deferred shares under the EPP, the Remuneration Committee considered it appropriate to bring forward the vesting date of the 2007 EPP Award to directors and certain others to permit vesting within the 2009/10 tax year, subject to the requirement for directors to retain the number of released EPP shares until the original due vesting date (28 June 2010). The closing share price on the vesting date was £1.7820.

executive share options that were previously awarded. As at 30 April 2010 none of the Executive Directors held any executive share options.

The interests of Executive Directors in options to subscribe for ordinary shares of the Company, together with movements during the year, are shown in Table 6. All of the share options were granted for nil consideration. The exercise price of the share options in Table 6 reflects the mid-market price immediately preceding the time of the award: the Group's policy is not to offer executive share options at a discount to the mid-market price. The mid-market price of the underlying ordinary shares at 30 April 2010 was £1.97 per share (30 April 2009: £1.3125 per share). The Company's ordinary shares traded in the range £1.155 to £1.985 (year ended 30 April 2009: £1.0375 to £3.275) during the year.

The executive share options shown in Table 6 were issued under The Stagecoach Unapproved Executive Share Option Scheme ("the Scheme"). No awards have been granted under the Scheme since 2004 and the following narrative is provided for reference to the historic options. The Scheme was established in September 1997, when it was approved by shareholders at the Annual General Meeting. The scheme was amended by shareholder approval at an Extraordinary General Meeting in January 2002. This scheme was also used to reward senior executives throughout the Group at the Committee's discretion.

In December 2004 the Board and the Remuneration Committee agreed to remove from the Scheme the ability to award "Super Options". Therefore, executive share options awarded on or after 4 December 2004 are "Ordinary Options" which are exercisable between three and seven years after the date of award. The maximum level of executive share options that can be issued to a given individual in any financial year is two times the individual's basic salary, calculated by comparing the basic salary to the total number of shares covered by the options multiplied by the exercise price. The Board and the Remuneration Committee also agreed to remove from the Scheme, the facility for the performance condition to be re-tested. Re-testing is prohibited for all executive share options awarded on or after 4 December 2004. Accordingly, the exercise of executive share options awarded on or after 4 December 2004 is subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum cumulatively - the base year is the latest financial year ended prior to the award of the option and the performance condition may not be re-tested. For ordinary options awarded after June 2001 but prior to 4 December 2004, exercise of the options was subject to earnings per share outperforming inflation over three consecutive financial years by 3% per annum, or earnings per share outperforming inflation over four consecutive financial years by 4% per annum, or earnings per share outperforming inflation over five consecutive financial years by 5% per annum. Inflation for this purpose is measured as the change in the UK Retail Prices Index ("RPI").

SAYE Share Options

In August 2008, all eligible UK employees were invited to participate in a new SAYE scheme with a three-year duration starting in September 2008. The expiry date of any individual SAYE option can be extended to be up to six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the exercise date shown in Table 7. In addition to the share options shown in Table 6, one director held options issued under this SAYE scheme. Further details on this are shown in Table 7 below.

10.13 Satisfaction of share awards

Under the rules of the Company's share schemes, and consistent with guidance issued by the Association of British Insurers ("ABI"), there are limits on the number of share options and other awards that can be granted that may be satisfied by the issue of new shares. Following the consolidation of ordinary shares related to the returns of value in 2004 and 2007, which effectively halved the number of ordinary shares in issue, the number of executive share options that had been granted in the previous 10 years exceeded 5% of the issued number of ordinary shares. Also, the running total of share capital allocated to all share options including all-employee SAYE options in the previous 10 years was effectively doubled through the consolidation process to 10.2%, and so exceeded the 10% guideline for the issued ordinary shares. It was not possible, therefore, to satisfy any new grants of share options or EPP awards with newly issued shares since to do so would have exceeded both the 5% and 10% limits under the share schemes rules. Accordingly, the Board and the Remuneration Committee determined that all future grants of executive share options and EPP awards will be satisfied with existing shares until such time as there is sufficient headroom available under the original limits for the issue of new shares.

However, and in order to support the issuance of shares for all-employee schemes, such as the SAYE, Shareholder approval to change the limit to 12.8% was obtained at the 2008 AGM on 29 August 2008 so that 5% of the new 12.8% limit may be allocated for issuing new shares to satisfy all-employee share schemes, such as the SAYE.

In the 10 years prior to 30 April 2010, the Company had granted share options (not lapsed) over executive and SAYE share schemes as follows:

	Executive Options	SAYE Options	Total
Share options to be satisfied from new issue shares	55,710,219	23,369,786	79,080,005
Expressed as a percentage of the issued share capital as at 30 April 2010	7.8%	3.2%	11.0%

The Group's Employee Share Ownership Trusts are used to acquire and finance shares to meet contingent obligations under share based incentive schemes that are not expected to be satisfied through the issue of new shares. At 30 April 2010, these trusts held 2,336,447 (2009: 4,486,942) 56/57th ordinary shares in the Company, representing 0.3% (2009: 0.6%) of the total issued ordinary shares. The Company follows the ABI guideline that the shares held by Employee Share Ownership Trusts should not exceed 5% of the total shares in issue. The Employee Share Ownership Trusts have waived the right to receive dividends on the shares held by them.

TABLE 6 – EXECUTIVE SHARE OPTIONS Grant Date	As at 1 May 2009	Exercised in year	As at 30 April 2010	Exercise price per share £	Date from which exercisable	Date exercised and sold	Average selling price per share £
Brian Souter							
10 December 2004	217,085	(217,085)	Nil	1.1150	10 Dec 2007	19 Jan 2010	1.7505

* The aggregate gains (before transaction costs and taxes) on all options exercised by Executive Directors during the period were £137,958 (2009: £1,014,156).

TABLE 7 – SAYE OPTIONS	At 1 May 2009 and 30 April 2010 No of ordinary shares	Exercise price £	Date from which excercisable	Expiry date
Martin Griffiths	3,733	2.51775	1 Oct 2011	31 March 2012

Further information on share options and other share based payments is detailed in note 31 to the consolidated financial statements on pages 94 and 95.

10.14 Long Term Incentive Plan

To be used for Executive Directors and a small number of senior executives, the 2005 Long Term Incentive Plan ("LTIP") was approved at the 2005 AGM. The LTIP introduces stringent performance criteria related to total shareholder return ("TSR") over a three-year assessment period. TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured against a comparator group, which is the list of FTSE 250 companies. Details of LTIP awards made to the Directors are shown in Table 8 below.

Under the LTIP, executives are awarded Incentive Units at the discretion of the Remuneration Committee with each Incentive Unit having a nominal value equal to one of the Company's ordinary shares. The maximum awards granted in relation to any financial year for an individual is limited to Incentive Units with an aggregate nominal value not exceeding 1.5 times the individual's basic salary.

For all LTIP awards granted up to 30 April 2009, vesting of the LTIP units is subject to two quantitative TSR-based performance criteria and also to a qualitative underpin. The qualitative underpin was that LTIP units will only vest if the Remuneration Committee is satisfied with the underlying financial performance of the Group. The two quantitative conditions for LTIP awards granted up to 30 April 2009 are:

- Firstly, no awards vest unless the total shareholder return of the Group over the three-year testing period is positive.
- Secondly, the element of the awards that vest is based on how the Group's total shareholder return compares to a comparator group, being the list of FTSE 250 companies.

The Company intends to settle all such awards in cash but would support the settlement in shares via an employee share ownership trust where executives wish to increase their holdings in the Company's shares.

The individual would also need to remain with the Company for three years from the date of an award in order to receive full entitlement to the LTIP units. The number of LTIP units that would be released after the three years is calculated as follows:

- If TSR is negative no LTIP units are released;
- If TSR is positive but is less than the median TSR of the comparator group, no LTIP units are released;
- If TSR exceeds the median of the comparator group, 33% of the LTIP units are released;
- If TSR is in the top quartile of the comparator group, 100% of the LTIP units are released;
- If TSR is higher than the median but less than the top quartile, the proportion of LTIP units to be released would be between 33% and 100% depending on the exact ranking against the comparator group.

For LTIP awards granted from 1 May 2009 the performance conditions are set so as to provide a lower payout for median performance against the comparator group, and to increase the performance target from top quartile to top decile at which maximum payout levels may occur based on granting Incentive Units with an aggregate nominal value of 1.5 times basic salary. In addition the use of a positive TSR has been replaced with the requirement for the Committee to have the authority to reduce any awards if it is not satisfied that the TSR performance is consistent with the underlying financial performance of the Group.

For LTIP awards granted from 1 May 2009 the number of LTIP units that would be released after the three years is calculated as follows:

- If TSR exceeds the median of the comparator group by one place, then only one-sixth (16.67%) of the LTIP units awarded will be released;
- For 100% of the LTIP units awarded to be released then the TSR must be in the top decile of the comparator group;
- If TSR is higher than the median but less than the top decile then the proportion of LTIP units to be released would be between 16.67% and 100% of the units awarded depending on the actual ranking against the comparator group.

An independent third party will calculate the TSR measures for the purposes of determining the extent to which the performance condition is satisfied. If participants choose to leave the Group the awards would lapse.

The LTIP awards granted to Executive Directors on 29 June 2006 vested and were settled in cash on 10 December 2009 at a price of £1.5785 per incentive unit. The Group delivered a TSR of 20.63% for the 3-year performance period and achieved a TSR ranking of 31 out of the FTSE 250 comparative group and under the rules of the LTIP this provided that 100% of the incentive units vested.

The LTIP awards granted to Executive Directors on 28 June 2007 vested and were settled in cash on 31 March 2010 at a price of £1.8335 per incentive unit. The Group delivered a TSR of 7.17% for the performance period and achieved a TSR ranking of 64 out of the FTSE 250 comparative group and under the rules of the LTIP this provided that 97.9% of the incentive units vested. As stated in Table 8 below, there will be a re-testing of the award's performance condition on the original due vesting date and the Remuneration Committee may make adjustments should it consider that vesting on 28 June 2010 would have delivered a lower or different amount.

TABLE 8 LTIP Grant date	As at 1 May 2009 (incentive units)	Awards granted in year (incentive units)	Dividends in year (incentive units)	Lapsed during year (incentive units)	Vested during year (incentive units)	As at 30 April 2010 (incentive units)	Vesting Date*	Price per incentive unit received on vesting £	Expected total value of award at time of grant £	Closing Share price on date of grant £
Brian Souter										
29 June 2006	491,978	Nil	9,882	Nil	(501,860)	Nil	10 Dec 2009 *	1.57850	198,706	1.1325
28 June 2007	310,527	Nil	17,524	(6,890)	(321,161)	Nil	31 March 2010 **	1.83350	205,626	1.8075
30 June 2008	204,814	Nil	11,558	Nil	Nil	216,372	30 June 2011		213,856	2.8000
10 Dec 2009	Nil	516,091	18,391	Nil	Nil	534,482	10 Dec 2012		238,382	1.6060
	1,007,319	516,091	57,355	(6,890)	(823,021)	750,854				
Martin Griffiths										
29 June 2006	245,690	Nil	4,935	Nil	(250,625)	Nil	10 Dec 2009 *	1.57850	99,233	1.1325
28 June 2007	210,274	Nil	11,866	(4,665)	(217,475)	Nil	31 March 2010 **	1.83350	139,240	1.8075
30 June 2008	138,690	Nil	7,826	Nil	Nil	146,516	30 June 2011		144,812	2.8000
10 Dec 2009	Nil	349,471	12,454	Nil	Nil	361,925	10 Dec 2012		161,421	1.6060
	594,654	349,471	37,081	(4,665)	(468,100)	508,441				

* The vesting date is generally the third anniversary of the award date, although it may be postponed if it could potentially contravene any securities or transaction rules. Due to the corporate activity with National Express, in accordance with these rules the Group was restricted both in permitting awards from vesting and from making new awards while such activity was ongoing. When that activity formally ceased on 29 October 2009, the Committee decided that vesting of the awards granted on 29 June 2006 should be further delayed until after the Group's interim results had been announced on 9 December 2009.

** The LTIP awards granted on 28 June 2007 would in the normal course of events be due to vest on 28 June 2010. The Remuneration Committee however considered it appropriate to bring forward the vesting date of the award to 31 March 2010, so as to permit vesting within the 2009/10 tax year. To ensure that Executive Directors do not receive additional remuneration solely as a result of the early vesting, there will be a re-testing of the award's performance condition on the original due vesting date, and the Remuneration Committee will consider whether adjustments should be made if vesting on 28 June 2010 would have delivered a lower or different amount.

10.15 Review of share based incentive schemes

The principal share based incentive schemes for the Executive Directors and other executives are the EPP and the LTIP, which are described earlier in this Directors' remuneration report. The EPP and the LTIP schemes were adopted by shareholders at the Annual General Meeting of the Company held in August 2005 following a review by the Remuneration Committee of the Group's share based payments and other incentive arrangements.

The Remuneration Committee believes that the operation of the Group's share based incentive schemes, the potential award levels under the schemes, the nature of the performance conditions and timing of vesting remain appropriate in light of the Group's circumstances and future prospects.

10.16 Shareholding targets

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 shares in the Company with a value of at least 100% of basic salary. These targets were first introduced in 2005 and Executive Directors were allowed five years to accumulate the appropriate level of shares.

The Executive Directors have significant effective interests in the Company's ordinary shares ensuring alignment of Executive Directors' and Shareholders' objectives. The effective interests of Executive Directors as at 30 April 2010 were:

TABLE 9	Brian Souter	Martin Griffiths
Ordinary shares	108,574,304	200,160
Shares held under share options	Nil	3,733
Deferred Shares under Executive Participation Plan	449,543	320,429
	109,023,847	524,322

10.17 Directors' service agreements

The details of the Executive Directors' service contracts are summarised in the table below:

TABLE 10 – EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Name of director	Date of contract	Notice period
Brian Souter	2 April 1993 (amended 26 January 1996)	12 months
Martin Griffiths	8 August 2000 (amended 29 November 2001 and 10 April 2003)	12 months

It is the Company's policy that Executive Directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants that will be rigorously applied.

Non-executive directors are appointed by a letter, which makes no specific provision for notice periods. The letters of appointment do not contain any contractual entitlement to a termination payment and the directors can be removed in accordance with the Company's Articles of Association. Non-executive directors are subject to election and re-election by shareholders as described on pages 24 and 25.

10.18 Early termination

If the Company terminates an executive director's contract, the costs for which the Company is liable will vary depending on length of service. The costs will include a termination payment of up to one times annual salary and the value of one year's additional retirement benefits. There are no arrangements otherwise to enhance or accelerate pension benefits on termination or early retirement.

10.19 Change of control

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

- Executive directors are entitled to normal termination benefits as outlined above, except where the director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control;
- With respect to Executive Share Options, options can be exercised within six months of the change of control. For options currently outstanding, the extent to which the performance condition is applied shall be determined by the Remuneration Committee;
- Under the EPP, shares deferred would automatically vest on a change of control;
- Under the LTIP, Incentive Units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the TSR performance condition.

10.20 Outside appointments

Executive directors are able to accept substantive external appointments, provided that approval is given by the Board. The fees from such appointments are retained by the director, recognising the level of personal commitment and expertise required for non-executive roles. Details of remuneration earned where an Executive Director serves as a non-executive director elsewhere are disclosed in note 36 to the consolidated financial statements.

10.21 Transactions in which Directors have had a material interest (audited)

10.21.1 Noble Grossart Limited

Ewan Brown (a non-executive director of Stagecoach) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year amounted to £13,333 (2009: £20,000). Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held at 30 April 2010 4,084,999 (2009: 4,084,999) ordinary shares in the Company, representing 0.6% (2009: 0.6%) of the ordinary shares in issue.

10.21.2 Alexander Dennis Limited

Brian Souter (Chief Executive of Stagecoach) and Ann Gloag (a non-executive director of Stagecoach) collectively hold 37.9% (30 April 2009: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see 10.22.1 above) controls a further 28.4% (30 April 2009: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2010, the Group purchased £48.9m (2009: £61.1m) of vehicles from Alexander Dennis Limited and £3.4m (2009: £2.8m) of spare parts and other services. As at 30 April 2010, the Group had £0.4m (2009: £0.3m) payable to Alexander Dennis Limited.

10.21.3 Argent Energy Group Limited

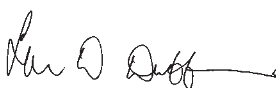
Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 39.3% (30 April 2009: Nil) of the shares and voting rights in Argent Energy Group Limited. Neither Brian Souter nor Ann Gloag is a director of Argent Energy Group Limited nor do they have any involvement in the management of Argent Energy Group Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Argent Energy Group Limited.

For the year ended 30 April 2010, the Group purchased £0.4m (2009: £0.2m) of biofuel from Argent Energy Group. As at 30 April 2010, the Group had £Nil (2009: £13,000) payable to Argent Energy Group.

10.22 Remuneration policy approval

An ordinary resolution to receive and approve this Directors' remuneration report will be proposed at the 2010 Annual General Meeting.

On behalf of the Board



Iain Duffin
Chairman of the Remuneration Committee

23 June 2010

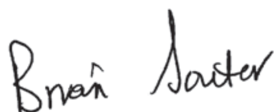
11. Responsibility statement

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and

- The Chairman's statement, Chief Executive's review and Directors' report (incorporating the Operating and Financial Review) include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on 23 June 2010 on behalf of the Board by:



Brian Souter
Chief Executive

Martin A Griffiths
Finance Director

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

We have audited the consolidated financial statements of Stagecoach Group plc for the year ended 30 April 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements set out on page 21, the Directors are responsible for the preparation of the consolidated statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Director's Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the information given in the Corporate Governance Report set out on pages 24 to 28 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 23, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on page 102 on the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2010 and on the information in the Directors' remuneration Report that is described as having been audited.

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

23 June 2010

Consolidated income statement

For the year ended 30 April 2010

	Notes	2010 Performance pre intangibles and exceptional items £m	2010 Intangibles and exceptional items (note 4) £m	2010 Results for the year £m	2009 Performance pre intangibles and exceptional items £m	2009 Intangibles and exceptional items (note 4) £m	2009 Results for the year £m
CONTINUING OPERATIONS							
Revenue	2	**2,164.4**	**Nil**	**2,164.4**	2,103.3	Nil	2,103.3
Operating costs	3	**(1,947.2)**	**(7.8)**	**(1,955.0)**	(1,933.0)	(20.3)	(1,953.3)
Other operating (expense)/income	5	**(53.2)**	**Nil**	**(53.2)**	22.2	Nil	22.2
Operating profit of Group companies	2	**164.0**	**(7.8)**	**156.2**	192.5	(20.3)	172.2
Share of profit of joint ventures after finance income and taxation	2	**28.0**	**(5.1)**	**22.9**	35.3	(5.1)	30.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2	**192.0**	**(12.9)**	**179.1**	227.8	(25.4)	202.4
Non-operating exceptional items	4	**Nil**	**(2.0)**	**(2.0)**	Nil	(0.2)	(0.2)
Profit before interest and taxation		**192.0**	**(14.9)**	**177.1**	227.8	(25.6)	202.2
Finance costs	6	**(41.5)**	**(20.5)**	**(62.0)**	(38.9)	Nil	(38.9)
Finance income	6	**10.8**	**Nil**	**10.8**	7.5	Nil	7.5
Profit before taxation		**161.3**	**(35.4)**	**125.9**	196.4	(25.6)	170.8
Taxation	8	**(27.2)**	**9.1**	**(18.1)**	(33.0)	(4.3)	(37.3)
Profit for the year from continuing operations		**134.1**	**(26.3)**	**107.8**	163.4	(29.9)	133.5
DISCONTINUED OPERATIONS							
Profit for the year from discontinued operations	18	**Nil**	**3.9**	**3.9**	Nil	Nil	Nil
TOTAL OPERATIONS							
Profit after taxation for the year attributable to equity shareholders of the parent		**134.1**	**(22.4)**	**111.7**	163.4	(29.9)	133.5
Earnings per share from continuing and discontinued operations							
– Adjusted basic/Basic	10	**18.7p**		**15.6p**	22.9p		18.7p
– Adjusted diluted/Diluted	10	**18.5p**		**15.4p**	22.7p		18.5p
Earnings per share from continuing operations							
– Adjusted basic/Basic	10	**18.7p**		**15.1p**	22.9p		18.7p
– Adjusted diluted/Diluted	10	**18.5p**		**14.9p**	22.7p		18.5p
Dividends per ordinary share							
– Interim paid	9			**6.5p**			1.8p
– Final proposed	9			**Nil**			4.2p

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

Interim dividends of £46.6m were paid during the year ended 30 April 2010 (2009: £12.9m).

No final dividend has been proposed in respect of the year ended 30 April 2010 (2009: £30.0m).

Consolidated statement of comprehensive income

For the year ended 30 April 2010

	Notes	2010 £m	2009 £m
Profit for the year attributable to equity shareholders of the parent		**111.7**	133.5
Other comprehensive income/(expense)			
Foreign exchange differences on translation of foreign operations (net of hedging)		**6.0**	(4.6)
Actuarial losses on Group defined benefit pension schemes	28	**(138.7)**	(144.5)
Share of actuarial gains on joint ventures' defined benefit pension schemes		**0.2**	2.9
Share of fair value gains on joint ventures' cash flow hedges		**1.8**	Nil
Net fair value gains/(losses) on cash flow hedges	29(j)	**38.3**	(97.4)
Net fair value losses on available for sale investments	16	**(0.2)**	(0.4)
		(92.6)	(244.0)
Transfers to the income statement			
Cash flow hedges reclassified and reported in profit for the year	29(j)	**61.8**	(11.2)
Tax on items taken directly to or transferred from equity			
Tax on foreign exchange differences on translation of foreign operations (net of hedging)		**Nil**	(0.9)
Tax effect of actuarial losses on Group defined benefit pension schemes		**38.8**	40.4
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes		**(0.1)**	(0.8)
Tax effect of share of fair value gains on joint ventures' cash flow hedges		**(0.5)**	Nil
Tax effect of share based payments		**0.7**	(0.5)
Tax effect of cash flow hedges	29(j)	**(28.0)**	31.9
	8	**10.9**	70.1
Total comprehensive income/(expense) for the year attributable to equity shareholders of the parent		**91.8**	(51.6)

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

Consolidated balance sheet (statement of financial position)

As at 30 April 2010

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Goodwill	11	**99.4**	99.9
Other intangible assets	12	**16.1**	24.5
Property, plant and equipment	13	**796.2**	785.7
Interests in joint ventures	14	**56.7**	68.7
Available for sale and other investments	16	**1.9**	1.5
Derivative instruments at fair value	29(j)	**5.5**	0.5
Deferred tax asset	26	**1.3**	5.3
Other receivables	21	**17.6**	6.8
		994.7	992.9
Current assets			
Inventories	20	**24.1**	22.0
Trade and other receivables	21	**200.3**	212.4
Derivative instruments at fair value	29(j)	**25.7**	3.1
Foreign tax recoverable		**1.4**	Nil
Cash and cash equivalents	22	**375.7**	277.3
Asset classified as held for sale	23	**Nil**	2.4
		627.2	517.2
Total assets		**1,621.9**	1,510.1
LIABILITIES			
Current liabilities			
Trade and other payables	24	**524.6**	530.2
Current tax liabilities		**19.1**	15.0
Foreign tax liabilities		**Nil**	0.8
Borrowings	25	**50.8**	279.5
Derivative instruments at fair value	29(j)	**4.0**	68.2
Provisions	27	**46.6**	56.7
		645.1	950.4
Non-current liabilities			
Other payables	24	**20.4**	24.2
Borrowings	25	**626.1**	347.4
Derivative instruments at fair value	29(j)	**7.3**	14.4
Deferred tax liabilities	26	**19.2**	19.5
Provisions	27	**89.0**	83.2
Retirement benefit obligations	28	**202.1**	80.6
		964.1	569.3
Total liabilities		**1,609.2**	1,519.7
Net assets/(liabilities)		**12.7**	(9.6)
EQUITY			
Ordinary share capital	30	**7.1**	7.1
Share premium account	32	**9.8**	9.5
Retained earnings	32	**(433.5)**	(374.9)
Capital redemption reserve	32	**415.6**	413.5
Own shares	32	**(13.3)**	(13.9)
Translation reserve	32	**7.1**	1.1
Available for sale reserve	32	**Nil**	0.2
Cash flow hedging reserve	32	**19.9**	(52.2)
Total equity		**12.7**	(9.6)

These financial statements have been approved for issue by the Board of Directors on 23 June 2010

Brian Souter
Chief Executive

Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this consolidated balance sheet.

Consolidated statement of changes in equity

	Notes	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Translation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total equity £m
Balance at 30 April 2008 and 1 May 2008		7.0	8.0	(363.6)	410.8	(12.6)	5.7	0.6	24.5	80.4
Profit for the year		–	–	133.5	–	–	–	–	–	133.5
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	(4.6)	–	–	(4.6)
Actuarial losses on Group defined benefit pension schemes		–	–	(144.5)	–	–	–	–	–	(144.5)
Share of actuarial gains on joint ventures' defined benefit pension schemes		–	–	2.9	–	–	–	–	–	2.9
Net fair value losses on cash flow hedges		–	–	–	–	–	–	–	(97.4)	(97.4)
Net fair value losses on available for sale investments		–	–	–	–	–	–	(0.4)	–	(0.4)
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	(11.2)	(11.2)
Tax on items taken directly to equity (for split see Consolidated statement of comprehensive income on page 42)		–	–	38.2	–	–	–	–	31.9	70.1
Own ordinary shares purchased		–	–	–	–	(2.8)	–	–	–	(2.8)
Own ordinary shares sold		–	–	–	–	1.5	–	–	–	1.5
Preference shares redeemed		–	–	(2.7)	2.7	–	–	–	–	–
Arising on new ordinary share issues		0.1	1.3	–	–	–	–	–	–	1.4
VAT recovered on professional fees previously applied to share premium account		–	0.2	–	–	–	–	–	–	0.2
Credit in relation to equity-settled share based payments		–	–	3.1	–	–	–	–	–	3.1
Dividends paid on ordinary shares	9	–	–	(41.8)	–	–	–	–	–	(41.8)
Balance at 30 April 2009 and 1 May 2009		7.1	9.5	(374.9)	413.5	(13.9)	1.1	0.2	(52.2)	(9.6)
Profit for the year		–	–	111.7	–	–	–	–	–	111.7
Foreign exchange differences on translation of foreign operations (net of hedging)		–	–	–	–	–	6.0	–	–	6.0
Actuarial losses on Group defined benefit pension schemes		–	–	(138.7)	–	–	–	–	–	(138.7)
Share of actuarial gains on joint ventures' defined benefit pension schemes		–	–	0.2	–	–	–	–	–	0.2
Share of fair value gains on joint ventures' cash flow hedges		–	–	1.8	–	–	–	–	–	1.8
Net fair value gains on cash flow hedges		–	–	–	–	–	–	–	38.3	38.3
Net fair value losses on available for sale investments		–	–	–	–	–	–	(0.2)	–	(0.2)
Cash flow hedges reclassified and reported in profit for the year		–	–	–	–	–	–	–	61.8	61.8
Tax on items taken directly to equity (for split see Consolidated statement of comprehensive income on page 42)		–	–	38.9	–	–	–	–	(28.0)	10.9
Own ordinary shares purchased		–	–	–	–	(0.2)	–	–	–	(0.2)
Own ordinary shares sold		–	–	–	–	0.8	–	–	–	0.8
Preference shares redeemed		–	–	(2.1)	2.1	–	–	–	–	–
Arising on new ordinary share issues		–	0.3	–	–	–	–	–	–	0.3
Credit in relation to equity-settled share based payments		–	–	6.3	–	–	–	–	–	6.3
Dividends paid on ordinary shares	9	–	–	(76.7)	–	–	–	–	–	(76.7)
Balance at 30 April 2010		7.1	9.8	(433.5)	415.6	(13.3)	7.1	–	19.9	12.7

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

Consolidated statement of cash flows

For the year ended 30 April 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated by operations	33	**234.5**	269.6
Interest paid		**(58.5)**	(41.7)
Interest received		**5.4**	8.7
Dividends received from joint ventures		**35.7**	44.9
Net cash flows from operating activities before tax		**217.1**	281.5
Tax paid		**(0.7)**	(3.7)
Net cash from operating activities after tax		**216.4**	277.8
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	17	**(2.5)**	(19.0)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	18	**1.6**	0.3
Purchase of property, plant and equipment		**(89.2)**	(94.9)
Disposal of property, plant and equipment	33	**53.0**	12.8
Purchase of intangible assets		**(0.9)**	(0.4)
Purchase of other investments		**(0.6)**	Nil
Movement in loans to joint ventures		**1.4**	(0.4)
Net cash outflow from investing activities		**(37.2)**	(101.6)
Cash flows from financing activities			
Issue of ordinary shares for cash		**0.3**	1.4
VAT recovered on professional fees previously applied to share premium		**Nil**	0.2
Redemption of 'B' shares		**(2.1)**	(2.7)
Investment in own ordinary shares by employee share ownership trusts		**(0.2)**	(2.8)
Sale of own ordinary shares by employee share ownership trusts		**0.8**	1.5
Repayments of hire purchase and lease finance		**(58.7)**	(47.5)
Proceeds of sale and leaseback transaction		**3.6**	20.3
Movement in other borrowings		**53.3**	(96.5)
Dividends paid on ordinary shares	9	**(76.7)**	(41.8)
Sale of tokens		**3.2**	4.5
Redemption of tokens		**(3.4)**	(5.3)
Net cash used in financing activities		**(79.9)**	(168.7)
Net increase in cash and cash equivalents		**99.3**	7.5
Cash and cash equivalents at the beginning of year		**277.3**	261.6
Exchange rate effects		**(0.9)**	8.2
Cash and cash equivalents at the end of year	22	**375.7**	277.3

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

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

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

- **Basis of preparation**

The consolidated financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (and therefore comply with Article 4 of the EU IAS Regulation), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in pounds sterling, the presentational 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 accounting standards and amendments to standards are mandatory for the first time for the financial year beginning 1 May 2009:

- IAS 1 'Presentation of Financial Statements' (revised September 2007). The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income.
- IFRS 2 'Share-based Payment – Amendment re vesting conditions and cancellations'. The amendment clarifies that only service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The main impact of this amendment for the Group arises from cancellations by employees of contributions to the Group's Save as You Earn (SAYE) scheme; in the event of a cancellation the Group must recognise immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. The amendment is to be applied retrospectively, however no adjustment has been made to prior year comparatives as the adjustment would be immaterial.
- IFRS 7 (revised March 2009), 'Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk'. The amendments expand the disclosures required in respect of fair value measurements recognised in the statement of financial position. The impact of adopting IFRS 7 (revised March 2009) was only one of disclosure.

The following new standards, amendments to standards and interpretations were mandatory for the first time for the financial year beginning 1 May 2009, but do not have any significant effect on the Group's financial statements in the period of initial application:

- Various amendments resulting from May 2008 Annual Improvements to IFRSs effective for annual periods beginning on or after 1 January 2009
- IFRS 1 'First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption'
- IAS 1 'Presentation of Financial Statements – Amendment relating to disclosure of puttable instruments and obligations arising on liquidation'
- IAS 23 'Borrowing Costs', (revised March 2007)
- IAS 27 'Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first-time adoption'
- IAS 32 'Financial Instruments: Presentation – Amendment relating to puttable instruments and obligations arising on liquidation'
- IAS 39 'Financial Instruments: Recognition and Measurement – Amendment for embedded derivatives'
- IAS 39 'Financial Instruments: Recognition and Measurement – Amendment in relation to reclassification of financial assets'
- IFRIC 9 'Embedded Derivatives' (amended)
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

The Group early adopted IFRS 8, 'Operating Segments', as of 1 May 2008. The Group concluded that the operating segments determined in accordance with IFRS 8 are equivalent to the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 2.

- **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 date*
Amendments resulting from April 2009 Annual Improvements to IFRSs		1 July 2009 and later
Amendments resulting from May 2010 Annual Improvements to IFRSs		1 January 2011 and later
IFRS 1	First-time Adoption of International Financial Reporting Standards (revised November 2008)	1 July 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards (revised July 2009)	1 January 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards (revised January 2010)	1 July 2010
IFRS 2	Share-based Payment – Amendment re group cash-settled share-based payment transactions	1 January 2010
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 9	Financial Instruments – Classification and Measurement (revised November 2009)	1 January 2013
IAS 24	Related Party Disclosures (revised November 2009)	1 January 2011
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 31	Interests in Joint Ventures (revised January 2008)	1 January 2009
IAS 32	Financial Instruments: Presentation – Amendment re classification of rights issue	1 February 2010
IAS 39	Financial Instruments: Recognition and Measurement – Amendment for eligible hedged items	1 July 2009
IFRIC 14	Amendment re Prepayments of a Minimum Funding Requirement	1 July 2010
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Directors are currently reviewing the requirements of the above standards and interpretations to determine whether they will have a material impact on the Group's financial statements in the period of initial application.

- **Comparatives**

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

Note 1 IFRS accounting policies (continued)

- **Basis of consolidation (continued)**

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

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

- **Subsidiaries, associates and joint ventures**

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits from their activities, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of subsidiaries. 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 plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill.

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

(ii) Associates and joint ventures

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

Joint ventures are enterprises that the Group has the power to jointly govern the enterprises' financial and operating policies with other investors based on contractual agreement.

Associates are enterprises, other than joint ventures, that are not controlled by the Group over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence.

Under the equity method of accounting, the Group's consolidated income statement includes the Group's share of profits less losses of joint ventures and associates, while the share of net assets of joint ventures and associates is included in the Group's consolidated balance sheet. Where the Group's share of losses in a joint venture or associate exceeds its interest in that enterprise, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

The Group's investment in joint ventures and associates includes goodwill on acquisition.

The Group applies its own accounting policies and estimates when accounting for its share of joint ventures and associates, 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 38.

- **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 onerous contract provisions, the measurement of retirement benefit obligations, the measurement and impairment of goodwill, 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 onerous 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 obligations requires the estimation of life expectancies, future changes in salaries, inflation, the expected return on scheme assets and the selection of a suitable discount rate (see note 28). 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 (see note 11). 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 esimate of the likely outcomes based on interpreting the applicable contracts.

Those accounting policies that the Directors believe require the greatest exercise of judgement are described on page 14 and 15.

- **Revenue**

Revenue represents gross revenue earned from public transport services and excludes payments received on account. Amounts receivable for tendered services and concessionary fare schemes are included as part of revenue. Where appropriate, amounts are shown net of rebates and VAT. Revenues incidental to the Group's principal activity (including advertising income and maintenance income) are reported as miscellaneous revenue (see note 5).

Rail revenue includes amounts attributable to the train operating companies, based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry) in respect of passenger receipts. Franchise agreement receipts or payments from or to the Department for Transport ("DfT") are treated as other operating income (see note 5).

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.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Revenue (continued)**

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

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

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the DfT. As a result of these arrangements, the Group may be liable to make payments to the DfT or receive amounts from the DfT based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable (if any) are classified within other operating costs and revenue share amounts receivable (if any) are classified within other operating income.

- **Performance incentive payments**

Performance incentive payments made to Network Rail by the Group in respect of train service delivery are recognised in the same period that the performance relates to and are shown as other operating costs.

- **Government grants**

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable in respect of the operation of rail franchises in the UK are credited to the income statement in the period in which the related expenditure is recognised in the income statement or where they do not relate to any specific expenditure, in the period in respect of which the grant is receivable. These rail franchise grants are classified within other operating income.

- **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 estimated by use of the Black-Scholes pricing model.

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

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

Cash-settled transactions

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

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

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

Choice of settlement

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

- **Operating profit**

Operating profit is stated after charging restructuring costs and after the share of after-tax results of associates and joint ventures but before finance income, finance costs, non-operating exceptional items, taxation and profit from discontinued operations.

- **Taxation**

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates 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.

Note 1 IFRS accounting policies (continued)

- **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker 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 overseas 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 overseas 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 investment in a foreign entity is provided on page 53.

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 Group took the IFRS 1 exemption which allows accumulated exchange differences at the date of transition to IFRS, being 1 May 2004, to be set to zero for all foreign subsidiaries.

PRINCIPAL RATES OF EXCHANGE	**2010**	2009
US Dollar:		
Year end rate	**1.5307**	1.4818
Average rate	**1.6020**	1.6780
Canadian Dollar:		
Year end rate	**1.5504**	1.7605
Average rate	**1.7189**	1.8955

- **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 arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

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 will remain eliminated against reserves.

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

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

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

- **Impairment of non-current assets**

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

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

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

- **Intangible assets**

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

Amortisation is calculated on the straight-line method 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. Intangible assets relating to rail franchises of a finite duration are amortised over the life of the franchise.

Customer contracts	over the life of the contract (1 to 9 years for current contracts)
Right to operate rail franchises	over the life of the franchise (10 years from February 2007 to February 2017 for South Western Trains franchise and 7 years and 4 months from November 2007 to March 2015 for East Midlands Trains franchise)
Non-compete contracts	between 2 and 5 years for current contracts
Software costs	2 to 7 years

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Property, plant and equipment**

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition and is subsequently measured at fair value on acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment.

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
Public Service Vehicles ("PSVs") and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Heritable and 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.

- **Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of the carrying amount immediately prior to the asset being classified as held for sale and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Where an asset that is classified as held for sale ceases to meet the criteria to be classified as such, the asset is reclassified as approprite.

- **Inventories**

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

- **Pre-contract costs**

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

- **Hire purchase and lease obligations**

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

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

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

Rentals under operating leases are charged on a straight-line basis over the lease term.

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

- **Tokens**

Tokens issued by National Transport Tokens Limited, a subsidiary of the Group, to facilitate public passenger travel in the United Kingdom are credited to a token redemption provision to the extent they are expected to be redeemed by customers. Redemptions are offset against this provision and associated handling commission paid to third parties is included in operating costs. Funds from the sale of tokens required for token redemption are included as a financing activity in the consolidated cash flow statement.

The estimate of the balance sheet provision for token redemption is remeasured at each balance sheet date and is based on the value of tokens issued by the Group but not yet redeemed or cancelled at the balance sheet date. Allowance is made for the estimated proportion of tokens in issue that will never be redeemed. This allowance is estimated with reference to historic redemption rates. At 30 April 2010, it has been estimated that 97% (30 April 2009: 97%) of tokens in issue will be redeemed.

- **Provision for onerous contracts**

A provision for onerous contracts is recognised when it is probable that the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Note 1 IFRS accounting policies (continued)

- **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 as described in note 28.

The Group accounts for pensions and similar benefits in accordance with IAS 19 "Employee Benefits". In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, the recognised net asset is limited to no greater than the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the scheme. An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities.

The operating and financing costs of defined benefit plans are included within operating profit and are disclosed separately in the notes to the financial statements; service costs are spread systematically over the working lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Mortality rates are considered when retirement benefit obligations are calculated.

Past service costs and adjustments are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period), in which case the past service costs are amortised using a straight-line method over the vesting period. Past service pension adjustments which impact on the income statement for the year are disclosed within exceptional items, where material to the financial statements.

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 within profit or loss from discontinued operations.

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

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

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

- **Financial instruments**

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

Financial assets

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

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

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: Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method. Held-to-maturity gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process. Investments intended to be held for an undefined period cannot be included in this classification.

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, 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 effective 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. Otherwise assets are carried at cost.

Derivative financial instruments

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

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

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

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

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

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.

For hedged items carried at amortised cost, the hedge adjustment is amortised through the income statement such that it is fully amortised by maturity.

Note 1 IFRS accounting policies (continued)

- **Financial instruments (continued)**

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 recognised income remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

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

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

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments.

Interest bearing loans and borrowings
Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method subject to any adjustments in respect of fair value hedges; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

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

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

Preferred shares
Preferred shares, which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, are classified as liabilities. The dividend on these preferred shares is recognised in the income statement as an interest expense.

Share capital and dividends
Ordinary shares are classified as equity.

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

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

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

The accounting policy in relation to preferred shares and dividends payable on such shares is included in the accounting policy for financial instruments above.

Note 2 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group is managed, and reports internally, on a basis consistent with its three continuing operating segments, being UK Bus, North America and UK Rail. The Group's IFRS accounting policies are applied consistently, where appropriate to each segment.

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

Segment name	*Service operated*	*Country of operation*
UK Bus	Coach and bus operations	United Kingdom
North America	Coach and bus operations	USA and Canada
UK Rail	Rail operations	United Kingdom

The Group has interests in four joint ventures: Virgin Rail Group, that operates in UK Rail; Citylink, that operates in UK Bus; and New York Splash Tours LLC and Twin America LLC, that both operate 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 is the same in all cases. 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.

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(a) Revenue (continued)

	2010 £m	2009 £m
Continuing operations		
UK Bus	**875.4**	830.8
North America	**266.1**	297.7
Total bus continuing operations	**1,141.5**	1,128.5
UK Rail	**1,026.7**	977.7
Total Group revenue	**2,168.2**	2,106.2
Intra-Group revenue	**(3.8)**	(2.9)
Reported Group revenue	**2,164.4**	2,103.3

(b) Operating profit

	2010			2009		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Continuing operations						
UK Bus	**126.1**	**(2.6)**	**123.5**	125.6	Nil	125.6
North America	**9.1**	**Nil**	**9.1**	25.2	Nil	25.2
Total bus continuing operations	**135.2**	**(2.6)**	**132.6**	150.8	Nil	150.8
UK Rail	**41.6**	**Nil**	**41.6**	55.7	Nil	55.7
Total continuing operations	**176.8**	**(2.6)**	**174.2**	206.5	Nil	206.5
Group overheads	**(11.6)**	**Nil**	**(11.6)**	(11.5)	Nil	(11.5)
Intangible asset expenses	**Nil**	**(6.0)**	**(6.0)**	Nil	(8.3)	(8.3)
Restructuring costs	**(1.2)**	**0.8**	**(0.4)**	(2.5)	(12.0)	(14.5)
Total operating profit of continuing Group companies	**164.0**	**(7.8)**	**156.2**	192.5	(20.3)	172.2
Share of joint ventures' profit after finance income and taxation	**28.0**	**(5.1)**	**22.9**	35.3	(5.1)	30.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**192.0**	**(12.9)**	**179.1**	227.8	(25.4)	202.4

Note 2 Segmental information (continued)

(c) Joint ventures

	2010			2009		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Continuing						
Virgin Rail Group (UK Rail)						
Operating profit	**25.5**	**Nil**	**25.5**	42.7	Nil	42.7
Finance income (net)	**0.2**	**Nil**	**0.2**	2.3	Nil	2.3
Taxation	**(6.5)**	**Nil**	**(6.5)**	(11.0)	Nil	(11.0)
	19.2	**Nil**	**19.2**	34.0	Nil	34.0
Goodwill charged on investment in continuing joint ventures	**Nil**	**(5.1)**	**(5.1)**	Nil	(5.1)	(5.1)
	19.2	**(5.1)**	**14.1**	34.0	(5.1)	28.9
Citylink (UK Bus)						
Operating profit	**1.7**	**Nil**	**1.7**	1.4	Nil	1.4
Taxation	**(0.5)**	**Nil**	**(0.5)**	(0.4)	Nil	(0.4)
	1.2	**Nil**	**1.2**	1.0	Nil	1.0
New York Splash Tours LLC (North America)						
Operating loss	**(0.9)**	**Nil**	**(0.9)**	(0.6)	Nil	(0.6)
	(0.9)	**Nil**	**(0.9)**	(0.6)	Nil	(0.6)
Twin America LLC (North America)						
Operating profit	**8.9**	**Nil**	**8.9**	0.9	Nil	0.9
Taxation	**(0.4)**	**Nil**	**(0.4)**	Nil	Nil	Nil
	8.5	**Nil**	**8.5**	0.9	Nil	0.9
Share of profit of joint ventures after finance income and taxation	**28.0**	**(5.1)**	**22.9**	35.3	(5.1)	30.2

(d) Gross assets and liabilities

	2010					2009				
	Gross assets £m	Gross liabilites excluding retirement benefit obligations £m	Net assets/ (liabilities) excluding retirement benefit obligations £m	Retirement benefit obligations £m	Net assets/ (liabilities)	Gross assets £m	Gross liabilites excluding retirement benefit obligations £m	Net assets/ (liabilities) excluding retirement benefit obligations £m	Retirement benefit obligations £m	Net assets/ (liabilities)
UK Bus	**693.3**	**(172.8)**	**520.5**	**(151.1)**	**369.4**	630.7	(140.4)	490.3	(27.3)	463.0
North America	**271.7**	**(80.8)**	**190.9**	**(2.9)**	**188.0**	278.2	(102.6)	175.6	(3.6)	172.0
UK Rail	**196.6**	**(375.8)**	**(179.2)**	**(40.8)**	**(220.0)**	234.9	(385.0)	(150.1)	(47.4)	(197.5)
	1,161.6	**(629.4)**	**532.2**	**(194.8)**	**337.4**	1,143.8	(628.0)	515.8	(78.3)	437.5
Central functions	**25.2**	**(62.5)**	**(37.3)**	**(7.3)**	**(44.6)**	15.0	(148.9)	(133.9)	(2.3)	(136.2)
Joint ventures	**56.7**	**Nil**	**56.7**	**Nil**	**56.7**	68.7	Nil	68.7	Nil	68.7
Borrowings and cash	**375.7**	**(676.9)**	**(301.2)**	**Nil**	**(301.2)**	277.3	(626.9)	(349.6)	Nil	(349.6)
Taxation	**2.7**	**(38.3)**	**(35.6)**	**Nil**	**(35.6)**	5.3	(35.3)	(30.0)	Nil	(30.0)
Total	**1,621.9**	**(1,407.1)**	**214.8**	**(202.1)**	**12.7**	1,510.1	(1,439.1)	71.0	(80.6)	(9.6)

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

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, interest payable, interest receivable and the token provision.

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(e) Capital expenditure on property, plant and equipment

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

	2010	2009
	£m	£m
UK Bus	**98.2**	126.9
North America	**14.5**	38.2
UK Rail	**45.1**	37.8
	157.8	202.9

Capital expenditure, excluding business combinations is analysed in section 3.8.10 of the Operating and Financial Review.

(f) Capital expenditure on intangible assets

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

	2010	2009
	£m	£m
UK Bus	**2.2**	13.5
North America	**Nil**	3.9
UK Rail	**0.9**	0.4
	3.1	17.8

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

The results of each segment are further analysed below:

	Year ended 30 April 2010								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation & impairment 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	180.9	Nil	180.9	(54.8)	126.1	(3.1)	(2.6)	(0.2)	120.2
North America	29.2	Nil	29.2	(20.1)	9.1	(0.4)	Nil	(0.3)	8.4
UK Rail – subsidiaries	58.3	Nil	58.3	(16.7)	41.6	(2.5)	Nil	0.3	39.4
UK Rail – joint venture (Virgin Rail Group)	25.5	(6.3)	19.2	Nil	19.2	(5.1)	Nil	Nil	14.1
UK Bus – joint venture (Citylink)	1.7	(0.5)	1.2	Nil	1.2	Nil	Nil	Nil	1.2
North America – joint ventures (Splash Tours and Twin America)	8.0	(0.4)	7.6	Nil	7.6	Nil	Nil	Nil	7.6
Group overheads	(11.3)	Nil	(11.3)	(0.3)	(11.6)	Nil	Nil	(0.2)	(11.8)
Restructuring costs	(1.2)	Nil	(1.2)	Nil	(1.2)	Nil	0.8	0.4	Nil
	291.1	(7.2)	283.9	(91.9)	192.0	(11.1)	(1.8)	Nil	179.1

	Year ended 30 April 2009								
	EBITDA pre-exceptional items £m	Joint venture interest and tax £m	EBITDA including joint venture interest and tax £m	Depreciation & impairment 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	176.0	Nil	176.0	(50.4)	125.6	(5.2)	Nil	(1.6)	118.8
North America	44.7	Nil	44.7	(19.5)	25.2	(0.7)	Nil	Nil	24.5
UK Rail – subsidiaries	58.0	Nil	58.0	(2.3)	55.7	(2.4)	Nil	(12.9)	40.4
UK Rail – joint venture (Virgin Rail Group)	42.7	(8.7)	34.0	Nil	34.0	(5.1)	Nil	Nil	28.9
UK Bus – joint venture (Citylink)	1.4	(0.4)	1.0	Nil	1.0	Nil	Nil	Nil	1.0
North America – joint ventures (Splash Tours and Twin America)	0.3	Nil	0.3	Nil	0.3	Nil	Nil	Nil	0.3
Group overheads	(11.4)	Nil	(11.4)	(0.1)	(11.5)	Nil	Nil	Nil	(11.5)
Restructuring costs	(2.5)	Nil	(2.5)	Nil	(2.5)	Nil	(12.0)	14.5	Nil
	309.2	(9.1)	300.1	(72.3)	227.8	(13.4)	(12.0)	Nil	202.4

Note 3 Operating costs

	2010	2009
	£m	£m
Materials and consumables	**300.0**	257.4
Staff costs (note 7)	**826.6**	818.9
Depreciation on property, plant and equipment		
– owned assets	**46.0**	51.1
– leased assets under hire purchase agreements and finance leases	**31.2**	21.0
Loss on disposal of plant and equipment	**2.0**	2.0
Impairment of plant and equipment	**14.7**	0.2
Repairs and maintenance expenditure on property, plant and equipment	**18.2**	20.3
Amortisation of intangible assets		
– customer contracts	**1.5**	3.0
– non-compete contracts	**2.0**	2.8
– rail franchises	**2.2**	2.3
– software costs	**0.3**	0.2
Network Rail charges	**222.7**	238.1
Operating lease rentals payable		
– plant and equipment	**146.1**	141.7
– property	**7.1**	7.2
Other external charges		
– exceptional	**2.6**	Nil
– non-exceptional	**331.4**	372.6
Restructuring costs		
– exceptional	**(0.8)**	12.0
– non-exceptional	**1.2**	2.5
Total operating costs	**1,955.0**	1,953.3

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

	2010	2009
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**20.0**	20.0
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**710.5**	675.0
Total audit fees	**730.5**	695.0
Assurance services pursuant to legislation	**Nil**	Nil
Other assurance services (see below)	**323.0**	85.3
Tax advisory services	**55.6**	109.7
Provision of training and related materials	**2.0**	0.8
Non-audit fees	**380.6**	195.8
Total fees payable by the Group to its auditors	**1,111.1**	890.8

The fees payable to the auditors for other assurance services of £323,000 (2009: £85,300) shown above include £295,000 (2009: £Nil) in relation to the issue of corporate bonds and the proposal to acquire certain businesses of, or merge with, National Express Group plc. This related to work that was best undertaken by the auditors in respect of a shareholder circular, a review of the adequacy of the Group's working capital and advice on the accounting and legal structuring of the proposal.

In addition to the fees detailed above, PricewaterhouseCoopers LLP received US$110,000 (2009: US$Nil) in relation to the audit of our joint venture, Twin America LLC.

A description of the work of the Audit Committee is set out in the Audit Committee Report on page 29, 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 38.

Information on exceptional items is provided in section 3.8.2 of the Operating and Financial Review.

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the year ended 30 April 2010 can be further analysed as follows:

	2010		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Restructuring costs – release of unutilised provision	0.8	Nil	0.8
Costs of participation in the Competition Commission study of the UK local bus market	(2.6)	Nil	(2.6)
Intangible asset expenses	Nil	(6.0)	(6.0)
	(1.8)	(6.0)	(7.8)
Share of profit of joint ventures			
Goodwill charged on investment in joint ventures	Nil	(5.1)	(5.1)
Non-operating exceptional items – continuing operations			
Gain on sale of properties	4.3	Nil	4.3
Loss on disposal of operations (note 18)	(3.2)	Nil	(3.2)
Loss on exit from certain operations	(0.8)	Nil	(0.8)
Expenses incurred in relation to proposal to acquire certain businesses of, or merge with, National Express Group plc	(2.3)	Nil	(2.3)
Non-operating exceptional items – continuing operations	(2.0)	Nil	(2.0)
Exceptional finance costs			
Loss on ineffective interest rate swaps following issuance of sterling bond	(20.5)	Nil	(20.5)
Intangible asset expenses and exceptional items – continuing operations	(24.3)	(11.1)	(35.4)
Tax effect of intangible asset expenses and exceptional items	7.4	1.7	9.1
Intangible asset expenses and exceptional items after taxation – continuing operations	(16.9)	(9.4)	(26.3)
Resolution of certain liabilities re disposals – discontinued operations	3.9	Nil	3.9

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

	2009		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Intangible asset expenses	Nil	(8.3)	(8.3)
Restructuring costs	(12.0)	Nil	(12.0)
	(12.0)	(8.3)	(20.3)
Share of profit of joint ventures			
Goodwill charged on investment in joint ventures	Nil	(5.1)	(5.1)
Non-operating exceptional items – continuing operations			
Impairment charge on properties	(2.4)	Nil	(2.4)
Resolution of certain liabilities re acquisitions and disposals	2.2	Nil	2.2
Non-operating exceptional items – continuing operations	(0.2)	Nil	(0.2)
Intangible asset expenses and exceptional items – continuing operations	(12.2)	(13.4)	(25.6)
Tax effect of intangible asset expenses and exceptional items	4.1	2.2	6.3
Deferred tax charge re abolition of the Industrial Buildings Allowances	(10.6)	Nil	(10.6)
Intangible asset expenses and exceptional items after taxation – continuing operations	(18.7)	(11.2)	(29.9)

Note 4 Exceptional items and intangible asset expenses (continued)

The "goodwill charged on investment in joint ventures" is an annual charge for goodwill in relation to our investment in Virgin Rail Group. On adoption of IFRS, the Group took the exemption offered under IFRS 1 not to restate prior period business combinations. Accordingly, the goodwill arising under UK GAAP on the acquisition of the 49% stake in Virgin Rail Group was carried over to IFRS, however Virgin Rail Group's only significant business is the operation of the West Coast Trains rail franchise, which has a finite duration as the franchise ends on a particular date. We therefore have to reduce the goodwill in relation to Virgin Rail Group with an annual charge to reflect the fact that we should have no goodwill left at the end of the current West Coast Trains rail franchise. Whilst IFRS generally prohibits the amortisation of goodwill, the treatment adopted is a result of an anomaly on the first-time adoption of IFRS that would not arise if IFRS were applied to new acquisitions of businesses.

Note 5 Other operating (expense)/income

	2010	2009
	£m	£m
Miscellaneous revenue	**87.7**	88.6
Rail franchise support, excluding incentive payments	**Nil**	31.5
Rail franchise premia	**(148.7)**	(97.9)
Rail revenue support	**7.8**	Nil
	(53.2)	22.2

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 support is the amount of financial support receivable from the Department for Transport ("DfT") in respect of the operation of UK passenger rail franchises. Rail franchise premia is the amount of financial premia payable to the DfT in respect of the operation of UK passenger rail franchises.

Rail revenue support is the amount of additional financial support receivable from the DfT in certain circumstances where a train operating company's revenue is below target.

Note 6 Finance costs and income

	2010	2009
	£m	£m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes and overdrafts	**4.5**	9.8
Hire purchase and finance lease interest payable	**7.3**	7.8
Interest payable on bonds	**16.1**	15.1
'B' share dividends	**Nil**	0.2
Fair value losses on financial instruments not qualifying as hedges:		
Foreign exchange derivative contracts	**5.1**	Nil
Unwinding of discount on provisions	**3.7**	3.6
Interest payable on interest rate swaps qualifying as cashflow hedges	**4.8**	2.4
	41.5	38.9
Finance income		
Interest receivable	**(4.0)**	(7.5)
Interest receivable on interest rate swaps qualifying as fair value hedges	**(1.3)**	Nil
Exchange gains on retranslation of US$ bonds	**(5.5)**	Nil
	(10.8)	(7.5)
Net finance costs before exceptional items	**30.7**	31.4
Exceptional item		
Ineffective interest rate swaps	**20.5**	Nil
Net finance costs	**51.2**	31.4

No interest (2009: £Nil) was capitalised during the year.

At 30 April 2009, the US$293.1m of US$ notes and a US$20.0m foreign currency derivative contract were designated as a hedge of overseas net investments. On 7 July 2009, this hedge relationship was de-designated. On the same day, the Group took out US$ derivative contracts, with notional amounts totalling US$342.0m to give certainty of the sterling value of the redemption payment that would be made by the Group when the US$ notes matured on 16 November 2009. Exchange gains on the US$ notes in the period from 7 July 2009 to 16 November 2009 of £5.5m are included within finance income above. The notional value of the derivative contracts exceeded the outstanding US$ notes in order to take account of the tax effect of the transactions.

Notes to the consolidated financial statements

Note 7 Staff costs

	2010	2009
	£m	£m
Staff costs		
Wages and salaries	**714.1**	724.8
Social security costs	**58.8**	60.5
Pension costs – defined contribution schemes	**5.2**	2.2
Pension costs – defined benefit schemes		
– current service cost	**42.2**	42.0
– curtailments	**(0.7)**	(1.0)
– interest cost	**80.8**	78.2
– expected return on assets	**(80.0)**	(92.7)
– unwinding of franchise adjustment	**(2.7)**	Nil
Share based payment costs (excluding social security costs)		
– Equity-settled	**6.3**	3.1
– Cash-settled	**2.6**	1.8
	826.6	818.9

	2010	2009
	£m	£m
Summary of directors' remuneration		
Aggregate emoluments (including bonuses awarded in deferred shares)	**2.3**	2.4
Amount waived by a director	**(0.3)**	Nil
	2.0	2.4
Gains made by directors on exercise of share options	**0.1**	1.0
	2.1	3.4
Payments made in the year under the Long Term Incentive Plan	**2.2**	2.4
	4.3	5.8

In the table above, awards made under the Executive Participation Plan are shown in the year in respect of which the award was made and the amount is included at its fair value on the grant date. Awards made under the Long Term Incentive Plan are shown in the year in which the payments are made and the amount is included at the gross amount payable.

Key management personnel are considered to be the Directors and further information on their remuneration, share options, incentive schemes and pensions is contained within the Directors' remuneration report.

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

	2010	2009
	number	number
UK operations	**23,240**	23,866
UK administration and supervisory	**2,912**	3,069
Overseas	**3,774**	4,085
	29,926	31,020

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

	2010	2009
	number	number
UK Bus	**18,842**	19,300
North America	**3,774**	4,085
UK Rail	**7,177**	7,490
Central	**133**	145
	29,926	31,020

Note 8 Taxation

(a) Analysis of charge in the year

	2010			2009		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the year £m
Current tax:						
UK corporation tax at 28% (2009: 28%)	**12.7**	**(9.1)**	**3.6**	19.9	(4.1)	15.8
Prior year over provision for corporation tax	**(0.9)**	**Nil**	**(0.9)**	(0.5)	Nil	(0.5)
Foreign tax (current year)	**0.4**	**Nil**	**0.4**	0.8	Nil	0.8
Foreign tax (adjustments in respect of prior years)	**1.0**	**Nil**	**1.0**	Nil	Nil	Nil
Total current tax	**13.2**	**(9.1)**	**4.1**	20.2	(4.1)	16.1
Deferred tax:						
Origination and reversal of temporary differences	**14.9**	**Nil**	**14.9**	13.4	(2.2)	11.2
Exceptional charge re abolition of Industrial Building Allowances	**Nil**	**Nil**	**Nil**	Nil	10.6	10.6
Adjustments in respect of prior years	**(0.9)**	**Nil**	**(0.9)**	(0.6)	Nil	(0.6)
Total deferred tax	**14.0**	**Nil**	**14.0**	12.8	8.4	21.2
Total tax on profit	**27.2**	**(9.1)**	**18.1**	33.0	4.3	37.3

(b) Factors affecting tax charge for the year

	2010 £m	2009 £m
Profit before taxation – continuing operations	**125.9**	170.8
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 28% (2009: 28%)	**35.3**	47.8
Effects of:		
Intangible asset allowances/deductions	**1.4**	1.5
(Non taxable income)/non-deductible expenditure	**(0.2)**	1.3
Utilisation of tax losses not previously recognised as deferred tax assets	**(13.5)**	(14.7)
Foreign taxes differences	**1.3**	1.7
Adjustments to tax charge in respect of prior years	**(0.8)**	(1.1)
Tax effect of share of results of joint ventures	**(5.4)**	(9.8)
Abolition of Industrial Buildings Allowances in the UK	**Nil**	10.6
Total taxation (note 8a)	**18.1**	37.3

(c) Factors that may affect future tax charges

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

Gross deductible temporary differences of £105.8m (2009: £125.4m) have not been recognised due to restrictions in the availability of their use. Temporary differences in respect of the revaluation of land and buildings (see note 13) and in respect of rolled over capital gains are fully offset by temporary differences in respect of capital losses.

In the 2010 budget on 22 June 2010, the UK Government announced its intention to reduce the UK corporate income tax rate from 28% to 24% by 1% per annum over a four-year period. At 30 April 2010, no change in the rate of tax was substantively in law, but a 1% decrease in the rate to 27% is expected to be enacted in the year ending 30 April 2011. Had this change of rate to 27% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in deferred tax liabilities of £0.7m, from £19.2m to £18.5m.

(d) Tax on items charged to equity

	2010 £m	2009 £m
Tax on foreign exchange differences on translation of foreign operations	**Nil**	0.9
Tax effect of actuarial losses on Group defined benefit pensions schemes	**(38.8)**	(40.4)
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes	**0.1**	0.8
Tax effect of share of fair value gains on joint ventures' cash flow hedges	**0.5**	Nil
Tax effect of share based payments	**(0.7)**	0.5
Tax effect of cash flow hedges	**28.0**	(31.9)
Total tax on items charged to equity	**(10.9)**	(70.1)

Notes to the consolidated financial statements

Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below. Dividends payable in respect of 'B' Shares are included as an expense in finance costs and shown separately in note 6.

	2010	2009	2010	2009
	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	**4.2**	4.05	**30.1**	28.9
Interim dividends in respect of the current year	**6.5**	1.8	**46.6**	12.9
Amounts recognised as distributions to equity holders in the year	**10.7**	5.85	**76.7**	41.8
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	**Nil**	4.2	**Nil**	30.0

The Company declared and paid two interim dividends in respect of the year ended 30 April 2010, totalling 6.5 pence per share. In light of this, no final dividend is proposed in respect of the year ended 30 April 2010.

The dividends proposed or declared and the actual dividends recognised as distributions can differ slightly due to the number of shares at the balance sheet date being different to the number outstanding at the record date.

Note 10 Earnings per share

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held 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 share options and long-term incentive plans. In respect of share options, a calculation was done to determine the number of ordinary shares that could have been acquired at fair value (determined based on the average annual market share price of the Company's ordinary shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration and no adjustment is made to earnings (numerator).

	2010	2009
	no. of shares million	no. of shares million
Basic weighted average number of ordinary shares	**716.2**	714.5
Dilutive ordinary shares		
– Executive Share Option Scheme	**0.6**	1.3
– Employee SAYE Scheme	**Nil**	0.1
– Long Term Incentive Plan	**3.1**	2.4
– Executive Participation Plan	**3.7**	2.8
Diluted weighted average number of ordinary shares	**723.6**	721.1

	2010	2009
	£m	£m
Profit after taxation (for basic EPS calculation)	**111.7**	133.5
Intangible asset expenses (see note 4)	**11.1**	13.4
Exceptional items before tax (see note 4)	**24.3**	12.2
Tax effect of intangible asset expenses and exceptional items (see note 4)	**(9.1)**	4.3
Profit for the year from discontinued operations (see note 4)	**(3.9)**	Nil
Profit for adjusted EPS calculation	**134.1**	163.4

Note 10 Earnings per share (continued)

	2010	2009
	Earnings per share	Earnings per share
	pence	pence
Basic	**15.6**	18.7
Adjusted basic	**18.7**	22.9
Diluted	**15.4**	18.5
Adjusted diluted	**18.5**	22.7

Earnings per share before intangible asset expenses and exceptional items is calculated by adding back intangible asset expenses and exceptional items after taking account of taxation, as shown on the consolidated income statement on page 41. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The basic and diluted earnings per share can be further analysed as follows:

	2010			2009		
	Earnings £m	Weighted average number of shares Million	Earnings per share Pence	Earnings £m	Weighted average number of shares Million	Earnings per share Pence
Basic						
– Continuing operations	**107.8**	**716.2**	**15.1**	133.5	714.5	18.7
– Discontinued operations	**3.9**	**716.2**	**0.5**	Nil	714.5	Nil
	111.7	**716.2**	**15.6**	133.5	714.5	18.7
Adjusted basic						
– Continuing operations	**134.1**	**716.2**	**18.7**	163.4	714.5	22.9
– Discontinued operations	**Nil**	**716.2**	**Nil**	Nil	714.5	Nil
	134.1	**716.2**	**18.7**	163.4	714.5	22.9
Diluted						
– Continuing operations	**107.8**	**723.6**	**14.9**	133.5	721.1	18.5
– Discontinued operations	**3.9**	**723.6**	**0.5**	Nil	721.1	Nil
	111.7	**723.6**	**15.4**	133.5	721.1	18.5
Adjusted diluted						
– Continuing operations	**134.1**	**723.6**	**18.5**	163.4	721.1	22.7
– Discontinued operations	**Nil**	**723.6**	**Nil**	Nil	721.1	Nil
	134.1	**723.6**	**18.5**	163.4	721.1	22.7

There have been no ordinary share transactions between the balance sheet date and the date of approval of this report that would have significantly changed the number of ordinary shares outstanding at 30 April 2010.

Note 11 Goodwill

	2010	2009
	£m	£m
Cost		
At beginning of year	**99.9**	95.5
Acquired through business combinations	**1.7**	10.3
Transferred to interest in joint venture (note 14)	**Nil**	(26.9)
Foreign exchange movements	**(2.2)**	21.0
At end of year	**99.4**	99.9
Accumulated impairment losses		
At beginning and end of year	**Nil**	Nil
Net book value at beginning of year	**99.9**	95.5
Net book value at end of year	**99.4**	99.9

Notes to the consolidated financial statements

Note 11 Goodwill (continued)

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

The cash generating units are as follows:

	UK Bus		North America Bus	
	2010	2009	**2010**	2009
	£m	£m	£m	£m
Carrying amount of goodwill	**34.8**	33.1	**64.6**	66.8
Carrying value of intangible assets with indefinite useful lives	**Nil**	Nil	**Nil**	Nil
Basis on which recoverable amount has been determined	**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
Pre-tax discount rate applied to cash flow projections	**11.8%**	11.8%	**14.8%**	14.8%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.0%**	2.1%	**2.0%**	2.5%
Difference between above growth rate and long-term average growth rate for market in which unit operates	**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. The assumptions used are considered to be consistent with the historical performance of each cash generating unit and to be realistically achievable in light of economic and industry measures and forecasts.

The current economic challenges and uncertainties have resulted in less visibility of future cash flows and therefore created greater uncertainty in the cash flow forecasts that underpin the calculations of value in use.

The principal risks and uncertainties are set out in section 3.10 of the Operating and Financial Review.

The cost base of the UK Bus and North American Bus operations can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. Therefore, whilst more conservative growth assumptions have been applied for the short to medium term, management believes that the cash flows for these CGUs can still be predicted with reasonable certainty notwithstanding the current economic conditions. Risks to the cash flow forecasts remain, however, and are described in section 3.10.

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 2010 at 8.5% based on:

- The market capitalisation and net debt of the Group as at 30 April 2010 as an indication of the split between debt and equity;
- A risk-free rate of 3.9%;
- A levered beta for the Group of 1.1;
- A marginal pre-tax cost of debt of 5.5%.

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.

Note 12 Other intangible assets

Year ended 30 April 2010

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	18.1	17.3	19.7	0.8	55.9
Additions	Nil	Nil	Nil	0.9	0.9
Acquired through business combinations	0.5	Nil	Nil	Nil	0.5
Disposals	Nil	(4.1)	Nil	Nil	(4.1)
Foreign exchange movements	Nil	(0.5)	Nil	Nil	(0.5)
At end of year	18.6	12.7	19.7	1.7	52.7
Accumulated amortisation					
At beginning of year	(15.6)	(11.1)	(4.4)	(0.3)	(31.4)
Amortisation	(1.5)	(2.0)	(2.2)	(0.3)	(6.0)
Disposals	Nil	0.6	Nil	Nil	0.6
Foreign exchange movements	Nil	0.2	Nil	Nil	0.2
At end of year	(17.1)	(12.3)	(6.6)	(0.6)	(36.6)
Net book value at beginning of year	2.5	6.2	15.3	0.5	24.5
Net book value at end of year	1.5	0.4	13.1	1.1	16.1

Intangible assets include customer contracts purchased as part of the Group's business combinations, non-compete contracts, the right to operate UK Rail franchises and software costs.

The amortisation of each of the above intangible assets is included within the operating costs line of the income statement.

Intangible assets arising during the year (including any acquired through business combinations) and the amortisation periods are as follows:

	Amortisation period years	Intangible additions £m
Subsidiaries – UK Bus additions	1-9	0.5
Subsidiaries – UK Rail additions	2-7	0.9
		1.4

Year ended 30 April 2009

	Customer contracts	Non-compete contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m	£m
Cost					
At beginning of year	15.8	10.8	19.7	0.9	47.2
Additions	Nil	Nil	Nil	0.4	0.4
Acquired through business combinations	2.3	4.8	Nil	Nil	7.1
Disposals	Nil	Nil	Nil	(0.5)	(0.5)
Foreign exchange movements	Nil	1.7	Nil	Nil	1.7
At end of year	18.1	17.3	19.7	0.8	55.9
Accumulated amortisation					
At beginning of year	(12.6)	(7.2)	(2.1)	(0.6)	(22.5)
Amortisation	(3.0)	(2.8)	(2.3)	(0.2)	(8.3)
Disposals	Nil	Nil	Nil	0.5	0.5
Foreign exchange movements	Nil	(1.1)	Nil	Nil	(1.1)
At end of year	(15.6)	(11.1)	(4.4)	(0.3)	(31.4)
Net book value at beginning of year	3.2	3.6	17.6	0.3	24.7
Net book value at end of year	2.5	6.2	15.3	0.5	24.5

Notes to the consolidated financial statements

Note 13 Property, plant and equipment

Year ended 30 April 2010

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	226.5	968.4	154.2	1,349.1
Additions	11.2	94.5	51.0	156.7
Acquired through business combinations	0.4	0.7	Nil	1.1
Disposals	(5.2)	(53.9)	(52.4)	(111.5)
Foreign exchange movements	(0.5)	0.3	0.5	0.3
Transferred from assets held for sale (note 23)	4.8	Nil	Nil	4.8
Reclassifications	Nil	(8.3)	8.3	Nil
At end of year	237.2	1,001.7	161.6	1,400.5
Depreciation				
At beginning of year	(21.3)	(444.4)	(97.7)	(563.4)
Charge for year	(5.9)	(64.4)	(6.9)	(77.2)
Impairment charge in the year	Nil	Nil	(14.7)	(14.7)
Disposals	0.6	47.5	4.7	52.8
Foreign exchange movements	(0.1)	1.2	(0.5)	0.6
Transferred from assets held for sale (note 23)	(2.4)	Nil	Nil	(2.4)
Reclassifications	Nil	6.5	(6.5)	Nil
At end of year	(29.1)	(453.6)	(121.6)	(604.3)
Net book value at beginning of year	205.2	524.0	56.5	785.7
Net book value at end of year	208.1	548.1	40.0	796.2
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	238.5	Nil	238.5
Leased PSV assets	Nil	78.5	Nil	78.5
Short leasehold land and buildings	27.1	Nil	Nil	27.1
Long leasehold land and buildings	26.3	Nil	Nil	26.3

Heritable and freehold land amounting to £91.4m (2009: £93.8m) has not been depreciated.
Depreciation of £31.2m (2009: £21.0m) has been charged in the year in respect of assets held under hire purchase or finance lease agreements.

Included in the net book value of property, plant and equipment is £10.2m (2009: £24.7m) in respect of assets under construction that the Group expects to be sold to Network Rail following the completion of each asset's construction.

During the year ended 30 April 2010, we reached agreement with the DfT on a commercial settlement in favour of South Western Trains in respect of certain elements of the smartcard project which had been subject to delay. In light of elements of the smartcard project not being delivered on time we have reviewed the carrying value of plant and equipment held in relation to the smartcard project and have recorded a £14.7m impairment charge.

Year ended 30 April 2009

	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	193.4	844.1	129.5	1,167.0
Additions	36.3	122.4	29.6	188.3
Acquired through business combinations	2.5	11.7	0.4	14.6
Disposals	(7.9)	(59.5)	(4.9)	(72.3)
Transferred to joint venture	(0.8)	(19.4)	(1.0)	(21.2)
Foreign exchange movements	8.1	69.2	0.2	77.5
Transferred to assets held for sale (note 23)	(4.8)	Nil	Nil	(4.8)
Reclassifications	(0.3)	(0.1)	0.4	Nil
At end of year	226.5	968.4	154.2	1,349.1
Depreciation				
At beginning of year	(15.0)	(402.8)	(96.8)	(514.6)
Charge for year	(5.0)	(61.1)	(6.0)	(72.1)
Impairment charge in the year	(2.4)	Nil	(0.2)	(2.6)
Disposals	1.0	49.0	4.2	54.2
Transferred to joint venture	0.3	6.6	0.8	7.7
Foreign exchange movements	(2.6)	(36.2)	0.4	(38.4)
Transferred to assets held for sale (note 23)	2.4	Nil	Nil	2.4
Reclassifications	Nil	0.1	(0.1)	Nil
At end of year	(21.3)	(444.4)	(97.7)	(563.4)
Net book value at beginning of year	178.4	441.3	32.7	652.4
Net book value at end of year	205.2	524.0	56.5	785.7
Included in the above net book value at end of year are:				
Assets on hire purchase	Nil	206.5	Nil	206.5
Leased PSV assets	Nil	85.6	Nil	85.6
Short leasehold land and buildings	25.4	Nil	Nil	25.4
Long leasehold land and buildings	24.3	Nil	Nil	24.3

Note 14 Interests in joint ventures

The principal joint ventures are:	Country of incorporation	Number of shares in issue at 30 April 2010	Nominal value of share capital in issue at 30 April 2010	% interest held
Virgin Rail Group Holdings Limited	United Kingdom	34,780	£3,478	49%
Scottish Citylink Limited	United Kingdom	1,643,312	£1,643,312	35%
New York Splash Tours LLC	USA	n/a	n/a	50%
Twin America LLC	USA	n/a	n/a	60%

The Group has four joint ventures: Virgin Rail Group Holdings Limited, Scottish Citylink Limited ("Citylink"), New York Splash Tours LLC and Twin America LLC.

Virgin Rail Group Holdings Limited is the holding company of Virgin Rail Group Limited, which in turn is the holding company of West Coast Trains Limited.

The Virgin Rail Group Holdings shareholders' agreement provides for joint decision making on key matters and equal representation on the Board. As a consequence, the investment has been accounted for as a joint venture.

Stagecoach acquired 35% of the share capital of Citylink on 12 September 2005 in return for transferring certain rights to the Motorvator and megabus.com operations in Scotland. The Citylink shareholder agreement provides for joint and unanimous decision making on all key matters and therefore the investment has been accounted for as a joint venture.

In North America, Stagecoach has two joint ventures, New York Splash Tours LLC, with Port Imperial Duck Charters LLC and Twin America LLC, with CitySights NY. New York Splash Tours LLC currently has no share capital but is governed by a joint venture agreement.

Stagecoach began operating Twin America LLC, a joint venture with CitySights NY, on 31 March 2009. In return for transferring certain assets to the joint venture, the Group holds 60% of the economic rights and 50% of the voting rights. Twin America LLC has no share capital and is governed by a joint venture agreement.

The Directors undertook an impairment review as at 30 April 2010 of the carrying value of the Group's joint venture interests and concluded that there had been no impairment loss.

	Virgin Rail Group	**Citylink**	**Twin America LLC**	**Total 2010**	Total 2009
	£m	£m	£m	£m	£m
Cost					
At beginning of year	**60.3**	**3.5**	**48.0**	**111.8**	71.9
Transferred from subsidiaries	**Nil**	**Nil**	**Nil**	**Nil**	41.5
Share of recognised profit	**19.2**	**1.2**	**8.5**	**28.9**	35.9
Share of actuarial gains on defined benefit pension schemes, net of tax	**0.1**	**Nil**	**Nil**	**0.1**	2.1
Share of net fair value gains on joint ventures' cash flow hedges, net of tax	**1.3**	**Nil**	**Nil**	**1.3**	Nil
Dividends received in cash	**(25.1)**	**(1.3)**	**(9.3)**	**(35.7)**	(44.9)
Dividend received in respect of loan settlement	**Nil**	**Nil**	**Nil**	**Nil**	(0.3)
Foreign exchange movements	**Nil**	**Nil**	**(1.5)**	**(1.5)**	5.6
At end of year	**55.8**	**3.4**	**45.7**	**104.9**	111.8
Amounts written off					
At beginning of year	**(43.1)**	**Nil**	**Nil**	**(43.1)**	(38.0)
Goodwill charged during year	**(5.1)**	**Nil**	**Nil**	**(5.1)**	(5.1)
At end of year	**(48.2)**	**Nil**	**Nil**	**(48.2)**	(43.1)
Net book value at beginning of year	**17.2**	**3.5**	**48.0**	**68.7**	33.9
Net book value at end of year	**7.6**	**3.4**	**45.7**	**56.7**	68.7

In addition to the above interest in joint ventures, a loan receivable from New York Splash Tours LLC of £3.1m (2009: £2.7m) is reflected in note 21. New York Splash Tours LLC has net liabilities as at 30 April 2010 of £3.8m (2009: £3.0m). The Group has not recognised its share of the net liabilities but has assessed the loan receivable for impairment and a provision for impairment of £3.1m (2009: £1.4m) has been held against the receivable.

A loan payable to Scottish Citylink Limited of £1.7m (2009: £Nil) is reflected in note 24.

Note 14 Interests in joint ventures (continued)

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

	Virgin Rail Group	Citylink	Twin America LLC	Total 2010	Total 2009
	£m	£m	£m	£m	£m
Non-current assets	**4.4**	**0.1**	**14.0**	**18.5**	21.8
Current assets	**88.3**	**2.9**	**4.6**	**95.8**	94.7
Current liabilities	**(94.4)**	**(2.2)**	**(2.4)**	**(99.0)**	(95.2)
Share of net (liabilities)/assets	**(1.7)**	**0.8**	**16.2**	**15.3**	21.3
Goodwill	**9.3**	**2.6**	**29.5**	**41.4**	47.4
	7.6	**3.4**	**45.7**	**56.7**	68.7

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

	Virgin Rail Group	Citylink	New York Splash Tours LLC	Twin America LLC	Total 2010	Total 2009
	£m	£m	£m	£m	£m	£m
Revenue	**355.3**	**10.2**	**0.3**	**39.7**	**405.5**	337.1
Expenses	**(329.8)**	**(8.5)**	**(1.2)**	**(30.8)**	**(370.3)**	(292.7)
Operating profit/(loss)	**25.5**	**1.7**	**(0.9)**	**8.9**	**35.2**	44.4
Finance income (net)	**0.2**	**Nil**	**Nil**	**Nil**	**0.2**	2.3
Taxation	**(6.5)**	**(0.5)**	**Nil**	**(0.4)**	**(7.4)**	(11.4)
Share of joint ventures' profit/(loss) after taxation	**19.2**	**1.2**	**(0.9)**	**8.5**	**28.0**	35.3

A net actuarial gain after taxation of £0.1m (2009: gain of £2.1m) was recognised in addition to the above in relation to Virgin Rail Group's defined benefit pension schemes. A net gain after taxation of £1.3m (2009: £Nil) was recognised in addition to the above in relation to fair value gains on fuel derivative contracts held by Virgin Rail Group.

Note 15 Interest in associate

	2010	2009
	£m	£m
Cost and net book value		
At beginning and end of year	**Nil**	Nil

During the year ended 30 April 2007, the Group's principal associated undertaking ceased trading and an application was made in February 2009 to strike off the undertaking. The undertaking was dissolved on 9 March 2010 and the Group's interest in the undertaking ceased at this time.

The principal associate was:

	Country of incorporation	Number of shares in issue at 30 April 2010	Nominal value of share capital in issue at 30 April 2010	% interest held
Prepayment Cards Limited	United Kingdom	Nil	Nil	Nil

The Group's share of the net assets of its associate is £Nil (2009: £Nil).

The Group's share of post-tax results from its associate is £Nil (2009: £Nil).

Note 16 Available for sale and other investments

	2010	2009
	£m	£m
Cost / valuation		
At beginning of year	**3.3**	3.6
Additions	**0.6**	Nil
Net fair value losses	**(0.2)**	(0.4)
Foreign exchange movements	**Nil**	0.1
At end of year	**3.7**	3.3
Amounts written off		
At beginning and end of year	**(1.8)**	(1.8)
Net book value at beginning of year	**1.5**	1.8
Net book value at end of year	**1.9**	1.5

Note 17 Acquisitions

During the year one small acquisition was concluded for a total consideration of £1.5m in cash and the Group acquired 100% of the voting rights. Revenue and operating profit of the acquired business from 1 May 2009 to the date of acquisition was not material to the Group.

	2010	2009
	£m	£m
Fair value to Group		
Intangible fixed assets (excluding goodwill)	**0.5**	7.1
Property, plant and equipment	**1.1**	14.6
Other net liabilities	**(1.8)**	(12.9)
Net (liabilities)/assets	**(0.2)**	8.8
Goodwill	**1.7**	10.3
Consideration	**1.5**	19.1
Costs of acquisitions in year	**0.1**	0.3
Less: deferred consideration outstanding	**Nil**	(1.5)
Add: deferred consideration paid in respect of businesses acquired in prior years	**0.6**	0.7
Net cash and cash equivalents acquired (including overdrafts)	**0.3**	0.4
Net cash outflow	**2.5**	19.0

The goodwill arising on the acquisition is attributable to the value of the workforce, transport timetables, rosters, other business information and other potential economic benefits expected to be derived from the acquired businesses.

Further details of the acquisitions made during the year ended 30 April 2010 are provided below.

	Initial book value	Restatement to fair value	Fair value to the Group
	£m	£m	£m
Intangible fixed assets (excluding goodwill)	Nil	0.5	0.5
Property, plant and equipment	1.3	(0.2)	1.1
Trade and other receivables	0.3	Nil	0.3
Trade and other payables	(0.9)	Nil	(0.9)
Bank overdrafts	(0.3)	Nil	(0.3)
Hire purchase liabilities	(0.4)	Nil	(0.4)
Provisions	(0.3)	(0.2)	(0.5)
Net liabilities acquired	(0.3)	0.1	(0.2)
Goodwill arising on acquisition	Nil	1.7	1.7
Total consideration (to be settled in cash)	(0.3)	1.8	1.5

Note 18 Disposals

Exceptional gains of £3.9m (2009: £Nil) for the year ended 30 April 2010 have been included in the consolidated income statement as the results of discontinued operations. These gains arose from the release of liabilities that were previously recorded for amounts potentially owing which are now no longer payable in respect of disposed businesses.

In respect of the businesses disposed of, the consideration, net assets disposed and profit on disposal for the year ended 30 April 2010, were as follows:

	2010 Total	2009 Total
	£m	£m
Net assets disposed	**3.5**	Nil
Loss on disposal	**(3.2)**	Nil
Net consideration received in year	**0.3**	Nil
Deferred consideration received in year in respect of businesses disposed of in prior years	**1.3**	0.3
Net cash inflow	**1.6**	0.3

Notes to the consolidated financial statements

Note 19 Principal subsidiaries

The principal subsidiary undertakings (ordinary shares 100% owned except where shown) as at 30 April 2010 were:

Company	Country of registration or incorporation	Principal activity
Stagecoach Transport Holdings plc	Scotland	Holding company
SCOTO Limited	England	Holding company
SCUSI Limited	England	Holding company
Stagecoach Bus Holdings Limited	Scotland	Holding company
The Integrated Transport Company Limited	Scotland	Holding company
Stagecoach (South) Ltd	England	Bus and coach operator
Stagecoach (North West) Ltd	England	Bus and coach operator
East Midland Motor Services Ltd	England	Bus and coach operator
Stagecoach Scotland Ltd	Scotland	Bus and coach operator
East Kent Road Car Company Ltd	England	Bus and coach operator
Stagecoach West Ltd	England	Bus and coach operator
Busways Travel Services Ltd	England	Bus and coach operator
Cleveland Transit Ltd	England	Bus and coach operator
Cambus Ltd	England	Bus and coach operator
Greater Manchester Buses South Ltd	England	Bus and coach operator
Highland Country Buses Ltd	Scotland	Bus and coach operator
Orkney Coaches Ltd	Scotland	Bus and coach operator
Preston Bus Ltd	England	Bus and coach operator
Eastbourne Buses Ltd	England	Bus and coach operator
The Yorkshire Traction Group Ltd	England	Bus and coach operator
Stagecoach Services Limited	England	Provision of accounting and payroll services
National Transport Tokens Ltd (99.9%)	England	Transport tokens
PSV Claims Bureau Ltd	England	Claims handling
Stagecoach South Western Trains Ltd	England	Train operating company
East Midlands Trains Limited	England	Train operating company
Trentway-Wager Inc	Canada	Bus and coach operator

All companies operate in the countries shown above and, except for Stagecoach Transport Holdings plc, are indirectly held. The Group considers any subsidiary that has revenue greater than £25.0m per annum, profit before interest and taxation greater than £2.5m per annum, gross assets greater than £25.0m or gross liabilities greater than £25.0m to be a principal subsidiary. These thresholds exclude any intercompany amounts and investments in subsidiaries.

Note 20 Inventories

	2010	2009
	£m	£m
Parts and consumables	**24.1**	22.0

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 stock were as follows:

	2010	2009
	£m	£m
At beginning of year	**1.8**	2.1
Charged to income	**0.2**	0.2
Amount released to income, not used	**(0.1)**	Nil
Amount utilised	**(0.3)**	(0.7)
Foreign exchange movements	**Nil**	0.2
At end of year	**1.6**	1.8

There was no material write down of inventories during the current or prior year.

The Group is party to consignment stock arrangements and as at 30 April 2010, the Group physically held consignment stock of a value amounting to £0.7m (2009: £0.8m) in addition to the amounts disclosed above.

Note 21 Trade and other receivables

	2010	2009
	£m	£m
Non-current:		
Loan to joint venture	**3.1**	2.7
Less: provision for impairment	**(3.1)**	(1.4)
	Nil	1.3
Prepayments	**17.2**	5.1
Accrued income	**Nil**	0.1
Other receivables	**0.4**	0.3
	17.6	6.8
Current:		
Trade receivables	**128.8**	132.0
Less: provision for impairment	**(4.5)**	(4.3)
Trade receivables – net	**124.3**	127.7
Other receivables	**12.4**	4.6
Prepayments	**25.5**	41.1
Accrued income	**21.7**	20.3
VAT and other government receivables	**16.4**	18.7
	200.3	212.4

A loan of US$4.7m (2009: US$4.0m) to New York Splash Tours LLC is outstanding at 30 April 2010. The loan is interest bearing at 7% per annum and is repayable by instalments. The loan outstanding as at 30 April 2010, translated at year end rates was £3.1m (2009: £2.7m) and is included in non-current trade and other receivables.

The movement in the provision for impairment of trade receivables was as follows:	2010	2009
	£m	£m
At beginning of year	**(4.3)**	(2.6)
Impairment losses in year charged to income	**(1.8)**	(1.6)
Reversal of impairment losses credited to income	**0.5**	0.2
Amounts utilised	**1.0**	Nil
Foreign exchange movements	**0.1**	(0.3)
At end of year	**(4.5)**	(4.3)

Further information on credit risk is provided in note 29.

Note 22 Cash and cash equivalents

	2010	2009
	£m	£m
Cash at bank and in hand	**375.7**	277.3

The cash amounts shown above include £169.0m on 3 month deposit maturing by June 2010, £32.0m deposited on 30 day notice accounts and £10.4m deposited in a 7 day notice account (2009: £10.0m on six month deposit maturing by July 2009, £40.0m on three month deposit maturing by June 2009 and £3.0m on two month deposit maturing by May 2009). The remaining amounts are accessible to the Group within one day (2009: one day).

Notes to the consolidated financial statements

Note 23 Asset classified as held for sale

	2010	2009
	£m	£m
Property, plant and equipment	**Nil**	2.4

Land owned by the Group previously classified as held for sale was withdrawn for sale by the Group during the year ended 30 April 2010 and the fair value less costs to sell of the land has been reclassified to property, plant and equipment as shown in note 13.

Note 24 Trade and other payables

	2010	2009
	£m	£m
Current		
Trade payables	**124.6**	149.0
Accruals	**300.2**	296.5
Deferred income	**74.2**	59.3
Cash-settled share based payment liability	**0.4**	2.2
Deferred grant income	**4.0**	1.8
Loans from joint ventures	**1.7**	Nil
PAYE and NIC payable	**18.1**	20.5
VAT and other government payables	**1.4**	0.9
	524.6	530.2
Non-current		
Accruals	**11.1**	18.1
Deferred grant income	**7.3**	3.7
Cash-settled share based payment liability	**0.4**	0.7
PAYE and NIC payable	**0.4**	0.1
VAT and other government payables	**0.4**	0.4
Other payables	**0.8**	1.2
	20.4	24.2

Note 25 Borrowings

	2010	2009
	£m	£m
Current		
US dollar 8.625% Notes	**Nil**	207.2
Loan notes	**26.2**	33.8
Hire purchase and lease obligations	**21.3**	33.1
Redeemable 'B' preference shares	**3.3**	5.4
	50.8	279.5
Non-current		
Sterling 5.75% Notes	**406.9**	Nil
Bank loans	**Nil**	149.9
Hire purchase and lease obligations	**219.2**	197.5
	626.1	347.4
Total borrowings	**676.9**	626.9

Note 25 Borrowings (continued)

The minimum lease payments under hire purchase and lease obligations fall due as follows:	2010	2009 (restated)
	£m	£m
Not later than one year	**26.0**	37.2
Later than one year but not more than five years	**152.3**	135.7
More than five years	**78.6**	72.8
	256.9	245.7
Future finance costs on hire purchase and finance leases	**(16.4)**	(15.1)
Carrying value of hire purchase and finance lease liabilities	**240.5**	230.6

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 prior year comparatives have been restated to be on the same basis.

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.

(a) US Dollar 8.625% Notes

On 9 November 1999, the Group issued US$500m of 8.625% Notes due in 2009. Interest on the Notes was payable six monthly in arrears. Those which had not been previously redeemed or purchased and cancelled, were redeemed at their principal amount on 15 November 2009.

The Notes were issued at 99.852% of their principal amount. The consolidated carrying value of the Notes at 30 April 2010 was £Nil (2009: £207.2m), after taking account of the Notes purchased by the Group, the discount on issue, issue costs, accrued interest and the gain on close out of various interest rate swaps previously used to manage the interest rate profile of the Notes.

(b) Sterling 5.75% Notes

On 16 December 2009, the Group issued £400m of 5.75% Notes due in 2016. Interest on the Notes is paid annually in arrears and all remaining Notes will be redeemed at their principal amount on 16 December 2016.

The Notes were issued at 99.599% of their principal amount. The consolidated carrying value of the Notes at 30 April 2010 was £406.9m (2009: £Nil) after taking account of the discount on issue, issue costs and the fair value of interest rate swaps used to manage the interest rate profile of the Notes.

(c) Repayment profile

Borrowings are repayable as follows:	2010	2009
	£m	£m
On demand or within 1 year		
Loan notes	**26.2**	33.8
Hire purchase and lease obligations	**21.3**	33.1
Redeemable 'B' preference shares	**3.3**	5.4
US Dollar 8.625% Notes	**Nil**	207.2
	50.8	279.5
Within 1-2 years		
Hire purchase and lease obligations	**38.4**	32.7
	38.4	32.7
Within 2-5 years		
Bank loans	**Nil**	149.9
Hire purchase and lease obligations	**102.8**	92.7
	102.8	242.6
Over 5 years		
Hire purchase and lease obligations	**78.0**	72.1
Sterling 5.75% Notes	**406.9**	Nil
	484.9	72.1
Total borrowings	**676.9**	626.9
Less current maturities	**(50.8)**	(279.5)
Non-current portion of borrowings	**626.1**	347.4

Interest terms on UK bank loans are at annual rates between 0.25% and 0.65% over bank base rate or equivalent LIBOR rates. Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 2.00% over bank base rate or equivalent LIBOR rates. Interest terms on overseas lease obligations are at fixed rates, which at 30 April 2010 average 4.3% per annum. Interest on loan notes are at three months LIBOR. Loan notes amounting to £26.2m (2009: £33.8m) are backed by guarantees provided under Group banking facilities.

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

UK bank loans and Sterling Notes are unsecured.

Notes to the consolidated financial statements

Note 26 Deferred tax

The Group movement in deferred tax during the year was as follows:	Deferred tax liabilities	Deferred tax asset	Net
	£m	£m	£m
Beginning of year	(19.5)	5.3	(14.2)
Charge to income statement	(9.8)	(4.2)	(14.0)
Acquisition of subsidiary undertakings and other businesses	0.1	Nil	0.1
Charge to equity	10.0	Nil	10.0
Foreign exchange movements	Nil	0.2	0.2
End of year	(19.2)	1.3	(17.9)

The deferred tax liabilities after more than one year are £19.2m (2009: £19.5m). The deferred tax asset due after more than one year is £Nil (2009: £Nil). The deferred tax asset of £1.3m (2009: £5.3m) has been recognised in respect of tax losses. Based on tax workings scheduling the reversal of the asset, it is expected to be utilised over the next year (2009: one year).

Deferred taxation is calculated as follows:	**2010**	2009
	£m	£m
Accelerated capital allowances	**(100.9)**	(103.6)
Pension temporary differences	**56.6**	22.9
Short-term temporary differences	**26.4**	66.5
	(17.9)	(14.2)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:	**2010**	2009
	£m	£m
Accelerated capital allowances	**1.8**	(9.8)
Pension temporary differences	**(5.1)**	(8.2)
Short-term temporary differences	**(10.7)**	(3.2)
	(14.0)	(21.2)

Note 27 Provisions

	2010	2009
	£m	£m
Token redemption provision	**14.8**	16.4
Insurance provisions	**115.2**	110.0
Environmental provisions	**3.6**	4.1
Redundancy provisions	**1.8**	9.2
Provisions for onerous contracts	**0.2**	0.2
	135.6	139.9

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services. Tokens are typically redeemed within three 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 fully utilised over the next three years.

The redundancy provisions relate to planned redundancies in the UK Rail Division.

Provisions for onerous contracts relate to contracts that have been acquired through business combinations that have been identified as loss making.

The Group movement during the year was as follows:	Token redemption provision	Insurance provisions	Environmental provisions	Redundancy provision	Provisions for onerous contracts	Total
	£m	£m	£m	£m	£m	£m
Beginning of year	16.4	110.0	4.1	9.2	0.2	139.9
Provided during year (after discounting)	Nil	48.3	0.3	0.2	Nil	48.8
Unwinding of discount	Nil	3.7	Nil	Nil	Nil	3.7
Utilised in the year	Nil	(45.6)	(1.0)	(6.8)	(0.2)	(53.6)
Release of unutilised provisions	Nil	Nil	Nil	(0.8)	Nil	(0.8)
Arising on business combinations	Nil	Nil	0.3	Nil	0.2	0.5
Arising on sale of tokens during year	3.2	Nil	Nil	Nil	Nil	3.2
Redemption of tokens	(4.8)	Nil	Nil	Nil	Nil	(4.8)
Foreign exchange movements	Nil	(1.2)	(0.1)	Nil	Nil	(1.3)
End of year	14.8	115.2	3.6	1.8	0.2	135.6
30 April 2010:						
Current	4.5	39.0	1.2	1.8	0.1	46.6
Non-current	10.3	76.2	2.4	Nil	0.1	89.0
	14.8	115.2	3.6	1.8	0.2	135.6
30 April 2009:						
Current	4.5	40.6	2.2	9.2	0.2	56.7
Non-current	11.9	69.4	1.9	Nil	Nil	83.2
	16.4	110.0	4.1	9.2	0.2	139.9

Note 28 Retirement benefits

The Group contributes to a number of pension schemes. The principal defined benefit occupational schemes are as follows:

- The Stagecoach Group Pension Scheme ("SGPS");
- The South West Trains section of the Railways Pension Scheme ("RPS");
- The Island Line section of the Railways Pension Scheme ("RPS");
- The East Midlands Trains section of the Railways Pension Scheme ("RPS"); and
- A number of UK Local Government Pension Schemes ("LGPS").

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

In addition, the Group contributes to a number of defined contribution ("DC") schemes, covering UK and non-UK employees.

The amounts recognised in the balance sheet were as follows:

As at 30 April 2010	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
Equities	521.1	424.8	178.0	0.2	Nil	1,124.1
Bonds	125.7	88.9	56.2	0.6	Nil	271.4
Cash	46.0	2.8	16.3	0.4	Nil	65.5
Property	25.9	84.2	19.4	Nil	Nil	129.5
Fair value of plan assets	718.7	600.7	269.9	1.2	Nil	1,590.5
Present value of obligations						
– gross liabilities	(814.8)	(850.2)	(329.5)	(4.1)	(4.6)	(2,003.2)
– adjustment for members' share of RPS deficit (40%)	Nil	99.8	Nil	Nil	Nil	99.8
– franchise adjustment	Nil	110.8	Nil	Nil	Nil	110.8
	(814.8)	(639.6)	(329.5)	(4.1)	(4.6)	(1,792.6)
Liabilities recognised in the balance sheet	(96.1)	(38.9)	(59.6)	(2.9)	(4.6)	(202.1)

As at 30 April 2009	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
Equities	411.1	310.9	136.1	0.2	Nil	858.3
Bonds	110.7	68.9	50.0	0.5	Nil	230.1
Cash	53.3	0.6	18.3	0.3	Nil	72.5
Property	4.1	77.2	16.2	Nil	Nil	97.5
Fair value of plan assets	579.2	457.6	220.6	1.0	Nil	1,258.4
Present value of obligations						
– gross liabilities	(590.8)	(569.0)	(254.5)	(3.5)	(4.4)	(1,422.2)
– adjustment for members' share of RPS deficit (40%)	Nil	44.5	Nil	Nil	Nil	44.5
– franchise adjustment	Nil	38.7	Nil	Nil	Nil	38.7
	(590.8)	(485.8)	(254.5)	(3.5)	(4.4)	(1,339.0)
Liabilities recognised in the balance sheet	(11.6)	(28.2)	(33.9)	(2.5)	(4.4)	(80.6)

The major categories of plan assets as a percentage of total plan assets are as follows:	**2010**	2009
	%	%
Equities	**70.7**	68.2
Bonds	**17.1**	18.3
Cash	**4.1**	5.8
Property	**8.1**	7.7
	100.0	100.0

Notes to the consolidated financial statements

Note 28 Retirement benefits (continued)

The amounts recognised in the income statement were as follows:

Year ended 30 April 2010	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded and DC plans	Total
	£m	£m	£m	£m	£m	£m
Defined benefit schemes:						
Current service cost	19.3	20.6	1.7	0.6	Nil	42.2
Curtailments	Nil	(0.7)	Nil	Nil	Nil	(0.7)
Interest cost	40.3	23.5	16.8	0.2	Nil	80.8
Expected return on plan assets	(42.0)	(21.9)	(16.0)	(0.1)	Nil	(80.0)
Unwinding of franchise adjustment	Nil	(2.7)	Nil	Nil	Nil	(2.7)
Total defined benefit costs	17.6	18.8	2.5	0.7	Nil	39.6
Defined contribution costs	Nil	Nil	Nil	Nil	5.2	5.2
Total included in staff costs	17.6	18.8	2.5	0.7	5.2	44.8

The actual return on plan assets for the year ended 30 April 2010 was £326.9m.

Year ended 30 April 2009	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded and DC plans	Total
	£m	£m	£m	£m	£m	£m
Defined benefit schemes:						
Current service cost	20.5	19.1	2.4	Nil	Nil	42.0
Curtailments	Nil	(1.0)	Nil	Nil	Nil	(1.0)
Interest cost	38.6	23.2	16.3	0.1	Nil	78.2
Expected return on plan assets	(44.9)	(29.5)	(18.2)	(0.1)	Nil	(92.7)
Total defined benefit costs	14.2	11.8	0.5	Nil	Nil	26.5
Defined contribution costs	Nil	Nil	Nil	Nil	2.2	2.2
Total included in staff costs	14.2	11.8	0.5	Nil	2.2	28.7

The actual return on plan assets for the year ended 30 April 2009 was £(241.5)m.

Note 28 Retirement benefits (continued)

The movements in the net liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2010 were as follows:

Year ended 30 April 2010	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – liability	11.6	28.2	33.9	2.5	4.4	80.6
Total expense	17.6	18.8	2.5	0.7	Nil	39.6
Actuarial losses/(gains)	94.5	16.7	27.3	(0.3)	0.5	138.7
Employers' contributions and settlements	(27.6)	(24.8)	(4.1)	Nil	(0.3)	(56.8)
Foreign exchange movements	Nil	Nil	Nil	Nil	Nil	Nil
At end of year – liability	96.1	38.9	59.6	2.9	4.6	202.1

The movements in the net (asset)/liability recognised in the balance sheet in respect of defined benefit plans for the year ended 30 April 2009 were as follows:

Year ended 30 April 2009	Funded plans					
	SGPS	RPS	LGPS	Other	Unfunded plans	Total
	£m	£m	£m	£m	£m	£m
At beginning of year – (asset)/liability	(27.3)	(19.5)	8.2	1.0	4.4	(33.2)
Acquisitions	Nil	Nil	0.9	Nil	Nil	0.9
Total expense	14.2	11.8	0.5	Nil	Nil	26.5
Actuarial losses	55.7	58.1	29.3	1.1	0.3	144.5
Employers' contributions and settlements	(31.0)	(22.2)	(5.0)	Nil	(0.3)	(58.5)
Foreign exchange movements	Nil	Nil	Nil	0.4	Nil	0.4
At end of year – liability	11.6	28.2	33.9	2.5	4.4	80.6

The movements in the total present value of the defined benefit obligations were as follows:

	2010	2009
	£m	£m
At beginning of year	**1,339.0**	1,432.1
Current service cost	**42.2**	42.0
Interest cost	**80.8**	78.2
Unwinding of franchise adjustment	**(2.7)**	Nil
Members' contributions paid	**8.7**	15.2
Actuarial losses/(gains)	**385.6**	(180.4)
Benefits paid	**(60.0)**	(58.3)
Curtailments	**(0.7)**	(1.0)
Settlements	**Nil**	(1.6)
Foreign exchange movements	**(0.3)**	0.8
Acquisitions	**Nil**	12.0
At end of year	**1,792.6**	1,339.0

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

	2010	2009
	£m	£m
At beginning of year	**1,258.4**	1,474.6
Expected return on scheme assets	**80.0**	92.7
Actuarial gains/(losses)	**246.9**	(334.2)
Other employers' contributions and settlements	**56.8**	56.9
Members' contributions paid	**8.7**	15.2
Benefits paid	**(60.0)**	(58.3)
Foreign exchange movements	**(0.3)**	0.4
Acquisitions	**Nil**	11.1
At end of year	**1,590.5**	1,258.4

Note 28 Retirement benefits (continued)

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

	2010	2009
	£m	£m
Actual return less expected return on pension scheme assets	**246.9**	(334.2)
Experience adjustment, arising on scheme liabilities	**42.3**	59.7
Adjustment for unrecognised surplus	**Nil**	9.3
Changes in assumptions underlying the present value of the liabilities	**(497.3)**	82.0
Franchise adjustment	**69.4**	38.7
Total actuarial loss recognised	**(138.7)**	(144.5)

The history of experience adjustments is as follows:

	2010	2009	2008	2007	2006
Experience adjustments on scheme liabilities:					
Experience adjustments (£m)	**42.3**	59.7	(28.6)	(18.1)	(92.7)
Scheme liabilities (£m)	**(1,792.6)**	(1,339.0)	(1,432.1)	(1,325.0)	(1,461.6)
Percentage of scheme liabilities (%)	**(2.4)%**	(4.5)%	2.0%	1.4%	6.3%
Experience adjustments on scheme assets:					
Experience adjustments (£m)	**246.9**	(334.2)	(141.7)	55.2	196.9
Scheme assets (£m)	**1,590.5**	1,258.4	1,474.6	1,290.2	1,239.4
Percentage of scheme assets (%)	**15.5%**	(26.6)%	(9.6)%	4.3%	15.9%

The cumulative amount of actuarial gains and losses on Group defined benefit schemes recognised in the statement of comprehensive income since 1 May 2004 is a £236.2m loss (2009: £97.5m loss).

The estimated amounts of contributions expected to be paid by the Group to the schemes during the financial year ending 30 April 2011 is £62.1m (estimated at 30 April 2009 for year ended 30 April 2010: £59.4m).

The principal actuarial assumptions used were as follows:

	2010	2009
Rate of increase in salaries – SGPS	**3.4%**	3.4%
Rate of increase in salaries – other defined benefit schemes	**4.4%**	4.0%
Rate of increase of pensions in payment		
– SGPS	**3.4%**	3.0%
– other defined benefit schemes	**2.4%-3.3%**	2.4%-2.9%
Discount rate	**5.7%**	6.9%
Inflation	**3.4%**	3.0%
Expected long-term rates of return as at 30 April were:		
Equities*	**8.3%**	8.3%
Bonds	**5.0%**	5.3%
Cash	**4.7%**	4.6%
Property	**7.5%**	7.5%

* includes private equity

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

The life expectancy assumptions used for each scheme are periodically reviewed. The weighted average life expectancies assumed as at 30 April 2010 were:

	2010	2009
	years	years
Current pensioners aged 65 – male	**19.5**	19.3
Current pensioners aged 65 – female	**23.8**	23.7
Future pensioners at age 65 (aged 45 now) – male	**21.8**	21.7
Future pensioners at age 65 (aged 45 now) – female	**25.9**	25.8

Note 29 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, associates and joint ventures accounted for in accordance with International Accounting Standard 27 ("IAS 27"), *Consolidated and Separate Financial Statements,* International Accounting Standard 28 ("IAS 28"), *Investments in Associates,* and International Accounting Standard 31 ("IAS 31"), *Interests in Joint Ventures.*
- Retirement benefit assets and obligations.
- Contracts for contingent consideration in a business combination.
- 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, accrued income, provisions and deferred grant income) are not financial liabilities or financial assets. Accordingly, provisions, deferred grant 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.

Note 29 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities

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

	Other balance sheet notes	2010	2009	2010	2009
		Carrying value	Carrying value (restated)	Fair value	Fair value (restated)
		£m	£m	£m	£m
Financial assets					
Financial assets at fair value through profit or loss		**Nil**	Nil	**Nil**	Nil
Held-to-maturity investments		**Nil**	Nil	**Nil**	Nil
Loans and receivables					
– Non-current assets					
– Accrued income	21	**Nil**	0.1	**Nil**	0.1
– Other receivables	21	**0.4**	0.3	**0.4**	0.3
– Loan to joint venture, net of impairment	21	**Nil**	1.3	**Nil**	1.3
– Current assets					
– Accrued income	21	**21.7**	20.3	**21.7**	20.3
– Trade receivables, net of impairment	21	**124.3**	127.7	**124.3**	127.7
– Other receivables	21	**12.4**	4.6	**12.4**	4.6
– Cash and cash equivalents	22	**375.7**	277.3	**375.7**	277.3
Available for sale financial assets					
– Non-current assets					
– Available for sale and other investments	16	**1.9**	1.5	**1.9**	1.5
Total financial assets		**536.4**	433.1	**536.4**	433.1
Financial liabilities					
Financial liabilities at fair value through profit or loss		**Nil**	Nil	**Nil**	Nil
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Accruals	24	**(11.1)**	(18.1)	**(11.1)**	(18.1)
– Other payables	24	**(0.8)**	(1.2)	**(0.8)**	(1.2)
– Borrowings	25	**(626.1)**	(347.4)	**(640.7)**	(347.5)
– Current liabilities					
– Trade payables	24	**(124.6)**	(149.0)	**(124.6)**	(149.0)
– Accruals	24	**(300.2)**	(296.5)	**(300.2)**	(296.5)
– Loans from joint ventures	24	**(1.7)**	Nil	**(1.7)**	Nil
– Borrowings	25	**(50.8)**	(279.5)	**(50.8)**	(278.0)
Total financial liabilities		**(1,115.3)**	(1,091.7)	**(1,129.9)**	(1,090.3)
Net financial liabilities		**(578.9)**	(658.6)	**(593.5)**	(657.2)

In the prior year, the above table included accruals and deferred income but excluded prepayments and accrued income. Accruals are financial liabilities but not deferred income. Accrued income represents financial assets but not prepayments. Accordingly, these categories of assets and liabilities have been further analysed and the prior year amounts in the above table have been restated to include accruals and accrued income but exclude prepayments and deferred income. The other disclosures in this note 29 have also been restated where appropriate.

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 29(j).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The carrying value of loans to joint ventures, accrued income, trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- Market prices are used, where available, to determine the fair value of available for sale financial assets. Market prices are available for available for sale financial assets with a carrying value of £Nil (2009: £0.2m). For example, for available for sale investments in the shares of a company quoted on a recognised stock exchange, the fair value of the asset is determined with reference to the quoted "bid" price as at the balance sheet date. £1.9m (2009: £1.3m) of available for sale financial assets for which market prices are not available are measured at cost because their fair value cannot be measured reliably – the fair value of these assets is shown in the above table as being equal to their carrying value.
- The carrying value of trade payables, other payables, accruals and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The carrying value of fixed rate 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, except in respect of bank loans where unamortised arrangement fees of £Nil (2009: £0.1m) are excluded from the fair value.

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

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. 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 £23.3m (2009: £1.0m). At 30 April 2010, this increase would be partly offset by a movement of £7.0m in the fair value of the Group's interest rate derivatives (see note 29(j)), which are fair value hedges of a portion of the fixed-rate notes.

Fair value estimation

As of 1 May 2009, the Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements 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 2010.

	Note	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets					
Derivatives used for hedging	29(j)	Nil	31.2	Nil	**31.2**
Available for sale financial assets					
– Equity securities		Nil	Nil	1.9	**1.9**
Total assets		Nil	31.2	1.9	**33.1**
Liabilities					
Derivatives used for hedging	29(j)	Nil	(11.3)	Nil	**(11.3)**
Total liabilities		Nil	(11.3)	Nil	**(11.3)**

The following table presents the changes in Level 3 financial assets for the year ended 30 April 2010:

	Equity Securities £m
At 1 May 2009	1.3
Purchases	0.6
At 30 April 2010	**1.9**

(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 2010. 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 3.8.15 of the Operating and Financial Review on pages 13 and 14 of this Annual Report.

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

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

(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, while optimising the return on risk.

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

Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument (including overseas 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.

Note 29 Financial instruments (continued)

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

(i) Market risk (continued)

The Group has overseas investments in Canada and the USA. To minimise balance sheet translation exposure, the Group hedges the sterling carrying value of overseas 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. At 30 April 2009, the Group's balance sheet translation exposure in respect of its overseas investments was partially hedged by its US$ bonds combined with a foreign currency derivative contract. On 7 July 2009, the Group de-designated this hedge and entered into foreign currency derivative contracts to manage the after-tax translation exposure in respect of its US$ bonds. The Group's balance sheet translation exposure in respect of its overseas investments was therefore unhedged with effect from 7 July 2009. Hedge accounting was not applied to the foreign currency derivatives entered into on 7 July 2009. These US$ bonds matured on 16 November 2009. On 12 November 2009, the Group drew down US$192.4m of bank loans of which US$30.0m were repaid on 23 November 2009 and the remaining US$162.4m were repaid on 18 December 2009. These bank loans were accounted for as a hedge of the Group's overseas net investments. On 18 December 2009, the Group entered into foreign currency derivative contracts with a notional value of US$160.0m, which were accounted for as a hedge of the Group's overseas net investments and this hedging relationship remains in place. The table below includes the sterling notional value (calculated using the year-end exchange rate) of the foreign currency derivatives outstanding at the balance sheet date.

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 overseas investment individually and to adopt a strategy based on current and forecast political and economic climates. The Group measures foreign currency translation risk by identifying the carrying value of assets and liabilities denominated in the relevant foreign currency and quantifying the impact on equity of changes in the relevant foreign currency rate.

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

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

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

	2010	2009
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**179.7**	202.1
– Cash	**21.6**	25.7
– Borrowings	**(51.2)**	(259.5)
– Notional value of foreign currency derivatives	**104.5**	Nil
Canadian dollars		
– Net investments in foreign operations (excluding intra-group balances, cash and borrowings)	**49.7**	38.8
– Cash	**1.6**	1.1
– Borrowings	**(3.9)**	(3.8)
Net exposure	**302.0**	4.4

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

The sensitivity of the Group's consolidated balance sheet to translation exposures is illustrated below:	**2010**	2009
US dollar		
US dollar balance sheet foreign exchange rate	**1.5307**	1.4818
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.3776**	1.3336
– Increase/(decrease) in consolidated equity (£m)	**28.3**	(3.5)
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.6838**	1.6300
– (Decrease)/increase in consolidated equity (£m)	**(23.1)**	2.9
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	**1.5504**	1.7605
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.3954**	1.5845
– Increase in consolidated equity (£m)	**5.3**	4.0
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.7054**	1.9366
– Decrease in consolidated equity (£m)	**(4.3)**	(3.3)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between any pair of currencies other than the pair stated do not change as a result of the change in the exchange rate between the pair stated.

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

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

(i) Market risk (continued)

The Group's consolidated income statement exposures to foreign currency translation risk were as follows:

	2010	2009
	£m	£m
US dollars		
– US$ element of North American operating profit	**9.7**	20.6
– Intangible asset expenses	**(0.3)**	(0.7)
– Redundancy / restructuring costs	**(0.3)**	Nil
– Share of profit of joint ventures	**8.0**	0.3
– Exceptional items	**(4.1)**	Nil
– Net finance costs	**(5.2)**	(18.7)
– Net tax charge	**(2.8)**	(2.3)
Canadian dollars		
– C$ element of North American operating profit	**Nil**	5.0
– Net finance costs	**(0.3)**	(0.2)
– Net tax credit/(charge)	**0.1**	(1.7)
Net exposure	**4.8**	2.3

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

	2010	2009
US$ element of North American operating profit shown above	**9.7**	20.6
C$ element of North American operating profit shown above	**Nil**	5.0
Share based payment charges denominated in sterling	**(0.6)**	(0.4)
Operating profit shown in segmental information	**9.1**	25.2

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

	2010	2009
US dollar		
US dollar average foreign exchange rate	**1.6020**	1.6780
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.4418**	1.5102
– Increase/(decrease) in consolidated profit after taxation (£m)	**0.5**	(0.1)
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.7622**	1.8458
– (Decrease)/increase in consolidated profit after taxation (£m)	**(0.5)**	0.1
Canadian dollar		
Canadian dollar average foreign exchange rate	**1.7189**	1.8955
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.5470**	1.7060
– Increase in consolidated profit after taxation (£m)	**Nil**	0.3
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.8908**	2.0851
– Decrease in consolidated profit after taxation (£m)	**Nil**	(0.3)

The above sensitivity analysis is based on the following assumptions:

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

Note 29 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 foreign currency 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 2010 there were no material net transactional foreign currency exposures (2009: £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 pages 84 to 86.

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 minimise 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.

Following the issue of the Group's £400m 5.75% bonds in December 2009, the Group adjusted its interest rate management arrangements to ensure an appropriate interest rate profile going forward. Certain of the Group's existing interest rate cash flow hedges became ineffective and were cancelled. As a result, the Group entered into interest rate fair value hedges with a notional value of £150m which synthetically convert a proportion of the fixed rate debt to floating rate debt.

At 30 April 2010, 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	355.5	266.3	621.8	5.8%	6.7
US Dollar	Nil	51.2	51.2	4.2%	4.7
Canadian Dollar	Nil	3.9	3.9	5.1%	1.9
Gross borrowings	355.5	321.4	676.9	5.5%	6.3

At 30 April 2009, 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	201.6	160.4	362.0	5.7%	3.5
US Dollar	Nil	261.1	261.1	6.2%	1.6
Canadian Dollar	Nil	3.8	3.8	5.1%	2.9
Gross borrowings	201.6	425.3	626.9	6.0%	2.3

All of the above figures take into account the effect of interest rate derivatives.

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 25(c).

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £375.7m (2009: £277.3m). Financial assets on which fixed interest is receivable total £3.1m (2009: £2.7m) before impairment and comprise a loan to a joint venture in 2010 and 2009. The net financial assets on which fixed interest is receivable have a weighted average interest rate of 7.0% (2009: 7.0%) and an average maturity of 1.0 years (2009: 2.0 years).

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. The interest rate derivatives outstanding at 30 April 2010 are designated by the Group as hedging instruments under a fair value accounting model. No other hedging instruments are accounted for by the Group under a fair value accounting model.

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

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

(i) Market risk (continued)

The 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:

	2010	2009
	£m	£m
Interest rates 100 basis points higher		
- Decrease in net finance costs	**0.2**	0.8
- Increase in net tax charge	**(0.1)**	(0.3)
- Increase in profit after taxation	**0.1**	0.5
Interest rates 100 basis points lower		
- Increase in net finance costs	**(0.2)**	(0.8)
- Decrease in net tax charge	**0.1**	0.3
- Decrease in profit after taxation	**(0.1)**	(0.5)

The above sensitivity analysis is based on the following methods and assumptions:

- All relevant floating interest rates (including Bank of England base rate and LIBOR) change by 100 basis points.
- The change is calculated by working out an annualised interest charge on the amounts outstanding at the balance sheet date and comparing this to the same charge re-calculated for a change of 100 basis points in the interest rate. While this provides some indication of the impact on future profit and cash flows from changes in interest rates, it does not necessarily indicate the extent to which the profit for the years ended 30 April 2010 and 30 April 2009 would have differed had the interest rates applying during those years been different.
- The impact of changes in interest rates on items that are not financial instruments (for example, provisions and pension assets/obligations) is excluded.

Price risk

The Group was exposed to equity security price risk because of an investment held by the Group that was quoted on a recognised stock exchange and classified on the consolidated balance sheet as available for sale. At 30 April 2010 the investment was carried at £Nil (2009: £0.2m). Any reasonable movement, therefore, on the equity share price would not have a material impact on the Group's financial position. During the year ended 30 April 2010, the investment ceased to be quoted on a recognised stock exchange.

The Group is also exposed to commodity price risk. The Group's operations as at 30 April 2010 consume approximately 326m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel.

The Group's objective in managing commodity price risk is to minimise adverse movements in its profit and cash flow as a result of movements in fuel prices. 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. Ultra low sulphur diesel used in the UK Bus division is hedged by derivatives priced from the same type of fuel. Gasoil used in the UK Rail division is hedged by derivatives priced from the same type of fuel. Diesel used in the North American division is hedged by heating oil swaps that have been determined to be effective hedges of the diesel fuel used with a strong correlation in price movements between the heating oil and diesel products. The fuel derivatives hedge the underlying commodity price risk (denominated in US$) and in the case of the UK Bus division and the UK Rail division, they also hedge the currency risk due to the commodity being priced in US$ and the functional currency of the two divisions being pounds sterling. The fuel derivatives can include swaps, collars and caps.

Note 29 Financial instruments (continued)

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

(i) Market risk (continued)

At 30 April 2010 and 30 April 2009, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2010	2009
	£m	£m
Costs subject to fuel swaps:		
– UK Bus	**(68.0)**	(86.9)
– UK Rail	**(14.9)**	(15.1)
– North America	**(18.9)**	(32.4)
	(101.8)	(134.4)
Costs not subject to fuel swaps:		
– UK Bus	**(1.8)**	(2.1)
– UK Rail	**(5.8)**	(3.9)
– North America	**(4.6)**	(4.3)
	(12.2)	(10.3)
Total	**(114.0)**	(144.7)

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:

	2010	2009
	£m	£m
Costs subject to fuel swaps:		
– UK Bus	**Nil**	Nil
– UK Rail	**Nil**	Nil
– North America	**Nil**	Nil
	Nil	Nil
Costs not subject to fuel swaps:		
– UK Bus	**(0.2)**	(0.2)
– UK Rail	**(0.6)**	(0.4)
– North America	**(0.5)**	(0.4)
	(1.3)	(1.0)
Decrease in projected profit before taxation	**(1.3)**	(1.0)

Note 29 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:

	2010	2009
	£m	£m
Costs subject to fuel swaps:		
– UK Bus	**Nil**	Nil
– UK Rail	**Nil**	Nil
– North America	**Nil**	Nil
	Nil	Nil
Costs not subject to fuel swaps:		
– UK Bus	**0.2**	0.2
– UK Rail	**0.6**	0.4
– North America	**0.5**	0.4
	1.3	1.0
Increase in projected profit before taxation	**1.3**	1.0

(ii) Credit risk

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

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

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

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

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

In the case of equity investments classified as available for sale assets, a significant or prolonged reduction in the fair value of the assets is considered as an indicator that the securities might be impaired.

The movement in the provision for impairment of trade and other receivables is shown in note 21.

The table below shows the maximum exposure to credit risk for the Group at the balance sheet date:

	Gross	**Impairment**	**Net exposure**	Gross	Impairment	Net exposure
	2010	**2010**	**2010**	2009 (restated)	2009 (restated)	2009 (restated)
	£m	£m	£m	£m	£m	£m
Financial assets at fair value through profit or loss	**Nil**	**Nil**	**Nil**	Nil	Nil	Nil
Trade receivables	**128.8**	**(4.5)**	**124.3**	132.0	(4.3)	127.7
Loans and other receivables	**37.6**	**(3.1)**	**34.5**	28.0	(1.4)	26.6
Cash and cash equivalents – pledged as collateral	**65.8**	**Nil**	**65.8**	78.6	Nil	78.6
Cash and cash equivalents - other	**309.9**	**Nil**	**309.9**	198.7	Nil	198.7
Excluding derivative financial instruments	**542.1**	**(7.6)**	**534.5**	437.3	(5.7)	431.6
Derivatives used for hedging	**31.1**	**Nil**	**31.1**	3.6	Nil	3.6
Total exposure to credit risk	**573.2**	**(7.6)**	**565.6**	440.9	(5.7)	435.2

Available for sale and other investments were included in the analysis of credit risk in the 30 April 2009 Annual Report. The analysis has now been restated to exclude these items as these items are exposed more to price risk than credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK Department for Transport, other government bodies and financial institutions with short-term credit ratings of A1 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

Note 29 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:

	2010	2009 (restated)
	£m	£m
United Kingdom	**515.5**	388.9
North America	**50.1**	46.3
	565.6	435.2

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

	2010	2009 (restated)
	£m	£m
Sterling	**515.3**	382.8
US dollars	**44.7**	48.2
Canadian dollars	**5.6**	4.2
	565.6	435.2

All of the above financial assets' carrying amounts are representative of their maximum credit exposure.

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

	2010	2009
	£m	£m
Amounts 1 to 90 days overdue	**12.5**	12.8
Amounts 91 to 180 days overdue	**2.3**	0.1
Amounts 181 to 365 days overdue	**0.1**	1.9
Amounts more than 365 days overdue	**0.1**	0.1
	15.0	14.9

The Group does not hold any collateral in respect of its credit risk exposures set out above (2009: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 30 April 2010 (2009: £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 2010, the Group's credit facilities were £959.2m (2009: £1,233.4m), £466.0m (2009: £594.3m) of which were utilised, including utilisation for the issuance of bank guarantees, bonds and letters of credit.

The Group had the following undrawn committed banking and uncommitted asset finance facilities:

	2010	2009
	£m	£m
Expiring within one year	**170.5**	162.2
Expiring in more than one year but not more than two years	**322.7**	0.6
Expiring beyond two years	**Nil**	476.3
	493.2	639.1

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has an investment grade rating which should allow it access at short notice to additional bank and capital markets debt funding.

The Group's principal lines of credit have been arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance/season ticket bonds, guarantees and letters of credit.

The Group's committed bank facilities as at 30 April 2010 are analysed below:

Expiring in	Facility £m	Performance bonds, guarantees etc drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES				
– 2013	59.9	(59.9)	Nil	Nil
– 2012	420.0	(97.3)	(15.8)	306.9
– 2011	54.3	(45.2)	(9.1)	Nil
– 2010	20.8	(20.8)	Nil	Nil
	555.0	(223.2)	(24.9)	306.9
LOCAL & SHORT-TERM FACILITIES				
– Various	16.4	(2.3)	Nil	14.1
	571.4	(225.5)	(24.9)	321.0

Note 29 Financial instruments (continued)

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

(iii) Liquidity risk (continued)

The facility that expires in 2010 was used to provide a performance bond and this has been replaced in May 2010 with a new arrangement expiring in November 2013.

The Group's US$293.1m bonds matured in November 2009 and these were initiallly refinanced from the Group's existing bank facilities. The Group's main bank facilities are committed through to 2012. The Group issued a £400m 5.75% bond in December 2009, which matures in December 2016.

The Group also maintains facilities in relation to asset finance ("Asset Finance Facilities"). Asset Finance Facilities are typically agreed in principle one year in advance and are arranged for the purpose of funding bus vehicle expenditure and for specific UK Rail operating assets. Asset Finance Facilities include finance leases, hire purchase agreements and operating leases. The terms of Asset Finance Facilities are dependent on the underlying assets and typically range between five and ten years.

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, including interest payments. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 30 April 2010	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 bank loans	Nil	Nil	Nil	Nil	Nil	Nil
Unsecured bond issues	(406.9)	(561.0)	(23.0)	(23.0)	(69.0)	(446.0)
Redeemable preference shares	(3.3)	(3.3)	(3.3)	Nil	Nil	Nil
Finance lease liabilities	(55.1)	(62.2)	(9.9)	(12.5)	(33.0)	(6.8)
Hire purchase liabilities	(185.4)	(194.7)	(16.1)	(29.8)	(77.0)	(71.8)
Loan notes payable	(26.2)	(26.2)	(26.2)	Nil	Nil	Nil
Trade and other payables	(438.4)	(438.4)	(426.5)	(11.9)	Nil	Nil
	(1,115.3)	(1,285.8)	(505.0)	(77.2)	(179.0)	(524.6)
Derivative financial liabilities:						
Derivatives used for hedging	(11.3)	(11.8)	(4.4)	(5.4)	(2.0)	Nil
	(1,126.6)	(1,297.6)	(509.4)	(82.6)	(181.0)	(524.6)

As at 30 April 2009 (restated)	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 bank loans	(149.9)	(150.0)	Nil	Nil	(150.0)	Nil
Unsecured bond issues	(207.2)	(214.8)	(214.8)	Nil	Nil	Nil
Redeemable preference shares	(5.4)	(5.4)	(5.4)	Nil	Nil	Nil
Finance lease liabilities	(57.7)	(66.2)	(9.3)	(9.2)	(36.7)	(11.0)
Hire purchase liabilities	(172.9)	(179.5)	(27.9)	(26.9)	(62.9)	(61.8)
Loan notes payable	(33.8)	(33.8)	(33.8)	Nil	Nil	Nil
Trade and other payables	(464.8)	(464.8)	(445.5)	(19.3)	Nil	Nil
	(1,091.7)	(1,114.5)	(736.7)	(55.4)	(249.6)	(72.8)
Derivative financial liabilities:						
Derivatives used for hedging	(82.6)	(90.5)	(66.1)	(21.4)	(3.0)	Nil
	(1,174.3)	(1,205.0)	(802.8)	(76.8)	(252.6)	(72.8)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted cash flows in respect of interest up to and including the next rollover date are shown.

Note 29 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) Reclassification of financial assets

There have been no reclassifications of financial assets between (1) those measured at cost or amortised cost and (2) those measured at fair value during the year ended 30 April 2010 (2009: None).

(f) Collateral

Included within the cash and cash equivalents balance of £375.7m as at 30 April 2010 (2009: £277.3m) are £65.8m (2009: £78.6m) of cash balances that have been pledged as collateral for liabilities as follows:

- £40.2m (2009: £44.9m) has been pledged by the Group as collateral for letters of credit issued by the Bank of Scotland as collateral for the Group's North American insurance provisions.
- £23.8m (2009: £31.4m) has been pledged by the Group as collateral for £23.8m (2009: £31.4m) 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.
- £1.4m (2009: £1.7m) has been pledged by the Group as collateral for liabilities to the vendors of certain businesses that the Group acquired in North America.
- £0.4m (2009: £0.6m) 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 2010 and 30 April 2009.

(g) Compound financial instruments

The Group did not hold any compound financial instruments as at 30 April 2010 (2009: £Nil).

(h) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 30 April 2010 and 30 April 2009 and no loans payable are in default as at 30 April 2010 and 30 April 2009. The Group was in compliance with all bank loan covenants as at 30 April 2010 and as at 30 April 2009.

(i) Income, expense, gains and losses

The following 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 financial statements.

	2010	2009
	£m	£m
Financial assets at fair value through profit or loss	**Nil**	Nil
Interest income and expense		
Interest income for financial assets and financial liabilities that are not at fair value through profit or loss	**10.8**	7.5
Interest expense for financial assets and financial liabilities that are not at fair value through profit or loss	**(58.3)**	(35.3)
Available for sale financial assets		
Losses recognised directly in equity	**(0.2)**	(0.4)
	(47.7)	(28.2)

Note 29 Financial instruments (continued)

(i) Income, expense, gains and losses (continued)

The net finance costs reported in the consolidated income statement includes amounts that arise on non-financial liabilities and excludes amounts recognised directly in equity and impairment losses on investments. The net loss presented on page 89 can be reconciled to the net finance costs reported in the consolidated income statement as follows:

	Note	2010 £m	2009 £m
Reconciliation to net finance costs:			
Net loss presented above		**(47.7)**	(28.2)
Unwinding of discount on provisions		**(3.7)**	(3.6)
Exclude losses recognised directly in equity		**0.2**	0.4
Net finance costs reported in consolidated income statement	6	**(51.2)**	(31.4)

(j) Hedge accounting

A summary of the Group's hedging arrangements is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps
	– Interest rate risks	– Derivatives (interest rate swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings
		– Derivatives (foreign currency forward contracts)

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2010 £m	2009 £m
Non-current assets		
Interest rate swaps	**1.9**	Nil
Fuel derivative	**3.6**	0.5
	5.5	0.5
Current assets		
Interest rate swaps	**2.8**	Nil
Fuel derivatives	**22.9**	Nil
Foreign currency derivatives	**Nil**	3.1
	25.7	3.1
Current liabilities		
Interest rate swaps	**Nil**	(13.1)
Fuel derivatives	**(4.0)**	(55.1)
	(4.0)	(68.2)
Non-current liabilities		
Interest rate swaps	**(1.9)**	(7.9)
Fuel derivatives	**Nil**	(6.5)
Foreign currency derivatives	**(5.4)**	Nil
	(7.3)	(14.4)
Total net carrying value		
Interest rate swaps	**2.8**	(21.0)
Fuel derivatives	**22.5**	(61.1)
Foreign currency derivatives	**(5.4)**	3.1
	19.9	(79.0)

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 2010 (2009: None) which were separately accounted for.

Note 29 Financial instruments (continued)

(j) 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 majority of the Group's fuel derivatives as at 30 April 2010 cover periods up to 30 April 2011, with the latest period covered by a commodity price risk cash flow hedge being 30 April 2012.

The movements in the fair value of fuel derivatives in the year were as follows:

	2010	2009
	£m	£m
Fuel derivatives		
Fair value at start of year	**(61.1)**	43.7
Changes in fair value during year taken to cash flow hedging reserve	**42.6**	(77.5)
Cash paid/(received) during the year	**41.0**	(27.3)
Fair value at end of year	**22.5**	(61.1)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2010		
Within one year	22.9	(4.0)
1 to 2 years	3.6	Nil
	26.5	(4.0)
As at 30 April 2009		
Within one year	Nil	(55.1)
1 to 2 years	0.5	(6.5)
	0.5	(61.6)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value	Notional quantity of fuel covered by derivatives
	£m	Millions of litres
As at 30 April 2010		
Sterling denominated – UK Bus	16.0	240.0
Sterling denominated – UK Rail	1.1	47.5
US dollar denominated – North America	5.4	79.0
	22.5	366.5
As at 30 April 2009		
Sterling denominated – UK Bus	(34.1)	211.9
Sterling denominated – UK Rail	(10.0)	95.0
US dollar denominated – North America	(17.0)	62.8
	(61.1)	369.7

Fair value and cash flow hedges - interest

As noted previously, the Group uses a number of interest rate derivatives to hedge its exposure to floating interest rates. In connection with the issue of the Group's £400m 5.75% Bonds in December 2009, the Group adjusted its interest rate management arrangements. The Group's cash flow interest rate hedges became ineffective and were cancelled, resulting in a one-off exceptional expense and cash outflow of £20.5m during the year ended 30 April 2010. The Group subsequently entered into a number of interest rate fair value hedges which cover periods up to 16 December 2014.

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

	Cash flow hedges		Fair value hedges	
	2010	2009	**2010**	2009
	£m	£m	£m	£m
Interest rate derivatives				
Fair value at start of year	(21.0)	(3.0)	Nil	Nil
Changes in fair value during year taken to cash flow hedging reserve	(4.3)	(19.9)	Nil	Nil
Changes in fair value reflected in carrying value of hedged item	Nil	Nil	2.6	Nil
Cash paid during the year	25.3	1.9	0.2	Nil
Fair value at end of year	Nil	(21.0)	2.8	Nil

Notes to the consolidated financial statements

Note 29 Financial instruments (continued)

(j) Hedge accounting (continued)

Fair value and Cash flow hedges - interest (continued)

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

	Cash flow hedges		Fair value hedges	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
As at 30 April 2010				
Within one year	Nil	Nil	2.8	Nil
1 to 2 years	Nil	Nil	1.3	Nil
2 to 3 years	Nil	Nil	Nil	(0.4)
3 to 4 years	Nil	Nil	Nil	(1.5)
4 to 5 years	Nil	Ni	0.6	Nil
	Nil	Nil	4.7	(1.9)
As at 30 April 2009				
Within one year	Nil	(13.1)	Nil	Nil
1 to 2 years	Nil	(4.4)	Nil	Nil
2 to 3 years	Nil	(2.7)	Nil	Nil
3 to 4 years	Nil	(0.8)	Nil	Nil
	Nil	(21.0)	Nil	Nil

All of the interest rate derivatives are sterling denominated and are managed and held centrally.

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	Interest rate derivatives	Fuel derivatives	**Total**
	£m	£m	£m
Cash flow hedging reserve at 1 May 2008	(2.1)	26.6	**24.5**
Changes in fair value during the year taken to cash flow hedging reserve	(19.9)	(77.5)	**(97.4)**
Cash flow hedges reclassified and reported in profit for year	2.4	(13.6)	**(11.2)**
Tax effect of cash flow hedges	4.8	27.1	**31.9**
Cash flow hedging reserve at 30 April 2009	(14.8)	(37.4)	**(52.2)**
Changes in fair value during the year taken to cash flow hedging reserve	(4.3)	42.6	**38.3**
Cash flow hedges reclassified and reported in profit for year	24.8	37.0	**61.8**
Tax effect of cash flow hedges	(5.7)	(22.3)	**(28.0)**
Cash flow hedging reserve at 30 April 2010	Nil	19.9	**19.9**
Cash flow hedging reserve before tax	Nil	27.7	**27.7**
Tax to be charged to income statement in future periods	Nil	(7.8)	**(7.8)**
Cash flow hedging reserve after tax	Nil	19.9	**19.9**

During the year ended 30 April 2010, forecast interest payments for which hedge accounting had previously been applied were no longer expected to occur because floating-rate bank loans were repaid following the issue of a fixed-rate corporate bond. As a result, certain interest rate derivatives ceased to be effective hedging instruments and £20.5m of pre-tax losses previously deferred in the cash flow hedging reserve were immediately reclassified and reported in profit as an exceptional item (see note 4).

There have been no other instances during the year ending 30 April 2010 (2009: 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 overseas net investments

Changes in the Group's hedging of overseas net investments during the year are explained on page 81.

The movements in the fair value of the foreign currency derivative contracts used as a hedging instrument in the year were as follows:

	2010	2009
	£m	£m
Foreign currency derivatives		
Fair value at start of year	**3.1**	Nil
Changes in fair value during the year	**(5.4)**	3.1
Cash received during the year	**(3.1)**	Nil
Fair value at end of year	**(5.4)**	3.1

Note 29 Financial instruments (continued)

(j) Hedge accounting (continued)

Hedge of overseas net investments (continued)

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

	Assets	Liabilities
	£m	£m
As at 30 April 2010		
1 to 2 years	Nil	(5.4)
As at 30 April 2009		
Within one year	3.1	Nil

Note 30 Share capital

	2010	2009
	£m	£m
Authorised ordinary share capital		
1,221,428,571 (2009: 936,428,571) ordinary shares of 56/57 pence each	**12.0**	9.2

	2010		2009	
	No. of shares	**£m**	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 56/57 pence each				
At beginning of year	**719,478,434**	**7.1**	718,145,299	7.0
Allotted to employees and former employees under share option schemes	**587,752**	**–**	1,333,135	0.1
At end of year	**720,066,186**	**7.1**	719,478,434	7.1

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

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 30 April 2010, the QUEST held 333,372 (2009: 333,372) ordinary shares in the Company and the EBT held 2,003,075 (2009: 4,153,570) ordinary shares in the Company. The trusts have waived dividends on the shares they hold.

The Group had 5,187,055 (2009: 8,527,488) redeemable 'B' shares of 63 pence each at 30 April 2010. Each holder of 'B' shares has the right to redeem the 'B' shares held on 31 May and 30 November each year. The Group also now has the right to redeem all of the remaining 'B' shares at any time. The 'B' shares are entitled to receive a dividend at the rate of 70% of six month LIBOR, payable in arrears on the par value of 63 pence per 'B' shares. The 'B' shares do not carry any rights to vote at a general meeting.

The 'B' shares that remain in issue are classified as liabilities and the dividends payable on such shares are classified in the consolidated income statement within finance costs

Notes to the consolidated financial statements

Note 31 Share based payments

The Group operates an Executive Share Option Scheme, a Save as You Earn Scheme ("SAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report on pages 32 to 38 gives further details of each of these arrangements.

As disclosed in note 7, share based payment charges of £8.9m (2009: £4.9m) have been recognised in the income statement during the year in relation to the above schemes.

In accordance with the transitional provisions of IFRS, the requirements of IFRS 2 have not been applied to equity-settled share based payments that: (i) were granted on or before 7 November 2002 or; (ii) were granted after 7 November 2002 but had vested before the date of transition, being 1 May 2004. Therefore the following disclosures relate only to equity-settled share based payments made after 7 November 2002 that had not vested by 1 May 2004, and to all cash-settled share based payments.

	Executive Share Option Scheme				SAYE	SAYE	LTIP*	LTIP*	LTIP*	LTIP*	LTIP*
Grant date	December 2004ø	June 2004ø	December 2003†	June 2003†	February 2005ø	October 2008	August 2005	June 2006	June 2007	June 2008	December 2009
Share price at grant/award date (£)	1.1150	0.8575	0.8075	0.6050	1.1800	3.2750	1.1075	1.1325	1.8075	2.8000	1.6070
Exercise price (£)	1.1150	0.8575	0.8075	0.6050	1.0328	2.5178	n/a	n/a	n/a	n/a	n/a
Number of employees holding options/units at 30 April 2010	14	9	3	Nil	Nil	4,841	Nil	Nil	1	13	14
Shares under option/ notional units at 30 April 2010	178,377	501,415	58,764	Nil	Nil	6,828,996	Nil	Nil	105,424	1,019,802	2,750,946
Vesting period (years)	3	3	3	3	3	3	3	3	3	3	3
Expected volatility	30%	30%	30%	75%	30%	30%	30%	30%	30%	30%	30%
Option/award life (years)	7	7	7	7	3.5	3.5	3	3	3	3	3
Expected life (years)	4.4	4.4	4.4	4.4	3	3	3	3	3	3	3
Risk free rate	4.75%	4.64%	4.64%	3.79%	4.56%	4.43%	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as an average annual dividend yield	3.14%	3.38%	3.34%	4.30%	3.05%	1.37%	3.15%	3.15%	3.15%	2.12%	4.04%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	**	**	**	**	**
Fair value per option/ notional unit at grant date (£)	0.26	0.20	0.19	0.28	0.30	1.14	0.42	0.44	0.70	1.08	0.46
Option pricing model	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Simulation	Simulation	Simulation	Simulation	Simulation

† These options became fully vested during the year to 30 April 2007.

ø These options became fully vested during the year to 30 April 2008.

*LTIP awards are based on notional units. One notional unit has a value equal to one of the Company's ordinary shares but subject to performance conditions. LTIP awards are not share options and are valued using a separate simulation model therefore some of the above disclosures are not applicable.

**Reflected in fair value.

Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward.

Executive Share Option Scheme

The movements in total executive share options during the year were as follows:

Award date	At 1 May 2009	Exercised	At 30 April 2010	Exercise price £	Date from which exercisable	Expiry date
23 July 2002*	286,091	(286,091)	Nil	0.3750	23 July 2005	23 July 2009
26 June 2003	106,235	(106,235)	Nil	0.6050	26 June 2006	26 June 2010
12 December 2003	254,190	(195,426)	58,764	0.8075	12 December 2006	12 December 2010
25 June 2004	772,727	(271,312)	501,415	0.8575	25 June 2007	25 June 2011
10 December 2004	505,660	(327,283)	178,377	1.1150	10 December 2007	10 December 2011
	1,924,903	(1,186,347)	738,556			

* In accordance with the transitional provisions of IFRS, the fair value of these options is not taken into account when determining the share based payment charge as the options were granted before 7 November 2002.

All options were granted for nil consideration. The mid-market price for the ordinary shares at 30 April 2010 was £1.97 (2009: £1.31). The Company's ordinary shares traded in the range of £1.16 to £1.99 (2009: £1.04 to £3.28) during the year to that date.

As share options are exercised continuously throughout the year, the average share price during the year of £1.57 (2009: £2.02) is considered representative of the weighted average share price at the date of exercise.

Note 31 Share based payments (continued)

Save as You Earn Scheme

One issue from the SAYE scheme was in operation during the year as follows:

Issue	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
E	1 September 2008	1 October 2008	251.775p	1 October 2011	31 March 2012†

†The expiry date of any individual SAYE option can be extended to be six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the applicable exercisable date shown above.

The changes in the number of participating employees and options over ordinary shares were as follows:

	Issue E	
	Number of employees	Ordinary shares under option
Beginning of year	5,815	8,188,024
Options lapsed	(974)	(1,359,028)
End of year	4,841	6,828,996

Long Term Incentive Plan

Under the LTIP, executives are awarded notional units with a value equal to one of the Company's ordinary shares but subject to performance conditions. The movements in the LTIP during the year to 30 April 2010 were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Exercised in year (notional units)	Lapsed in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Fair value per LTIP unit at grant date £	Fair value per LTIP unit at 30 April 2010 £	TSR ranking at 30 April 2010†	Vesting date
29 June 2006	1,663,132	Nil	(1,696,532)	Nil	33,400	Nil	0.4381	Nil	Nil	29 June 2009 & 10 Dec 2009*
28 June 2007	1,141,211	Nil	(973,575)	(122,971)	60,759	105,424	0.6991	1.9700	49	31 Mar 2010 & 28 June 2010**
30 June 2008	1,031,344	Nil	Nil	(67,331)	55,789	1,019,802	1.0830	0.4273	170	30 June 2011
10 Dec 2009	Nil	2,656,296	Nil	Nil	94,650	2,750,946	0.4619	1.2233	31	10 Dec 2012
	3,835,687	2,656,296	(2,670,107)	(190,302)	244,598	3,876,172				

* The vesting date is generally the third anniversary of the award date, although it may be postponed if it could potentially contravene any securities or transaction rules. Due to the corporate activity with National Express, in accordance with these rules the Group was restricted both in permitting awards from vesting and from making new awards while such activity was ongoing. When that activity formally ceased on 29 October 2009, the Committee decided that vesting of the awards granted on 29 June 2006 should be further delayed until after the Group's interim results had been announced on 9 December 2009.

** The LTIP awards granted to Executive Directors and certain senior managers on 28 June 2007 would in the normal course of events be due to vest on 28 June 2010. The Remuneration Committee however considered it appropriate for the Executive Directors and certain others to bring forward the vesting date of the award to 31 March 2010, so as to permit vesting within the 2009/10 tax year. To ensure that Executive Directors and senior managers do not receive additional remuneration solely as a result of the early vesting, there will be a re-testing of the award's performance condition on the original due vesting date, and the Remuneration Committee will consider whether adjustments should be made if vesting on 28 June 2010 would have delivered a lower or different amount.

† TSR ranking is based on the Group's TSR ranking in the FTSE 250 whereby 1 is top and 250 is bottom of the comparator group. The TSR ranking is calculated by independent advisors.

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded deferred shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP notional units during the year were as follows:

Award date	Outstanding at start of year (notional units)	Awards granted in year (notional units)	Exercised in year (notional units)	Lapsed in year (notional units)	Dividends in year (notional units)	Outstanding at end of year (notional units)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
30 June 2006	1,051,845	Nil	(1,065,755)	Nil	13,910	Nil	30 June 2009 & 10 Dec 2009*	1,305,511	1.1525
28 June 2007	899,393	Nil	(462,146)	(5,512)	44,375	476,110	8 Mar 2010 & 28 June 2010**	1,775,639	1.8075
26 June 2008	888,964	Nil	(23,999)	(10,030)	54,343	909,278	26 June 2011	2,411,107	2.6825
29 June 2009	Nil	1,459,932	Nil	(25,592)	90,381	1,524,721	29 June 2012	1,819,440	1.2700
10 Dec 2009	Nil	974,940	Nil	Nil	34,687	1,009,627	10 Dec 2012	1,538,943	1.6060
	2,840,202	2,434,872	(1,551,900)	(41,134)	237,696	3,919,736			

* The vesting date is generally the third anniversary of the award date, although the Committee has reserved the right to postpone the vesting date if it considers that vesting could potentially contravene any securities or transaction rules. Due to the corporate activity with National Express, in accordance with these rules the Group was restricted both in permitting awards from vesting and from making new awards for the Executive Directors and certain senior managers while such activity was ongoing. When that activity formally ceased on 29 October 2009, the Committee confirmed that vesting of the awards granted on 29 June 2006 should be further delayed until after the Group's interim results had been announced on 9 December 2009.

** The awards granted on 28 June 2007 would in the normal course of events be due to vest on 28 June 2010. In light of the approach adopted for the 2008-09 bonus award to Executive Directors and senior managers, which was awarded wholly in deferred shares under the EPP, the Remuneration Committee considered it appropriate to bring forward the vesting date of the 2007 EPP Award to permit vesting within the 2009/10 tax year for those affected individuals, subject to the requirement to retain a number of released EPP shares to the original due vesting date (28 June 2010). The closing share price on the vesting date of 8 March 2010 was £1.7820.

Notes to the consolidated financial statements

Note 32 Reserves

	2010	2009
	£m	£m
Share premium account	**9.8**	9.5
Retained earnings	**(433.5)**	(374.9)
Capital redemption reserve	**415.6**	413.5
Own shares	**(13.3)**	(13.9)
Translation reserve	**7.1**	1.1
Available for sale reserve	**Nil**	0.2
Cash flow hedging reserve	**19.9**	(52.2)

A reconciliation of the movements in the above reserves is shown in the Consolidated statement of changes in equity on page 44.

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.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Cumulative goodwill of £113.8m (2009: £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.

Details of own shares held are given in note 30. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The available for sale reserve records the changes in fair value on available for sale investments. On disposal, the cumulative changes in fair value are recycled to the income statement.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 33 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated by operations

	2010	2009
	£m	£m
Operating profit of Group companies	**156.2**	172.2
Depreciation	**77.2**	72.1
Loss on disposal of plant and equipment	**2.0**	2.0
Intangible asset expenses	**6.0**	8.3
Impairment of plant and equipment	**14.7**	0.2
Equity-settled share based payment expense	**6.3**	3.1
Operating cashflows before working capital movements	**262.4**	257.9
Increase in inventories	**(1.9)**	Nil
Decrease/(increase) in receivables	**0.5**	(25.9)
(Decrease)/increase in payables	**(7.4)**	63.9
(Decrease)/increase in provisions	**(1.9)**	5.7
Differences between employer pension contributions and amounts recognised in the income statement	**(17.2)**	(32.0)
Cash generated by operations	**234.5**	269.6

(b) Proceeds from sale of property, plant and equipment

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2010	2009
	£m	£m
Net book values	**58.7**	18.1
Loss on disposal of plant and equipment	**(2.0)**	(2.0)
Gain on disposal of properties	**4.3**	Nil
Value of property, plant and equipment traded in	**(3.0)**	(3.3)
Movement in receivables and deposits for proceeds from sale of property, plant and equipment	**(5.0)**	Nil
Proceeds from sale of property, plant and equipment	**53.0**	12.8

Note 33 Consolidated cash flows (continued)

(c) Reconciliation of net cash flow to movement in net debt

	2010 £m	2009 £m
Increase in cash	**99.3**	7.5
Cash inflow from movement in borrowings	**3.9**	126.4
	103.2	133.9
New hire purchase and finance leases	**(65.7)**	(88.6)
Debt of acquired subsidiaries	**(0.4)**	(6.8)
Foreign exchange movements	**7.1**	(58.3)
Other movements	**(0.8)**	(0.6)
Decrease/(increase) in net debt	**43.4**	(20.4)
Opening net debt (as defined in note 38)	**(340.1)**	(319.7)
Closing net debt (as defined in note 38)	**(296.7)**	(340.1)

(d) Analysis of net debt

For the purpose of this note, net debt is as defined in note 38. 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	Acquisitions £m	Foreign exchange movements £m	Other movements £m	Closing £m
Cash	198.7	112.1	Nil	Nil	(0.9)	Nil	309.9
Cash collateral	78.6	(12.8)	Nil	Nil	Nil	Nil	65.8
Hire purchase and finance lease obligations	(230.6)	55.1	(65.7)	(0.4)	1.1	Nil	(240.5)
Bank loans and loan stock	(183.7)	161.9	Nil	Nil	(3.9)	(0.5)	(26.2)
Bonds	(197.7)	(215.2)	Nil	Nil	10.8	(0.3)	(402.4)
Preference shares	(5.4)	2.1	Nil	Nil	Nil	Nil	(3.3)
Net debt	(340.1)	103.2	(65.7)	(0.4)	7.1	(0.8)	(296.7)
Accrued interest on bonds and preference shares	(7.9)	15.9	Nil	Nil	0.5	(17.1)	(8.6)
Effect of fair value hedges on carrying value of borrowings	Nil	Nil	Nil	Nil	Nil	(1.3)	(1.3)
Unamortised gain on early settlement of interest rate swaps	(1.6)	Nil	Nil	Nil	Nil	1.6	Nil
Foreign exchange derivatives not included in borrowings in balance sheet	Nil	Nil	Nil	Nil	5.4	Nil	5.4
Net borrowings (IFRS)	(349.6)	119.1	(65.7)	(0.4)	13.0	(17.6)	(301.2)

The cash amounts shown above include £169.0m on 3 month deposit maturing by June 2010, £32.0m deposited on 30 day notice accounts and £10.4m deposited in a 7 day notice account (2009: £10.0m on six month deposit maturing by July 2009, £40.0m on three month deposit maturing by June 2009 and £3.0m on two month deposit maturing by May 2009). The remaining amounts are accessible to the Group within one day (2009: one day).

(e) Restricted cash

The cash collateral balance as at 30 April 2010 of £65.8m (2009: £78.6m) comprises balances held in respect of insurance provision letters of credit of £40.2m (2009: £44.9m), balances held in trust in respect of loan notes of £23.8m (2009: £31.4m) and North America restricted cash balances of £1.8m (2009: £2.3m). In addition, cash includes train operating company cash of £182.8m (2009: £142.3m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained earnings, and only to the extent they do not breach franchise liquidity ratios.

(f) Non cash transactions

The principal non cash transactions were the acquisition of property, plant and equipment using new hire purchase and finance leases.

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at inception of the contracts of £62.3m (2009: £92.2m). After taking account of deposits paid up front and other financing transactions of £3.6m (2009: £20.3m), new hire purchase and finance lease liabilities of £69.3m (2009: £108.9m) were recognised.

Notes to the consolidated financial statements

Note 34 Contingencies

Contingent liabilities

(i) At 30 April 2010, the following bonds and guarantees were in place relating to the Group's rail operations:

	2010	2009
	£m	£m
Performance bonds backed by bank facilities		
– Stagecoach South Western Trains	**59.9**	55.7
– East Midlands Trains	**20.8**	20.2
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– Stagecoach South Western Trains	**45.2**	43.0
– East Midlands Trains	**5.0**	4.6
Intercompany loan facilities and guarantees		
– Stagecoach South Western Trains	**25.0**	25.0
– East Midlands Trains	**35.0**	35.0

These contingent liabilities are not expected to crystallise, except that the intercompany loan facilities will be used from time to time but eliminate on consolidation.

(ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have, in the normal course of business, entered into a number of long-term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.

(iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the DfT annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.

The Group assessed whether a provision for onerous contracts is required in respect of its rail franchises. The Group has discounted the expected future cash flows related to its rail franchises to determine whether it is probable that the benefits to be derived by the Group from the franchises will be lower than the unavoidable costs of meeting its obligations under the franchises. Estimates of cash flows are consistent with management's plans and forecasts. The Group has determined that no provision is necessary. The estimation of future cash flows and the discount rate involves a significant degree of judgment. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

Under certain circumstances following a breach by the Group of one or more of its rail franchise agreements, the DfT has the right to terminate all of the franchises operated by the Group. Where the Group has defaulted on one franchise, the DfT has cross-default rights that might enable it (but not require it) to terminate all of the franchises. The financial effect on the Group of a termination of one or more franchises would depend on which, if any, of the Group's contingent liabilities that the DfT sought to call. As at 30 April 2010, the capital at risk of the Group in this respect was:

	South Western Trains	East Midlands Trains	Total
	£m	£m	£m
Actual liabilities			
Net intra-group amounts payable to train operators	45.1	1.7	**46.8**
Contingent liabilities			
Season ticket bonds	45.2	5.0	**50.2**
Performance bonds	59.9	20.8	**80.7**
Parent company guarantees to suppliers	Nil	9.5	**9.5**
Undrawn committed loan facilities	25.0	35.0	**60.0**
Capital at risk as at 30 April 2010	175.2	72.0	**247.2**
Cash			
Cash in train operating companies	145.7	37.1	**182.8**
Pro forma impact on net debt	320.9	109.1	**430.0**

We consider the likelihood of the contingent liabilities crystallising as being low. The train operating companies' liabilities are covered by assets and as such there should be no need to apply season ticket bonds parent company guarantees or undrawn committed loan facilities. Furthermore, surplus net assets could be realised by the Group. However, if all of the contingent liabilities had crystallised at 30 April 2010, the Group would have needed to have financed £247.2m (2009: £236.1m) and its gross debt would have increased by this amount. In addition, the cash in the train operating companies would be transferred with the franchises and therefore the net debt of the Group would have increased by £430.0m (2009: £378.4m).

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

(iv) The Group and the Company are from time to time party to 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 2010, the accruals in the consolidated financial statements for such claims total £5.4m (2009: £10.1m).

Note 35 Guarantees and other financial commitments

(a) Capital commitments

	2010	2009
	£m	£m
Capital commitments are as follows:		
Contracted for but not provided For delivery in one year	**11.1**	116.9

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2010:

As at 30 April 2010	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 2011	9.5	6.2	128.5	5.1	149.3
Year ending 30 April 2012	8.1	5.5	131.1	4.1	148.8
Year ending 30 April 2013	7.4	3.9	133.6	2.4	147.3
Year ending 30 April 2014	5.7	3.7	96.8	0.2	106.4
Year ending 30 April 2015	2.7	3.0	Nil	Nil	5.7
1 May 2015 and thereafter	20.1	0.8	Nil	Nil	20.9
	53.5	23.1	490.0	11.8	578.4

All operating lease commitments associated with UK Rail franchises are assumed to terminate in line with the expected franchise end. The franchise-end for the purpose of determining the above commitments as at 30 April 2010 is the earlier date of which each franchise could end if the Group failed to meet specified performance targets.

The amounts shown above do not include Network Rail charges, which are shown separately in note 35(c).

The following were the future minimum contractual lease payments due under unexpired operating leases as at 30 April 2009:

As at 30 April 2009	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 2010	8.4	3.9	134.7	4.5	151.5
Year ending 30 April 2011	7.6	3.2	134.7	3.7	149.2
Year ending 30 April 2012	6.2	2.7	134.7	3.2	146.8
Year ending 30 April 2013	5.9	1.4	134.7	1.4	143.4
Year ending 30 April 2014	4.5	1.2	96.0	Nil	101.7
1 May 2014 and thereafter	15.7	0.9	Nil	Nil	16.6
	48.3	13.3	634.8	12.8	709.2

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots) until the expected end of the franchises. Commitments for payments under these contracts as at 30 April 2010 are as shown below.

	2010
	£m
Lease payments due in respect of:	
Year ending 30 April 2011	**149.1**
Year ending 30 April 2012	**144.2**
Year ending 30 April 2013	**148.7**
Year ending 30 April 2014	**136.7**
Year ending 30 April 2015	**Nil**
1 May 2015 and thereafter	**Nil**
	578.7

Notes to the consolidated financial statements

Note 35 Guarantees and other financial commitments (continued)

(c) Network Rail charges (continued)

Commitments for payments under these contracts as at 30 April 2009 were as follows:

	2009
	£m
Lease payments due in respect of:	
Year ending 30 April 2010	145.2
Year ending 30 April 2011	144.4
Year ending 30 April 2012	145.2
Year ending 30 April 2013	166.8
Year ending 30 April 2014	63.2
1 May 2014 and thereafter	0.5
	665.3

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below are based on the latest statutory financial statements of the relevant companies:

	2010	2009
	£m	£m
Annual commitments under non-cancellable operating leases	**47.6**	52.1
Franchise performance bonds	**10.3**	10.3
Season ticket bonds	**1.9**	1.8

The arrangements pursuant to which a performance bond is issued in respect of Virgin Rail Group Holdings Limited, a joint venture, requires that the consolidated net assets (under UK GAAP and applying its own accounting policies) of Virgin Rail Group Holdings Limited are no less than £22.5m (2009: £22.5m). This could restrict Virgin Rail Group Holding's ability to make distributions to the Group.

Note 36 Related party transactions

Details of major related party transactions during the year ended 30 April 2010 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited - Non-Executive Directors

Two of the Group's managers are non-executive directors of Virgin Rail Group Holdings Limited. During the year ended 30 April 2010, the Group earned fees of £60,000 (2009: £60,000) from Virgin Rail Group Holdings Limited in this regard.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group. For the year ended 30 April 2010, East Midlands Trains had purchases totalling £0.8m (2009: £0.6m) and sales totalling £0.5m (2009: £0.8m) from/to West Coast Trains Limited. East Midlands Trains has a payable of £27,000 (2009: receivable £400,000) owed to West Coast Trains Limited as at 30 April 2010.

(iii) Noble Grossart Limited

Ewan Brown (Non-Executive Director) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the year. Total fees payable to Noble Grossart Limited in respect of the year ended 30 April 2010 amounted to £13,333 (2009: £20,000). At 30 April 2010, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 4,084,999 (2009: 4,084,999) ordinary shares in the Company, representing 0.6% (2009: 0.6%) of the Company's issued ordinary share capital.

(iv) Alexander Dennis Limited

Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 37.9% (30 April 2009: 37.9%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (iii) above) controls a further 28.4% (30 April 2009: 28.4%) of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 30 April 2010, the Group purchased £48.9m (2009: £61.1m) of vehicles from Alexander Dennis Limited and £3.4m (2009: £2.8m) of spare parts and other services. As at 30 April 2010, the Group had £0.4m (2009: £0.3m) payable to Alexander Dennis Limited.

(v) Pension Schemes

Details of contributions made to pension schemes are contained in note 28 to the consolidated financial statements.

Note 36 Related party transactions (continued)

(vi) Robert Walters plc

Martin Griffiths (Finance Director) became a non-executive director of Robert Walters plc in July 2006 and received remuneration of £56,120 (2009: £47,200) in respect of his services for the year ended 30 April 2010. Martin Griffiths holds 20,000 (2009: 12,000) shares in Robert Walters plc which represents 0.03% (2009: 0.01%) of the issued share capital. During the year ended 30 April 2010, the Group paid Robert Walters plc £Nil (2009: £9,360) for recruitment services.

(vii) Troy Income & Growth Trust plc

Martin Griffiths (Finance Director) became a non-executive director of Troy Income & Growth Trust plc (formerly Glasgow Income Trust plc) on 8 November 2007 and received £14,000 (2009: £14,000) in respect of his services for the year ended 30 April 2010. He holds 50,000 (2009: 28,000) shares in Troy Income & Growth Trust plc representing 0.04% (2009: 0.02%) of the issued share capital.

(viii) Loan to New York Splash Tours LLC

A net interest bearing long-term loan of £3.1m (2009: £2.7m) was outstanding from a joint venture, New York Splash Tours LLC, as at 30 April 2010.

(ix) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2009: £Nil) was due to Scottish Citylink Coaches Limited as at 30 April 2010. The Group received £14.9m (2009: £14.0m) in the year ended 30 April 2010 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited. As at 30 April 2010, the Group had a net £3.6m (2009: £3.7m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(x) Argent Energy Group Limited

Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) collectively hold 39.3% (30 April 2009: Nil) of the shares and voting rights in Argent Energy Group Limited. Neither Brian Souter nor Ann Gloag is a director of Argent Energy Group Limited nor do they have any involvement in the management of Argent Energy Group. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Argent Energy Group.

For the year ended 30 April 2010, the Group purchased £0.4m (2009: £0.2m) of biofuel from Argent Energy Group. As at 30 April 2010, the Group had £Nil (2009: £13,000) payable to Argent Energy Group.

Note 37 Post balance sheet events

Holders of 723,770 redeemable 'B' preference shares elected to have these shares redeemed on 31 May 2010 leaving 4,463,285 redeemable 'B' preference shares in issue.

In the 2010 budget on 22 June 2010, the UK Government announced its intention to reduce the UK corporate income tax rate from 28% to 24% by 1% per annum over a four-year period. At 30 April 2010, no change in the rate of tax was substantively in law, but a 1% decrease in the rate to 27% is expected to be enacted in the year ending 30 April 2011. Had this change of rate to 27% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in deferred tax liabilities of £0.7m, from £19.2m to £18.5m.

Note 38 Definitions

- **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 business and individual operating units that have been part of the Group throughout both periods.
- **Operating profit** for a particular business unit or division within the Group refers to profit before net finance income/costs, taxation, intangible asset expenses, exceptional items and restructuring costs.
- **Operating margin** for a particular business unit or division within the Group means operating profit 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, deferred gains on derivatives and the effect of air value hedges on the carrying value of borrowings, and to include the effect of foreign exchange derivatives that synthetically convert an element of borrowings from one currency to another.
- **Net debt** (or net funds) is the net of cash and gross debt.

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

We have audited the parent company financial statements of Stagecoach Group plc for the year ended 30 April 2010 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements set out on page 21, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on page 40 on the consolidated financial statements of Stagecoach Group plc for the year ended 30 April 2010.

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

23 June 2010

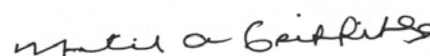
Company balance sheet

As at 30 April 2010

Prepared using UK Generally Accepted Accounting Practice (UK GAAP)

	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	2	**0.1**	0.1
Investments	3	**978.5**	971.8
		978.6	971.9
Current assets			
Debtors and prepaid charges – due within one year	4	**699.9**	234.3
Deferred tax asset	5	**0.4**	0.3
Derivative financial instruments at fair value – due within one year	7	**2.8**	Nil
Derivative financial instruments at fair value – due after more than one year	7	**1.9**	Nil
Cash		**101.8**	50.3
		806.8	284.9
Creditors: Amounts falling due within one year			
Trade and other creditors	6	**(562.5)**	(496.1)
Redeemable 'B' preference shares		**(3.3)**	(5.4)
		(565.8)	(501.5)
Net current assets/(liabilities)		**241.0**	(216.6)
Total assets less current liabilities		**1,219.6**	755.3
Creditors: Amounts falling due after more than one year			
Other creditors	6	**(406.1)**	(0.6)
Derivative financial instruments at fair value	7	**(1.9)**	(0.1)
Net assets excluding pension liability		**811.6**	754.6
Pension liability, net of deferred tax	8	**(2.3)**	(1.8)
Net assets including pension liability		**809.3**	752.8
Capital and reserves			
Equity share capital	9	**7.1**	7.1
Share premium account	10	**9.8**	9.5
Profit and loss account	10	**390.1**	336.6
Capital redemption reserve	10	**415.6**	413.5
Own shares	10	**(13.3)**	(13.9)
Shareholders' funds		**809.3**	752.8

These financial statements were approved for issue by the Board of Directors on 23 June 2010.



Brian Souter
Chief Executive

Martin A Griffiths
Finance Director

The accompanying notes form an integral part of this balance sheet.

Notes to the Company financial statements

Note 1 UK GAAP accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with UK GAAP.

- **Basis of accounting**

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with applicable accounting standards in the United Kingdom.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company is not required to prepare a cash flow statement under Financial Reporting Standard 1 ("FRS 1") (revised).

- **Tangible fixed assets**

Tangible fixed assets are shown at their original historic cost net of depreciation and any provision for impairment as set out in note 2.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over their estimated useful lives, as follows:

IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any fixed asset impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

- **Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

- **Taxation**

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", full provision is made for deferred tax on a non-discounted basis in respect of all timing differences except those arising from the revaluation of fixed assets where there is no binding sale agreement and undistributed profits of overseas subsidiaries.

Deferred tax is calculated at rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent they are more likely than not to be recovered.

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

- **Foreign currencies**

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the profit and loss account.

For the principal rates of exchange used see the Group IFRS accounting policies on page 49.

- **Share based payment**

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

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the profit and loss account to the extent that the amount of the expense recorded by each subsidiary company is less than the amount recharged to it by the Company.

Equity-settled transactions

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

Fair value for equity-settled share based payments is estimated by use of the Black-Scholes pricing model.

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).

Note 1 UK GAAP accounting policies (continued)

- **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**

The accounting policy of the Company under FRS 25 "Financial instruments: Presentation" and FRS 26 "Financial instruments: Recognition and measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial instruments: Recognition and measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 51 to 53.

- **Investment in own shares**

In accordance with UITF Abstract 38, "Accounting for ESOP Trusts", own shares held by the Group's Employee Benefit Trust and Qualifying Employee Share Ownership Trust have been classified as deductions from shareholders' funds.

- **Interest bearing loans and borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

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

- **Pensions**

The Company accounts for pensions and similar benefits under FRS 17 "Retirement Benefits" and measures its obligations due at discounted present value.

Note 2 Tangible fixed assets

	£m
Cost	
At beginning of year	0.7
Additions	Nil
At end of year	0.7
Depreciation	
At beginning of year	(0.6)
Charge in year	Nil
At end of year	(0.6)
Net book value at beginning of year	0.1
Net book value at end of year	0.1

Note 3 Investments

	Subsidiary undertakings £m
Cost	
At beginning of year	971.8
Additions	6.7
At end of year	978.5
Amounts written off	
At beginning and end of year	Nil
Net book value at beginning of year	971.8
Net book value at end of year	978.5

Notes to the Company financial statements

Note 4 Debtors and prepaid charges

Amounts falling due within one year were:	2010	2009
	£m	£m
Prepayments and accrued income	**0.6**	1.1
Other debtors	**12.2**	12.9
UK corporation tax receivable	**Nil**	0.7
Amounts owed by Group undertakings	**687.1**	219.6
	699.9	234.3

Note 5 Deferred tax asset

The movement in the deferred tax asset during the year was as follows:	2010	2009
	£m	£m
At beginning of year	**0.3**	0.3
Credit to profit and loss account	**0.1**	Nil
At end of year	**0.4**	0.3

The deferred tax asset recognised can be analysed as follows:	2010	2009
	£m	£m
Short-term timing differences	**0.4**	0.3

Note 6 Creditors

(a) Creditors: Amounts falling due within one year	2010	2009
	£m	£m
Bank overdrafts	**360.9**	410.9
Bank loans and loan notes	**26.2**	33.9
Accruals and deferred income	**3.6**	3.7
Amounts due to Group undertakings	**171.8**	47.6
	562.5	496.1

Trade creditors are non-interest bearing and are normally settled on 30 to 45 day terms.

(b) Creditors: Amounts falling due after more than one year	2010	2009
	£m	£m
Accruals and deferred income	**0.5**	0.6
Sterling 5.75% Notes	**405.6**	Nil
	406.1	0.6

(c) Borrowings were repayable as follows:	2010	2009
	£m	£m
On demand or within 1 year		
Bank overdraft	**360.9**	410.9
Bank loans and loan notes	**26.2**	33.9
Repayable after 5 years		
Sterling 5.75% Notes	**405.6**	Nil
Total borrowings	**792.7**	444.8

Note 7 Financial instruments

The fair values of derivative financial instruments at 30 April 2010 are set out below:

	2010		2009	
	Fair value assets £m	**Fair value liabilities £m**	Fair value assets £m	Fair value liabilities £m
Current assets				
Interest rate swaps – internal – due within one year	**2.8**	**Nil**	Nil	Nil
Interest rate swaps – internal – due after more than one year	**1.9**	**Nil**	Nil	Nil
Creditors: amounts falling due after more than one year				
Fuel derivatives – external	**Nil**	**Nil**	Nil	(0.1)
Interest rate swaps – internal	**Nil**	**(1.9)**	Nil	Nil

In accordance with FRS 26, "Financial Instruments: Recognition and measurement" the Company has reviewed all significant contracts for embedded derivatives that are required to be separately accounted for. None were identified.

The Stagecoach Group plc consolidated financial statements for the year ended 30 April 2010 contain financial instrument disclosures which comply with FRS 25, "Financial Instruments: Disclosure and Presentation". Consequently, the Company has taken advantage of the exemption in FRS 25 not to present separate financial instrument disclosures for the Company.

There were no derivatives outstanding at the balance sheet date designated as hedges.

Note 8 Pension liability, net of deferred tax

	2010	2009
	£m	£m
Unfunded pension liability	**3.0**	2.6
Deferred tax asset	**(0.7)**	(0.8)
	2.3	1.8

The Company no longer has any employees but has unfunded liabilities in respect of former employees which are shown above. See note 28 to the consolidated financial statements for more details on retirement benefits.

Note 9 Called up share capital

Information on share capital is provided in note 30 to the consolidated financial statements.

Notes to the Company financial statements

Note 10 Share capital and reserves

	Equity share capital £m	Share premium account £m	Profit and loss account £m	Capital redemption reserve £m	Own shares £m	**Total £m**
At 1 May 2009	7.1	9.5	336.6	413.5	(13.9)	**752.8**
Profit for the year	Nil	Nil	126.0	Nil	Nil	**126.0**
Credit in relation to share based payment	Nil	Nil	6.3	Nil	Nil	**6.3**
Dividends	Nil	Nil	(76.7)	Nil	Nil	**(76.7)**
Ordinary shares issued during the year	Nil	0.3	Nil	Nil	Nil	**0.3**
Own shares sold	Nil	Nil	Nil	Nil	0.8	**0.8**
Own shares purchased	Nil	Nil	Nil	Nil	(0.2)	**(0.2)**
Preference shares redeemed	Nil	Nil	(2.1)	2.1	Nil	**Nil**
At 30 April 2010	7.1	9.8	390.1	415.6	(13.3)	**809.3**

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The profit as disclosed above of £126.0m (2009: loss of £28.8m) is consolidated in the results of the Group.

The profit and loss account reserve is distributable but the other components of shareholders' funds shown above are not distributable.

The remuneration of the Directors is borne by other Group companies and is equal to the amounts shown in note 7 to the consolidated financial statements.

Note 11 Share based payments

For details of share based payment awards and fair values see note 31 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £6.3m (2009: £3.1m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to the profit and loss account reserve to reflect the fact that the Company has no employees (2009: Nil) and all share based payment awards are to employees of subsidiary companies. The remuneration of the Directors is borne by other Group companies. The Company accounts for the cash-settled share based payment charge for the year of £2.6m (2009: £1.8m) by recording a liability for this amount and recording a corresponding entry as a charge through the profit and loss account. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the profit and loss account.

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £98.6m (2009: £107.3m) 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 £71.8m (2009: £74.0m) 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, bank loans 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 34 (iv) to the consolidated financial statements.

(b) Capital commitments
Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2010 £m	2009 £m
Contracted for but not provided:		
For delivery in one year	**Nil**	79.1

(c) Operating lease commitments
Annual charges for operating leases are made with expiry dates as follows:

	2010		2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**Nil**	**0.1**	Nil	Nil
Between one year and five years	**Nil**	**0.6**	Nil	3.4
Five years and over	**0.3**	**Nil**	0.3	0.5

Note 13 Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related party disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented with consolidated financial statements of its group. Related party disclosures provided by the Group can be found in note 36 to the consolidated financial statements.

Shareholder information
Analysis of shareholders as at 30 April 2010

Range of holdings	Number of holders	%	Ordinary shares held	%
1 – 25,000	41,431	98.7	44,598,853	6.2
25,001 – 250,000	337	0.8	28,052,440	3.9
250,001 – 500,000	53	0.1	18,448,168	2.5
500,001 – 3,750,000	122	0.3	171,960,728	23.9
Over 3,750,000	38	0.1	457,005,997	63.5
	41,981	100.0	720,066,186	100.0

Classification of shareholders	Number of holders	%	Ordinary shares held	%
Individuals	40,378	96.2	162,533,321	22.6
Other corporate bodies	75	0.2	19,909,643	2.8
Banks and Nominees	1,409	3.4	508,889,698	70.7
Limited companies	104	0.2	24,614,768	3.4
Investment trusts	11	0.0	4,112,260	0.5
Pension funds	4	0.0	6,496	0.0
	41,981	100.0	720,066,186	100.0

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's registrars and clearly state the shareholder's name and address. Please write to: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA. Telephone 0871 664 0443 (calls cost 10p per minute plus network extras) if calling from the UK or 0844 842 9587 if calling from outside the UK. Registrar forms can be obtained on-line at http://www.stagecoachgroup.com/scg/ir/shareholder/registrar/

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 08457 22 55 25.

The Company has also made arrangements with Stocktrade for ISAs. Full details and an application form are available from Stocktrade (a division of Brewin Dolphin), 81 George Street, Edinburgh EH2 3ES. Telephone 0131 240 0448.

Share dealing facilities

The Company has set up a range of execution only share dealing services to enable Stagecoach shareholders to buy and sell shares by phone, online or by post. The phone and online dealing services are provided by Capita Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services go to www.capitadeal.com or call 0871 664 0384 (calls cost 10p a minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri). Please have your share certificate to hand when you log-in or call. Charges start from £20 online and £25 by phone.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Charges start from £15. Shareholders who would like further information should write to Stocktrade, 81 George Street, Edinburgh EH2 3ES. Telephone 0845 601 0995, quoting dealing reference Low Co020. Postal dealing packs are available on request.

Payment of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The mandates enable the Company to pay dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to shareholders of the BACS system is that the registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder 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.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares at favourable commission rates. Shareholders who would like further information should telephone the Company's registrars, Capita Registrars, on 0871 664 0443 (calls cost 10p per minute plus network extras) if calling from the UK or 0844 842 9587 if calling from outside the UK.

Five year financial summary – consolidated

	2010	2009	2008	2007**	2006**
	£m	£m	£m	£m	£m
Results					
Revenue	**2,164.4**	2,103.3	1,763.6	1,504.6	1,343.9
Operating profit	**179.1**	202.4	192.3	180.9	112.5
Net finance (costs)/income	**(51.2)**	(31.4)	(23.6)	0.7	(15.9)
Profit before taxation	**125.9**	170.8	167.3	184.1	91.5
Tax (charge)/credit	**(18.1)**	(37.3)	61.9	(43.6)	(20.3)
Profit attributable to equity shareholders of the parent	**111.7**	133.5	249.1	277.3	115.4
Net assets/(liabilities)					
Non-current assets	**994.7**	992.9	880.7	779.4	893.4
Current assets	**627.2**	517.2	502.0	669.1	395.3
Current liabilities (excluding provisions)	**(598.5)**	(893.7)	(558.1)	(445.1)	(438.2)
Non-current liabilities (excluding provisions)	**(875.1)**	(486.1)	(625.0)	(382.7)	(529.0)
Provisions	**(135.6)**	(139.9)	(119.2)	(108.4)	(109.9)
Total equity	**12.7**	(9.6)	80.4	512.3	211.6
Cash and debt					
Cash at bank and in hand	**375.7**	277.3	262.2	513.3	198.5
Gross debt***	**(672.4)**	(617.4)	(581.9)	(326.9)	(334.4)
Net (debt)/funds***	**(296.7)**	(340.1)	(319.7)	186.4	(135.9)
Cash flow					
Net cash flow from operating activities after tax	**216.4**	277.8	325.0	162.3	175.5
Ratios					
Adjusted earnings per ordinary share*	**18.7p**	22.9p	20.3p	11.7p	10.6p
Dividends per ordinary share	**6.5p**	6.0p	5.4p	4.1p	3.7p
Net cash from operating activities after tax per ordinary share	**30.2p**	38.9p	45.1p	14.9p	16.3p
Ordinary shares in issue at year end	**720.1m**	719.5m	718.1m	1,101.0m	1,093.6m

*before intangible asset expenses and exceptional items

**discontinued operations as defined under IFRS accounting are excluded from operating profit for 2007 and 2006 (London bus and New Zealand businesses).

*** as defined in note 38 to the consolidated financial statements.

Registered office, advisers and financial calendar

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Exchange House

Primrose Street

London EC2A 2HS

Financial Calendar

Annual General Meeting

19 August 2010

Interim Results

December 2010

Interim Dividend

March 2011

*Calls to this number are 10p per minute from a BT number. Other telephone providers' costs may vary.

www.stagecoach.com

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