East London Bus & Coach Company Limited

Financial statements for the year ended 29 April 2017

Registered number: 2328402

Strategic report

For the period ended 29 April 2017

The directors present their strategic report on the Company for the 52 week period ended 29 April 2017.

Review of the business

East London Bus & Coach Company Limited is a public transport operator, operating primarily contract services within the Greater London area. The Company operates a fleet of 706 buses and employs 2,359 people.

Results and performance

The results of the Company for the period ended 29 April 2017 show a profit on ordinary activities before taxation of £3,595,000 (2016: £2,459,000) and revenue of £162,794,000 (2016: £167,118,000). The Company has net liabilities of £124,814,000 (2016: £64,617,000).

Business environment

Along with fellow subsidiaries South East London & Kent Bus Company Limited and East London Bus Limited (together 'the London Bus business'), the Company provides public transport services, primarily under contract to Transport for London ("TfL"), under a number of five-year contracts with varying termination dates, which are extendable if qualitative metrics are achieved for a further two years at the Company's discretion.

Road works and traffic congestion are a continuing challenge for operators in the London bus market. Engagement is ongoing with both TfL and the London Assembly on these issues. We believe congestion is a major factor in the decline in bus passenger volumes, which are now falling at a faster rate in the capital than in the rest of the country. While London bus operators do not take passenger volume risk in the short term, a combination of declining revenues and moves by central government to make the London bus network self-financing means that TfL's current business plan envisages no significant growth in London bus mileage for the next five years.

The Company benefits from being part of the UK Bus (London) Division of Stagecoach Group plc, a nationwide public transport operator.

Strategy

We have generated significant value from the acquisition in 2010 of the four legal entities making up the London bus business, when we paid around £60m to acquire the business. In the last three years alone, the business has delivered over £60m of operating profit.

The value of the all business is supported by its freehold property portfolio. Property in London is expensive and our properties provide a strong base for the continuing operation of our bus services in East and South East London. We believe the properties would also realise significant value if they were to be sold to third parties.

We have built a sustainable business in the contracted London bus market through a measured approach to bidding, a focus on high operational quality and a close control of costs. Our East London bus business was named Bus Operator of the Year at the 2017 London Transport Awards in recognition of high levels of reliability, driving standards and customer satisfaction.

Future outlook

The Company currently expect our UK Bus (London) operating profit to reduce in the year ending 28 April 2018. That reflects two main factors. Firstly, to ensure we recruit and retain sufficient bus drivers to continue to reliably provide the contracted bus services, we have increased our starting rates of pay for bus drivers reflecting market conditions in London. Secondly, we are seeing heightened competition for contracts in some parts of our London operations resulting in us losing some contracts. While this means that the 2017/18 operating margin is likely to be below our long-term aspiration of at least 7%, we plan to continue to bid for new contract opportunities at prices we believe would deliver appropriate rates of return.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The management and reporting of risk is undertaken at Group level, rather than at an individual business unit level.

The principal risks and uncertainties of Stagecoach Group plc, which includes those of the Company, are discussed in the Group's 2017 annual report (paragraph 1.4.5 of the Strategic Review), which does not form part of this report.

The principal risks and uncertainties for the Group that are also applicable to the Company are:

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.

Fuel price fluctuations

The cost of fuel is a significant expense for the Company and the price can fluctuate widely in the market place. The Group seeks to minimise its exposure in this area through the use of fuel hedge contracts by fixing the price of a proportion of estimated fuel purchases throughout the term of the contracts with TfL.

Key performance indicators ("KPIs")

The directors of Stagecoach Group plc manage the Group's performance on a divisional basis. For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the UK Bus (London) Division of Stagecoach Group plc, which includes the Company, is discussed in the Strategic Review (paragraph 1.4.6) of the Group's 2017 annual report which does not form part of this report.

Financial risk management

The Company's activities expose it to a variety of financial risks including the effects of changes in interest rates, credit risk and commodity prices. The effects of changes in interest rates and commodity prices are managed at a Group level by a central Group treasury function. The Company has implemented policies, which require appropriate credit checks to be performed on potential customers before sales are made. All credit checks are performed centrally by Stagecoach Services Limited, a fellow group company.

By order of the Board

M J Vaux
Company Secretary
Daw Bank
Stockport
Cheshire
SK3 ODU

30 October 2017

Directors' report

For the period ended 29 April 2017

The directors present their report on the affairs of the Company, together with the audited financial statements and independent auditors' report, 52 week period ended 29 April 2017.

Results and dividends

The results of the Company for the period ended 29 April 2017 show a profit on ordinary activities before taxation of £3,595,000 (2016: £2,459,000) and revenue of £162,794,000 (2016: £167,118,000). The profit for the financial year amounted to £2,670,000 (2016: £3,414,000). The directors do not recommend the payment of a dividend (2016: Nil).

The directors have received a guarantee of financial support from Stagecoach Group plc due to the net liability position and therefore the directors consider the going concern assumption for the preparation of these financial statements is appropriate.

Future Developments

Future developments have been discussed in the strategic report on page 2.

Financial Risk Management

Financial risk management has been discussed in the strategic report on page 3.

Directors and their interests

The directors who held office during the year under review and up to the date of approval of these financial statements were:

C Brown
R G Andrew (resigned 28th April 2017)
S Greer (resigned 28th April 2017)
R Montgomery (resigned 22nd March 2017)
A M Threapleton
M J Vaux (resigned 28th March 2017)
G Nolan (resigned 7th April 2017)
P Lynch (appointed 18th April 2017)

Employees

Employees are central to the Company's strategy to deliver its business plan. A well motivated and engaged workforce will in turn create optimum performance and efficiency within the business. The business objectives are achieved through training, developing and engaging employees in delivering an excellent service to customers and maintaining high operational standards.

Training and development

The Company have consistently sought to recruit and retain the best employees in the markets in which we operate. The Company invests significantly to ensure that our staff are properly trained and able to offer the best customer service. The Company, under guidance from central UK Bus (London) management, operates staff development, graduate trainee and apprentice engineer programmes.

Employees (continued)

Employee involvement

The Company 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 Stagecoach Group's bonus and other remuneration schemes and are encouraged to invest through participation in share option schemes.

Disabled persons

The Company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirements which have to be met for certain grades of staff. Wherever reasonable and practicable, the Company will retain newly disabled employees and at the same time provide fair opportunities for the career development of disabled people.

Donations

Donations to charitable organisations amounted to £3,490 (2016: £275).

The Company does not make political contributions and accordingly there were no payments for political purposes during the year (2016: Nil).

Going Concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), Financial Reporting Standard 101. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' responsibilities statement (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors and disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office, and a resolution concerning their re-appointment will be proposed at the next Annual General Meeting of the Company.

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. The Company has indemnified each of its directors and other officers of the Company against certain liabilities that may be incurred as a result of their offices.

By order of the Board

M Vaux
Company Secretary

Daw Bank
Stockport
Cheshire
SK3 0DU

30 October 2017

We have audited the financial statements of East London Bus & Coach Company Limited for the 52 week period ended 29th April 2017 which comprise the income statement, the statement of other comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 20. 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), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5 & 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29th April 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Ernst & Young LLP

Mark Harvey (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
31 October 2017

Income Statement

For the period ended 29 April 2017

	Note	Period ended 29 April 2017 £'000	Period ended 30 April 2016 £'000
Revenue	3	**162,794**	167,118
Operating cost		**(157,542)**	(163,044)
Gross profit	4	**5,252**	4,074
Other operating income	3	**1,756**	1,849
Operating profit		**7,008**	5,923
Interest payable and similar charges	7	**(3,413)**	(3,464)
Profit on ordinary activities before taxation		**3,595**	2,459
Tax on profit on ordinary activities	8	**(925)**	955
Profit for the financial year		**2,670**	3,414

All activities relate to continuing operations.

The notes on pages 13 to 35 form an integral part of these financial statements.

Statement of other comprehensive income

For the period ended 29 April 2017

	Note	**Period ended 29 April 2017 £'000**	Period ended 30 April 2016 £'000
Profit for the financial year		**2,670**	3,414
Other comprehensive income/(expenditure)			
Actuarial loss on retirement benefit obligations	**14**	**(75,155)**	(4,084)
Other comprehensive expenses		**(75,155)**	(4,084)
Tax credit/(charge) relating to actuarial loss on retirement benefit obligations	**13**	**12,288**	(114)
Other comprehensive expenses for the year, net of tax		**(62,867)**	(4,198)
Total comprehensive expenses for the year		**(60,197)**	(784)

Balance sheet

As at 29 April 2017

	Note	2017	2016
		£'000	£'000
Non-current assets			
Property, plant and equipment	9	**14,745**	17,703
Deferred tax asset	13	**22,195**	9,500
		36,940	27,203
Current assets			
Stocks	10	**483**	457
Debtors: amounts falling due within one year	11	**32,463**	9,851
Cash at bank and in hand		**14,105**	7,405
		47,051	17,713
Total assets		**83,991**	44,916
Current Liabilities			
Trade and other payables	12	**(80,695)**	(59,481)
		(80,695)	(59,481)
Non-current Liabilities			
Retirement benefit liabilities	14	**(126,399)**	(48,877)
Provisions for liabilities	15	**(1,711)**	(1,175)
		(128,110)	(50,052)
Total liabilities		**(208,805)**	(109,533)
Net liabilities		**(124,814)**	(64,617)
Capital and reserves			
Called up share capital	16	**4,263**	4,263
Share premium account	16	**10,662**	10,662
Revaluation reserve		**115**	119
Profit and loss account		**(139,854)**	(79,661)
Total shareholders' deficit		**(124,814)**	(64,617)

The financial statements on pages 9 to 35 were approved by the board of directors on 30 October 2017 and were signed on its behalf by:

C Brown
Director

Statement of changes in equity
As at 29 April 2017

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Revaluation reserve £'000	Total shareholders' deficit £'000
At 1 May 2015	**4,263**	**10,662**	**(78,881)**	**123**	**(63,833)**
Profit for the financial year - restated	-	-	3,414	-	3,414
Transfer from revaluation reserve	-	-	4	(4)	-
Other comprehensive loss for the year	-	-	(4,198)	-	(4,198)
Total comprehensive loss for the year	**-**	**-**	**(780)**	**(4)**	**(784)**
At 30 April 2016	**4,263**	**10,662**	**(79,661)**	**119**	**(64,617)**
Profit for the financial year	-	-	2,670	-	2,670
Transfer from revaluation reserve	-	-	4	(4)	-
Other comprehensive loss for the year	-	-	(62,867)	-	(62,867)
Total comprehensive loss for the year	**-**	**-**	**(60,193)**	**(4)**	**(60,197)**
At 29 April 2017	**4,263**	**10,662**	**(139,854)**	**115**	**(124,814)**

Notes to the financial statements

For the period ended 29 April 2017

1 Principal accounting policies

The principal accounting policies, all of which have been applied consistently throughout the 52 week period to 29 April 2017 and the preceding year, are:

1.1 Basis of preparation

The Company is a private limited company registered in England. The address of the Company's registered office is shown on page 6 and a description of the Company's principal activities are set out on page 1.

These financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act).

The Company's date of transition from UK Generally Accepted Accounting Practice (UK GAAP) to FRS 101 was 1 May 2014.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of financial statements
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the company in these financial statements.

At 29 April 2017, the Company had net liabilities of £124,814,000 (2016: £64,617,000). The directors have received confirmation of continuing financial support from the ultimate holding company. Accordingly, the financial statements have been prepared on the going concern basis.

1.2 Revenue recognition

Revenue principally comprises of revenue from the operation of contracted bus services in London and the South East of the United Kingdom ('Revenue'). Revenue is shown net of value-added tax, rebates and discounts. Revenues incidental to the Company's principal activity (including advertising income) are reported as other operating income.

(a) Sales of services

The Company recognises revenue when the amount of revenue can be reliably measured. Performance based incentives are recognised in the year in which they become certain by reference to data provided by TfL.

(b) Interest income

Interest income is recognised on an accruals basis

1 Principal accounting policies (continued)

1.3 Property, plant and equipment

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Land and buildings and other fixed assets are shown at cost, net depreciation and any provision for impairment as set out in note 9.

Depreciation on revalued buildings is charged to income. Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the subsequent sale or scrappage of a revalued property the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to the profit and loss reserve.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings	50 years
Leasehold land and buildings	over the period of lease
Public service vehicles ('PSVs')	7 to 12 years
Plant and equipment	3 to 10 years
Furniture and fittings	3 to 10 years

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(losses) in the profit and loss account.

Public service vehicles ('PSVs') are generally depreciated over periods ranging from 7 to 12 years after making allowances for estimated residual values.

1 Principal accounting policies (continued)

1.4 Stocks
Stock comprises of fuel and vehicle spare parts and is stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

1.5 Financial assets
The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company classifies its financial assets in the following category:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost and gains and losses are recognised in the profit and loss account. They are included in current assets. The most significant financial assets under this category are 'debtors due within one year' and 'cash at bank and in hand'.

1.6 Cash at bank and in hand
Cash at bank and in hand includes cash in hand, deposits held at call with banks with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1.7 Ordinary shares
Ordinary shares are classified as equity. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1.8 Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

1 Principal accounting policies (continued)

1.10 Pensions and retirement benefit obligations

Certain employees of the Company are members of the East London & Selkent pension scheme, a defined benefit pension scheme that is also open to certain employees of other Group companies. It is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. The Company also contributes to a defined contribution scheme.

For the period until acquisition by Stagecoach Bus Holdings Limited, the retirement benefit obligation was held by a fellow group company and as the Company was unable to identify its share of the underlying assets and liabilities, the contributions paid by the Company are accounted for as if the scheme was a defined contribution scheme.

On acquisition by Stagecoach Bus Holdings Limited, the assets and liabilities of the East London & Selkent pension scheme were recognised.

In respect of the defined benefit scheme, obligations are measured at discounted present value whilst scheme assets are recorded at market value. The recognised net asset is limited to 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 Company if it is realisable during the life of the scheme or on settlement of the scheme liabilities.

The operating and financing costs of the defined benefit plan is included within operating profit and is 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 other 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.

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

For defined contribution schemes, the Company pays contributions to separately administered pension schemes. Once the contributions have been paid, the Company has no further payment obligations. The Company's contributions to defined contribution schemes are charged to the profit and loss account in the year to which the contributions relate.

1 Principal accounting policies (continued)

1.11 Share-based payment transactions
The company operates a "Buy as You Earn Scheme" (BAYE). BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every share bought from the first £10 of monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month.

1.12 Provisions for liabilities
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that the Company will be required to settle that obligation and the amount has been reliably estimated. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to the present value where the effect is material. The increase in the provision due to passage of time is recognised as interest expense

1.13 Tax
Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided on taxable profits 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 the rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and laws 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 difference can be utilised.

1 Principal accounting policies (continued)

1.14 Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease expense. Operating lease payments are recognised as an expense in the profit and loss account on a straight line basis over the lease term.

Under finance leases and hire purchase contracts, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, the assets acquired are recorded in the balance sheet as an asset (at the equivalent of the purchase price) and as an obligation to pay future hire purchase capital instalments or finance lease rentals. Assets held under hire purchase arrangements are depreciated over their useful life.

Obligations from hire purchase contracts and finance leases within creditors represent the total of the capital payments outstanding at the balance sheet date. Future finance charges are not included.

The interest element of hire purchase and finance lease obligations are charged to the profit and loss account over the period of the hire purchase or finance lease.

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

1.16 Cash flow statement
South East London & Kent Bus Limited is not required to prepare a cash flow statement under IAS 7, as it is a wholly owned subsidiary undertaking of Stagecoach Group plc whose consolidated financial statements, which are publicly available, include a consolidated cash flow statement in which the cash flows of the company are included.

1.17 Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or borrowings, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

1 Principal accounting policies (continued)

1.17 Financial instruments (continued)

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company has only entered into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other receivables and payables, financing arrangements with banks and other third parties and balances due from and to related parties.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Full details of the financial instruments policy of Stagecoach Group plc are discussed in note 1 of the Group's 2017 annual report.

1.18 Critical accounting policies and estimates

Preparation of the 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 financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

The critical accounting policies summarised below cover the policies regarded by the Directors as critical to the Company's reporting in general.

i) *Pensions*

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

1 Principal accounting policies (continued)

1.18 Critical accounting policies and estimates (continued)

ii) *Taxation*

The Company'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 judgemental issues. However, the final tax cost to the company may differ from the estimates.

iii) *Property, plant and equipment*

Property, plant and equipment, other than land, are depreciated on a straight-line basis to write off the cost or valuation less estimated residual value of each asset over the shorter of 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 Company's depreciation charge and net profit.

2 Segment information

Management has determined that there is only one reportable operating segment.

3 Revenue and other operating income

	2017	2016
	£'000	£'000
Contracted services	**162,794**	167,118
Advertising income	**1,756**	1,565
Tyre sales	**-**	126
Other operating income	**-**	158
Total income	**164,550**	168,967

All the above income is generated in the United Kingdom. Due to the nature of the Company's business, the origin and destination of Revenue is the same in all cases. The Company provides services primarily to Transport for London and the directors consider that this represents one business segment.

4 Gross profit

Gross profit is stated after charging/(crediting):

	2017	2016
	£'000	£'000
Staff costs (note 6)	**89,999**	92,055
Loss/(gain) on disposal of vehicles, plant & equipment	**231**	(77)
Depreciation		
- owned	**3,428**	3,630
Operating lease rentals		
- land and buildings	**2,689**	2,551
- other	**(9)**	1,001
PSV intercompany rental charges	**6,397**	6,042

No auditors' fees have been settled directly by the Company. Audit fees of £3,083 (2016:£3,540) were paid by a fellow subsidiary undertaking on behalf of the Company in respect of audit work performed in the UK.

5 Directors' remuneration

	2017	2016
	£'000	£'000
	£000	£000
Emoluments of directors	**151**	123

The above details of directors' emoluments include an apportionment of the emoluments of Mr C Brown, Mr R G Andrew, Mr R Montgomery, Mr S Greer, Mr G Nolan, Mr P Lynch and Mr A M Threapleton which are paid by a fellow group undertaking, Stagecoach Holdings Limited.

The number of directors who accrued benefits in pension schemes during the year was a follows

	2017	2016
	Number	Number
Defined benefit scheme	**1**	6
Defined contribution scheme	**7**	1
	8	7

During the period a number of directors participated in both defined benefit and defined contribution schemes.

The number of directors who exercised share options in the parent company during the year was a follows

	2017	2016
	Number	Number
Directors exercising share options	**8**	6

6 Staff costs

The average monthly number of persons employed by the Company (including directors) during the year was:

	2017	2016
	Number	Number
By activity		
Operations	**2,120**	2,154
Administration & supervisory	**239**	250
	2,359	2,404

	2017	2016
	£'000	£'000
The aggregate remuneration comprised:		
Wages and salaries	**76,399**	77,861
Social security costs	**7,759**	7,905
Other pension costs (see note 14)	**5,764**	6,182
Share based payments - cash settled (see note 18)	**77**	107
	89,999	92,055

7 Interest payable and similar charges

	2017	2016
	£'000	£'000
Interest payable and similar charges		
Net finance income on pension asset (see note 14)	**1,820**	1,608
Intercompany loan interest	**1,593**	1,856
Net interest payable	**3,413**	3,464

8 Tax on profit on ordinary activities

a) Tax recognised in the income statement

	2017	2016
	£'000	£'000
Current tax:		
UK corporation tax on profits of the year	**1,298**	629
Adjustments in respect of prior year	**34**	(883)
Total current tax	**1,332**	(254)
Deferred tax:		
Origination and reversal of timing differences	**(449)**	(367)
Adjustments in respect of prior years	**42**	(334)
Total deferred tax (note 13)	**(407)**	(701)
Total tax reported in the income statement	**925**	(955)

The tax assessed for the year is higher (2016: lower) than the standard rate of corporation tax in the UK 19.92% (2016: 20%). The differences are explained below:

b) Factors affecting the tax charge/(credit) for the year

	2017	2016
	£'000	£'000
The effective tax rate for the year is reconciled to the actual tax charge/(credit) as follows:		
Profit on ordinary activities before tax	**3,595**	2,459
Profit on ordinary activities multiplied by standard rate of income tax in the UK of 19.92 % (2016: 20%)	**716**	492
Effect of:		
Non tax deductible expenditure and other permanent differences	**15**	12
Treatment of inter-company transactions	**(2)**	(196)
Utilisation of tax losses	**-**	(171)
Impact of reduction in UK tax rate on current year's deferred tax	**83**	49
Impact of reduction in UK tax rate on prior year's deferred tax	**37**	76
Change of accounting basis	**-**	-
Adjustments in respect of prior years	**76**	(1,217)
Total tax reported in the income statement	**925**	(955)

8 Tax on profit on ordinary activities (continued)

c) Factors that may affect future tax charges

The reduction in the UK corporate income tax rate to 17% which is expected to take effect from April 2020 had been enacted by the balance sheet date. The deferred tax balance as at 30 April 2017 has therefore been calculated with reference to the enacted expected UK corporation tax of 17%.

d) Tax on items taken directly to/or transferred from equity

The components of tax on items taken directly to or transferred from equity are shown in the consolidated statement of comprehensive income on page 10.

9 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Public service vehicles £'000	Plant and equipment and furniture and fittings £'000	Total £'000
Cost or valuation					
At 1 May 2016	2,053	3,375	34,753	6,673	46,854
Additions	32	293	498	169	992
Disposals	-	-	(3,227)	(304)	(3,531)
Intercompany transfers	-	-	2,088	141	2,229
At 29 April 2017	**2,085**	**3,668**	**34,112**	**6,679**	**46,544**
Accumulated depreciation					
At 1 May 2016	(802)	(1,046)	(21,410)	(5,893)	(29,151)
Charge for the year	(89)	(208)	(2,878)	(253)	(3,428)
Disposals	-	-	2,710	303	3,013
Intercompany transfers	-	-	(2,102)	(131)	(2,233)
At 29 April 2017	**(891)**	**(1,254)**	**(23,680)**	**(5,974)**	**(31,799)**
Net book value at 29 April 2017	**1,194**	**2,414**	**10,432**	**705**	**14,745**
Net book value at 30 April 2016	1,251	2,329	13,343	780	17,703

Land and buildings were revalued at 30 April 1996 by Oliver Liggins, Chartered Surveyors, independent valuers not connected with the company, on the basis of open market value for existing use.

At 29 April 2017 had the land and buildings of the company been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately £3,474,000 (2016: £3,452,000).

10 Stocks

	2017	2016
	£'000	£'000
Finished goods	**483**	457

In the opinion of the directors, there is no material difference between the balance sheet value of stock and the replacement cost.

The cost of stock recognised as an expense and included in the operating costs during the period amounted to £21,620,000 (2016: £25,513,000)

Movement on provision for impairment of stocks

	2017	2016
	£'000	£'000
Provision at beginning	**4**	2
Addition	**-**	2
Utilisation	**(1)**	-
Provision at end of the year	**3**	4

11 Debtors: amounts falling due within one year

	29 April 2017	30 April 2016
	£'000	£'000
Amounts owed by group undertakings	**27,899**	3,984
Intercompany tax relief	**-**	54
Prepayments and accrued income	**4,564**	5,813
	32,463	9,851

Responsibility for the collection of trade receivables lies with Stagecoach Services Limited, a fellow group company.

Amounts owed by group undertakings within one year accrue no interest and are repayable on demand.

12 Creditors

	2017	2016
	£'000	£'000
Current		
Amounts owed to group undertakings	**64,443**	40,795
Corporation tax payable	**1,297**	683
Social security and other taxes	**2,533**	2,609
Accruals and deferred income	**12,422**	15,394
	80,695	59,481

Of the above amounts owed to group undertakings, £41,036,000 (2016: £39,623,000) incur interest at a rate of 5% above the six month London Inter Bank Offered Rate (LIBOR). All other amounts accrue no interest and are repayable on demand.

There is no significant difference between the net book amount and the fair value of current trade and other payables due to the short term nature.

13 Deferred tax asset

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2017	2016
	£'000	£'000
Deferred tax to be recovered after more than 12 months		
Deferred tax asset	**707**	702
Pension temporary differences	**21,488**	8,798
Net deferred tax asset	**22,195**	9,500

The gross movement on the deferred income tax account is as follows:

	2017	2016
	£'000	£'000
At beginning of year	**9,500**	8,913
Credited to profit and loss (note 8)	**407**	701
(Credited)/charged to equity	**12,288**	(114)
At end of year	**22,195**	9,500

13 Deferred tax asset (continued)

The deferred tax included in the balance sheet comprises:

	2017	2016
	£'000	£'000
Deferred tax asset:		
Accelerated capital allowances	**417**	285
Pension temporary differences	**21,488**	8,798
Other short-term temporary differences	**290**	417
Net deferred tax asset	**22,195**	9,500

The amount of deferred tax recognised in the profit and loss account by type of temporary differences is as follows:

	2017	2016
	£'000	£'000
Accelerated capital allowances	**(132)**	(178)
Pension temporary differences	**(402)**	(427)
Other short-term temporary differences	**127**	(96)
Deferred tax expense	**(407)**	(701)

14 Retirement benefit liability

The Company participates to the East London & Selkent pension scheme which is a defined benefit scheme under common control of the group entities.

Until acquisition by Stagecoach Bus Holdings Limited, under IAS 19 the East London Bus & Selkent pension scheme was accounted for as a defined benefit plan in the financial statements of the Group's ultimate UK parent company, East London Bus Group Holdings Limited, and defined contribution accounting was used for this and other Group companies. Following its acquisition by Stagecoach Bus Holdings Limited on 15 October 2010, the East London Bus & Selkent pension scheme was accounted for as a defined benefit plan in the Company's financial statements, and defined contribution accounting has been used for other Group companies.

In addition the company contributes to defined contribution schemes for certain employees. Additionally contributions of £1,360,000 (2016: £1,262,000) were made to defined contribution schemes by the Company. At 30 April 2017 there was a creditor of £147,000 (2016: £421,000) in relation to these contributions

14 Retirement benefit liability (continued)

The amounts recognised in the balance sheet were determined as follows:

	2017 £000	2016 £000
Equities	**134,981**	185,853
Government bonds	**127,777**	72,645
Cash	**10,806**	2,384
Property	**31,642**	30,962
Fair value of plan assets	**305,206**	291,844
Present value of obligations	**(431,605)**	(340,721)
Liability recognised in the balance sheet	**(126,399)**	(48,877)

At 29 April 2017, 87% (2016: 86%) of scheme assets were quoted on a recognised stock exchange or held in cash or asset readily convertible to cash and therefore considered to be liquid.

The amounts recognised in the income statement were as follows:

	2017 £'000	2016 £'000
Defined benefit obligation		
- Current service cost	**4,199**	4,651
- Administration cost	**205**	269
- Interest cost	**1,820**	1,608
Total defined benefit cost	**6,224**	6,528
Defined contribution cost	**1,360**	1,262
Total profit and loss account charge	**7,584**	7,790
The impact of the profit and loss account charge can be analysed as follows:		
Total included in staff costs (note 6)	**5,764**	6,182
Total included in interest receivable and similar charges (note 7)	**1,820**	1,608
	7,584	7,790

14 Retirement benefit liability (continued)

The amounts recognised within the Statement of Other Comprehensive Income were as follows:

	2017 £'000	2016 £'000
Actual return less expected return on pension scheme assets	**9,921**	(15,969)
Experience gains and losses arising on the scheme liabilities	**194**	1,935
Changes in assumptions underlying the present value of the scheme liabilities	**(85,270)**	9,950
Total actuarial loss recognised	**(75,155)**	(4,084)

The movement in the asset recognised in the balance sheet in respect of the defined benefit plan during the period under IAS 19 was:

	2017 £000	2016 £000
Liability at the beginning of period	**(48,877)**	(42,423)
- Total expense	**(6,224)**	(6,528)
- Employer's contributions	**3,857**	4.158
- Actuarial loss	**(75,155)**	(4,084)
Liability at end of period	**(126,399)**	(48,877)

The movement in fair value of the plan assets during the period under IAS 19 is as follows:

	2017 £000	2016 £000
At beginning of period	**291,844**	302,379
Expected return on plan assets	**9,921**	(15,969)
Interest income	**10,662**	11,066
Administration cost	**(205)**	(269)
Employer's contributions	**3,857**	4,158
Members' contributions	**498**	557
Benefits paid	**(11,371)**	(10,078)
At end of period	**305,206**	291,844

14 Retirement benefit liability (continued)

The movement in the present value of obligations recognised in the balance sheet in respect of the defined benefit plan during the period under IAS 19 is as follow:

	2017	2016
	£000	£000
At start of period	**340,721**	344,802
Current service costs	**4,199**	4,651
Interest cost	**12,482**	12,674
Members' contribution	**498**	557
Actuarial gain – experience gains and losses	**(194)**	(1,935)
Actuarial gain - changes in assumptions	**85,270**	(9,950)
Benefits paid	**(11,371)**	(10,078)
At end of period	**431,605**	340,721

A full actuarial valuation of the scheme by the actuaries, Lane Clark & Peacock, is carried out. The last actuarial valuation of the East London & Selkent pension scheme was undertaken on 5 April 2013. As at the last valuation date, the calculated technical provisions were equal to the market value of the assets so there was no surplus or shortfall in the scheme.

The management and reporting of the East London & Selkent pension scheme is undertaken at group level. A sensitivity analysis of significant actuarial assumptions is included within note 24 of the Group's 2017 annual report, which does not form part of this report.

The principal actuarial assumptions used for both schemes were as follows:

	2017	2016
	%	%
Rate of increase in pensionable salaries	**2.6**	2.2
Rate of increase of pension payment	**3.3**	2.9
Discount rate	**2.8**	3.7
Rate of inflation (RPI)	**3.4**	3.0
Consumer prices inflation assumption	**2.1**	1.7

14 Retirement benefit liability (continued)

The life expectancy assumptions used for each scheme are periodically reviewed. The weighted average life expectancies announced at 29 April 2017 were:

	2017	2016
	Years	Years
Current pensioner aged 65 - male	19.4	19.0
Current pensioner aged 65 - female	22.8	23.6
Future pensioner at 65 (aged 45 now) - male	20.8	20.9
Future pensioner at 65 (aged 45 now) - female	24.3	25.2

15 Provisions for liabilities

	Tyre provision	**Building provision**	**Total**
	£'000	**£'000**	**£'000**
Beginning of year	250	925	1,175
Provided in the year	323	325	
Utilised in the year	(112)	-	536
End of year	**461**	**1,250**	**1,711**

Tyre Provision
The group hires the tyres on its fleet of buses and consequently would have to purchase tyres if a bus was to be sold. The provision is an estimate of the cost of buying tyres to fit on the fleet of buses.

Building Provision
The company has been advised by an external party that the West Ham depot requires additional building expense to bring the building back in line with the required standard required by the lessor.

16 Called up share capital and share premium account

	Ordinary shares	**Share premium**
	£'000	**£'000**
Allotted, called up and fully paid		
Ordinary shares of £1 each		
At beginning and end of period		
- 4,263,000 (2016: 4,263,000) ordinary shares of £1 each	**4,263**	**10,662**

17 Guarantees and other financial commitments

a) Lease commitments

The Company had commitments under non-cancellable operating leases. Future minimum rentals payable under these leases are as follows:

At 29 April 2017

	Land & buildings £'000	Plant & equipment £'000	Total £'000
Within one year	2,652	88	**2,740**
Between two and five years	10,610	145	**10,755**
Over five years	7,787	-	**7,787**
	21,049	233	**21,282**

At 30 April 2016

	Land & buildings £'000	Plant & equipment £'000	Total £'000
Within one year	1,101	115	**1,216**
Between two and five years	4,402	56	**4,458**
Over five years	4,470	-	**4,470**
	9,973	171	**10,144**

b) Contingent liabilities

The Company, together with certain other Group undertakings, is a member of a group for VAT purposes, and technically stands liable in the event of default by any other Group undertaking.

c) Cross guarantees

The Company is subject to a cross corporate guarantee in relation to the Stagecoach Group plc banking arrangements with the Bank of Scotland. There have been no instances where this guarantee has been called upon during the year and none are expected in the future.

18 Share based payments

The Company operates a Buy as You Earn Scheme ("BAYE") which enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every share bought from the first £10 of monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month.

At 30 April 2017, there were 514 (2016: 572) participants in the BAYE scheme who have cumulatively purchased 645,062 (2016: 379,235) shares with the Company contributing 152,556 (2016: 122,396) matching shares on a cumulative basis. Dividends had been reinvested in a further 73,145 (2016: 38,105) shares for these participants.

All share options referred to relate to ordinary shares of Stagecoach Group plc, the ultimate parent company.

Share based payment charges of £77,000 (2016: £107,000) have been recognised in the statement of other comprehensive income during the year in relation to the scheme.

19 Related party transactions

The Company has taken advantage of the exemptions granted under IAS24 and no disclosure is made of transactions with wholly owned companies of the Stagecoach Group. Details of amounts owed to and from group undertakings are disclosed in aggregate in notes 11 and 12.

20 Ultimate parent undertaking

The Company's immediate holding company is Stagecoach Bus Holdings Limited (registered number SC176671) and its ultimate holding company and controlling party is Stagecoach Group plc (registered number SC100764) both registered in Scotland. Stagecoach Group plc heads the only group in which the results of the Company are consolidated. The financial statements of both Stagecoach Group plc and Stagecoach Bus Holdings Limited are available from the Company Secretary at the following address:

Stagecoach Group plc
Group Headquarters
10 Dunkeld Road
Perth
PH1 5TW