Stagecoach Group Annual Report and Financial Statements 2019

STAGECOACH GROUP

greener smarter travel

Key financials

- Earnings per share before exceptional items and non-software intangible asset amortisation 22.1 pence (2018: 22.3 pence)
- Statutory earnings per share 3.8 pence (2018: 12.3 pence)
  - Exceptional costs relating to impairment and sale of North America business
- Net debt reduced to £253.3m (2018: £395.8m)
- Full year dividend maintained at 7.7 pence per share
- No change to our expectation of 2019/20 earnings per share

Operational highlights

- Group repositioned to drive long-term profit growth from UK bus business
  - sale of North America Division successfully completed
  - £80m plus investment in new vehicles to support UK growth strategy
  - UK franchised rail operations expected to end in November 2019, no plans to bid for new UK rail franchises on current risk profile
  - reshaped management structure and reduced overhead
- Continuing innovation and leadership in driving future of mobility
  - launch of first of two sector-leading autonomous bus trials
  - mobility credits policy included in Government's urban mobility strategy
  - completion of roll-out of UK's biggest contactless travel project at UK Bus
- Commercial initiatives driving growth in UK bus and coach market
  - revenue per vehicle mile up 3.8%, revenue per journey up 3.4%
  - Around 10% of 2018/19 sales to fare paying customers were through digital channels

STAGECOACH GROUP PLC
COMPANY No. SC100764
YEAR ENDED 27 APRIL 2019

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Financial summary

	"Adjusted" results Results excluding non-software intangible asset amortisation and exceptional items*		"Statutory" results	
	2019	2018 (restated**)	**2019**	2018 (restated**)
CONTINUING OPERATIONS				
Revenue (£m)	**1,878.9**	2,818.0	**1,878.9**	2,818.0
Total operating profit (£m)	**161.3**	159.7	**135.7**	110.7
Non-operating exceptional items (£m)	**–**	–	**–**	(1.7)
Net finance charges (£m)	**(28.4)**	(31.4)	**(34.5)**	(31.4)
Profit before taxation (£m)	**132.9**	128.3	**101.2**	77.6
Earnings per share (pence)	**19.3p**	19.8p	**17.4p**	9.6p
TOTAL OPERATIONS				
Earnings per share (pence)	**22.1p**	22.3p	**3.8p**	12.3p
Proposed final dividend per share (pence)	**3.9p**	3.9p	**3.9p**	3.9p
Full year dividend per share (pence)	**7.7p**	7.7p	**7.7p**	7.7p

* see definitions in note 34 to the consolidated financial statements
** The results shown for the year ended 28 April 2018 have been restated from those previously reported to: (i) remove the results of the discontinued North America operations where appropriate and (ii) to adjust revenue and operating costs, as described in note 1 to the consolidated financial statements, to reflect the application of International Financial Reporting Standard 15 ("IFRS 15"), *Revenue from Contracts with Customers*.

1. Strategic report

1.1 Introduction

Stagecoach Group plc ("the Company") is the ultimate parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group plc ("the Directors") are pleased to present their report on the Group for the year ended 27 April 2019.

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

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

1.2 Cautionary statement

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

1.3 Overview of the year ended 27 April 2019

We are pleased to report good financial results for the year ended 27 April 2019. These reflect the high quality of our public transport services and their value to the economy, the environment and local communities.

Revenue from continuing operations was £1,878.9m (2018 restated: £2,818.0m), which is lower than the prior year principally due to our South West Trains franchise ending in August 2017 and our Virgin Trains East Coast franchise ending in June 2018. Notwithstanding those franchises ending, total operating profit from continuing operations, before exceptional items and non-software intangible asset amortisation, increased to £161.3m (2018 restated: £159.7m). Unadjusted operating profit from continuing operations for the year was £135.7m (2018 restated: £110.7m). Earnings per share before exceptional items and non-software intangible asset amortisation were broadly in line with last year at 22.1p (2018: 22.3p). Basic, unadjusted earnings per share reduced to 3.8p (2018: 12.3p), largely because of the exceptional charges relating to the impairment and disposal of the North America business.

The Group remains in a good financial position with net debt reducing in the year. Consolidated net debt at 27 April 2019 was £253.3m (2018: £395.8m) and non-rail net debt was £374.9m (2018: £567.0m), which is lower than the prior year largely due to the proceeds of the disposal of our North America Division. We expect cash outflows of approximately £100m in the year to 2 May 2020 in respect of the unwinding of the expired East Coast rail business and the transfer of the East Midlands rail franchise. We expect a modest increase in non-rail net debt in the year to 2 May 2020, reflecting the Group's previously announced share buyback programme.

We propose to maintain the full year dividend in line with last year. We are therefore proposing a final dividend of 3.9p (2018: 3.9p), which will result in a full year dividend of 7.7p (2018: 7.7p) per share for the year ended 27 April 2019. The proposed final dividend of 3.9p per share is payable to shareholders on the register at 23 August 2019 and, if approved, will be paid on 2 October 2019. Shareholders who wish to participate in the dividend re-investment plan should elect to do so by sending their requests to the Company's registrars to arrive by 11 September 2019.

With the completion of the sale of our North America Division, the management team is focused on driving long-term profit growth from our UK bus business. We will leverage our strong multi-modal expertise and innovation to explore opportunities in the UK, where we believe there is a positive outlook for public transport. We expect our involvement in UK franchised train operations to end by November 2019. We have therefore reshaped our management structure and reduced overheads to reflect the scope of the business. Our transport services remain central to driving urban prosperity, building stronger communities and delivering cleaner air. We believe strong partnership working with central and local government, and across the transport sector and its supply chain, is the best way to deliver the investment, innovation and infrastructure we need to support a successful multi-modal transport network.

We have delivered good performance at our regional bus operations in the UK during the year. Our commercial initiatives, investment in new technology and a greener fleet, as well as an emphasis on value travel, have delivered improved financial performance. We are proud to have achieved our high customer satisfaction at an average of 90% in England and 92% in Scotland. We were pleased to have received increased response rates on our Group-wide staff survey, and recorded an improvement in employee net promoter scores.

Across many major metropolitan areas, we are seeing renewed evidence of the benefits of partnership in attracting more people to bus travel by delivering better connectivity and improved journeys. We are pleased to have developed a compelling blueprint for Greater Manchester which will deliver quickly the improvements citizens want without unnecessary extra costs for tax payers. Last month, we announced planned new bus and coach orders for the UK worth more than £80m to help tackle the challenges of road congestion and air quality. In addition, we are working with a range of partners to deliver further innovation in the sector, including the UK's first full-size autonomous bus trial.

While we have achieved tendered revenue growth in the regions, the competitive environment in the franchised London bus market remains challenging. We have undertaken a detailed review of our bid models, contract pricing and cost efficiency to identify opportunities to improve our performance on tenders for Transport for London contracts.

We were surprised and disappointed to be informed by the Department for Transport in April 2019 that bids we were involved with for three new rail franchises had been disqualified for being non-compliant, principally in respect of pensions risk. We refused to accept all of the substantial pension risks that the Department for Transport required operators to bear as part of bids for these franchises. We believe the rail system should be about appointing the best operator for customers and tax payers, not about passing unquantifiable, unmanageable and inappropriate risk to train companies or taking decisions which create uncertainty for rail workers over their pensions. We are challenging the Government's disqualification decisions and seeking to have these overturned. Our objective is to encourage a more sensible risk profile for rail contracts and restore confidence in the procurement process. Keith Williams, who is leading the independent review of the rail system, has already made clear that the current franchising model is not fit for purpose.

Over more than 20 years in the UK rail market, we have delivered substantial growth in journey numbers, excellent industrial relations, high performing train services and high levels of customer satisfaction. We will continue to focus on delivering high quality services for our customers at our existing rail businesses. However, we have no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport.

1.3 Overview of the year ended 27 April 2019 (continued)

The Group has agreed planned changes to its Board of Directors. Deputy Chairman, Will Whitehorn, will step down from the Board on 30 June 2020, when he will have served for nine years and be regarded as non-independent based on the criteria for independence stated in the UK Corporate Governance Code. Will Whitehorn will be succeeded as Deputy Chairman by Ray O'Toole, who joined the Board as a Non-Executive Director in September 2016 and is currently Chairman of the Health, Safety and Environmental Committee and the Remuneration Committee. Ray O'Toole, who is also a member of the Audit and Nomination Committees, has extensive senior experience in the public transport sector in the UK, mainland Europe and North America. We are pleased that Karen Thomson, Non-Executive Director, will continue to serve on the Board. She was due to step down from the Board at the conclusion of the Annual General Meeting scheduled for 30 August 2019. However, due to recent changes in her other business commitments, she will now continue as a Non-Executive Director and will seek re-election at the 2019 Annual General Meeting. In addition, Non-Executive Director, Dame Jayne-Anne Gadhia, has indicated that she will be stepping down from the Board on 31 July 2019 to take up the new full-time role of Chief Executive at financial services start-up, Snoop.

Stagecoach began as a transport start-up in the UK nearly 40 years ago, delivering transformational innovation which has helped deliver lasting improvements for customers and communities who depend on mass transit. Today, we see new opportunities to grow as central and local government look to tackle the challenges of increasing road congestion and poor air quality. Public transport - from buses and coaches to trams and trains - is a ready-made solution to those challenges. The power of data and new technology is also opening the door to new mobility services. We believe our strong reputation for operational excellence, investment, new ideas and a focus on giving our customers great value and service will bring an exciting new chapter for our company.

Making the most of those opportunities depends on having a team of talented and committed people. We are pleased to have been rated as one of the most admired transport groups in Management Today's annual review of Britain's largest public companies and leading employers. The Group was rated the top transport company for its capacity to innovate, and ranked first in the transport sector for its ability to attract, develop and retain top talent. We believe every customer matters and we are investing in our employees to ensure we have a business that is fit for the future to capitalise on the opportunities for growth ahead.

Revenue from continuing operations, by division, is summarised below:

REVENUE – CONTINUING OPERATIONS

	2019	2018 (restated)
	£m	£m
UK Bus (regional operations)	**1,043.3**	1,013.8
UK Bus (London)	**252.8**	251.8
UK Rail	**589.5**	1,556.0
Intra-Group revenue	**(6.7)**	(3.6)
Group revenue	**1,878.9**	2,818.0

Operating profit from continuing operations, by division, is summarised below:

OPERATING PROFIT – CONTINUING OPERATIONS

	2019 £m	2019 % margin	2018 (restated) £m	2018 % margin (restated)
UK Bus (regional operations)	**117.0**	11.2%	112.9	11.1%
UK Bus (London)	**10.7**	4.2%	13.3	5.3%
UK Rail	**26.4**	4.5%	24.9	1.6%
Group overheads	**(13.6)**		(15.3)	
Restructuring costs	**(2.5)**		(3.2)	
Operating profit before joint ventures, non-software intangible asset amortisation and exceptional items	**138.0**		132.6	
Joint ventures – share of profit after tax				
Virgin Rail Group	**21.3**		25.9	
Citylink	**2.0**		1.2	
Total operating profit before non-software intangible asset amortisation and exceptional items	**161.3**		159.7	
Non-software intangible asset amortisation	**(0.3)**		–	
Exceptional items	**(25.3)**		(49.0)	
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**135.7**		110.7	

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

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group and its business model

Stagecoach Group is a leading public transport group. Following the recent disposal of its North America Division, the Group employs around 27,000 people and operates bus, coach, train and tram services. The Group has three main divisions – UK Bus (regional operations), UK Bus (London) and UK Rail.

We offer greener, smarter travel in the UK and our principal business is providing passenger transport services, primarily by transporting people by bus, coach, train or tram. Our "This is Stagecoach Group" infographic provides more information and can be found on our website at: http://www.stagecoach.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/stagecoach-infographic.pdf

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

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

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

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

Business culture

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

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

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

Sources of revenue

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

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

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

- access income for others to use railway stations and depots that we operate;
- property rental;
- selling advertising space on vehicles and premises we operate;
- Network Rail in respect of UK railway operating performance regimes;
- The UK Department for Transport under UK rail revenue risk sharing arrangements.

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

Key costs and inputs

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

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

Our other major operating costs are:

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

Cash conversion

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

Competitive advantages

We see our key sources of competitive advantage as being:

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

Value for other stakeholders

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

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

Risks

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

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

Key performance indicators

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

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

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

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

UK Bus (regional operations)	
Description	The UK Bus (regional operations) Division connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. These include major city bus operations in Liverpool, Newcastle, Hull, Manchester, Oxford, Sheffield, Cambridge and Exeter. The UK Bus (regional operations) Division operates a fleet of around 6,900 buses and coaches across a number of regional operating units. Each regional operating unit is managed independently and is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates inter-urban services linking major towns within its regional operating company areas. The Group also runs the budget inter-city coach service, megabus.com, and the UK Bus (regional operations) Division includes megabus.com coach services within the UK. In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro. The joint venture is responsible for the Scottish Citylink express coach network and megabus.com branded services to, from and within Scotland. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading retailer of scheduled, inter-city coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.
Regulatory environment	The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality. The UK Bus (regional operations) Division bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the Division's revenue is from customers paying for their own travel by bus. The Division also operates tendered services, including schools contracts, on behalf of local authorities. Around 10% of the UK Bus (regional operations) revenue is receivable from local authorities in respect of such tendered and school services. For some services, the Group receives revenue from passengers as well as tendered revenue from a local authority. Around 24% of the UK Bus (regional operations) revenue is earned from statutory concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying older people and people with disabilities, at no charge to the passenger, on the same bus services that are also available to the wider public. The Group would typically receive both revenue from passengers and also, concessionary revenue from a local authority in respect of a single bus service and in some cases, may also receive tendered revenue for the same service.
Strategy	The strategy of the UK Bus (regional operations) Division is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 25% of the UK bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that in 2017, there was an average of 782 trips per person per year, excluding short walks. Trips by car or van accounted for 78% of distance travelled, bus trips accounted for 5%, rail trips accounted for 8% and walking, cycling and other modes accounted for 9%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to the NTS, around 24% of bus journeys are for shopping, 22% for commuting and business, 21% for leisure, 18% for education, 15% are for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.
Macroeconomic factors	Although the UK Bus (regional operations) Division revenue is not immune to macroeconomic changes, it is less exposed than in many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) Division faces competition for customers not only from other operators of buses and coaches but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publically quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn. New, potential, sources of competition are emerging, often enabled by digital developments. Newer competitors include ride-sharing websites, digitally-driven taxi services and aggregators of travel services.
Future market developments	The level of Government investment in the UK bus industry has come under pressure in recent years with constraints on the payments made by Government to bus operators for carrying older people and people with disabilities at no charge to the passenger. Funding of tendered services by local government has also reduced. The Division does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.5. Technological developments present both opportunities and threats to growing passenger volumes. There are positive long-term conditions for further growth in demand for UK bus services created by population growth, increasing urbanisation, rising road congestion, supportive government policy and public concerns for the environment, which augur well for the future of the Division.

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

UK Bus (London)	
Description	The Group is the fourth largest operator in the London bus market, operating from 10 depots with a fleet of around 1,200 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) Division operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and generally taking the cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period with the potential for it to be extended by two years. The UK Bus (London) Division currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the Division's risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 13% of the bus operating mileage contracted by Transport for London. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win Transport for London contracts from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metroline, RATP, Transit Systems and Abellio.
Future market developments	In the short-term, revenue growth could come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. While bus mileage reductions by Transport for London present a risk to the Division, continuing population growth in London and positive government policy on public transport can contribute to a positive long-term outlook for the business.

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

UK Rail	
Description	Stagecoach Group has major rail operations in the UK, although the Group currently expects its involvement in operating trains in the UK to end in November 2019. Our principal rail subsidiary is East Midlands Trains. Until August 2017, the Group also operated South West Trains, which ran train services in south west England out of London Waterloo railway station, and operated Island Line services on the Isle of Wight. Until June 2018, the Group ran Virgin Trains East Coast, which operated inter-city train services between London and a number of locations including Edinburgh, Newcastle, Leeds and York. Since 11 November 2007, we have operated the East Midlands Trains business. The business comprises main line train services running to London St Pancras, regional rail services in the East Midlands area and inter-regional services between Norwich and Liverpool. A further short-term Direct Award franchise commenced in March 2019 and is planned to run until August 2019. The Group will not operate that business thereafter. We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024. Stagecoach Group has a 49% shareholding in a joint venture, Virgin Rail Group, which operates the West Coast Trains rail franchise. The current West Coast Trains rail franchise is expected to run until November 2019 although the contractual terms allow for it to run through to March 2020. The other shareholder in Virgin Rail Group is the Virgin Group of Companies. East Midlands Trains has a managing director who reports to the Group's Chief Executive and Supertram has a managing director, who reports to the Group's Chief Operating Officer. Virgin Rail Group has a managing director, who reports to the Virgin Rail Group board, which includes Stagecoach Group and Virgin Group representatives.
Regulatory environment	The UK rail operating market is split into a number of separate franchises, which are awarded by the Government for set time periods to a specification set by the Department for Transport on the basis of competitive bids. Train operating companies operate passenger trains on the UK rail network. The UK railway infrastructure is owned and operated by Network Rail, a "not for dividend" company that invests any profits into improving the railway. Network Rail runs, maintains and develops tracks, signalling systems, bridges, tunnels, level crossings and key stations.
Strategy	In rail, we seek to deliver organic growth across all of our existing operations and to maintain and grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable. The Group was involved in three bids for new franchises in 2019 but the Department for Transport disqualified those bids because it wanted the Group and its bidding partners to accept risks that the Group and its partners considered would result in an unacceptable risk/return trade-off.
Market opportunity	The market opportunity in rail arises from the potential to retain existing and/or win new franchises, and also, from the potential to attract increased use of the Group's rail services. However, the Group has no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport. The UK Government's rail review led by Keith Williams is ongoing and is expected to recommend a number of changes to the current franchising model, which might result in more attractive UK rail franchise opportunities for the Group.
Macroeconomic factors	The rail operations are exposed to macroeconomic factors with passenger revenue correlated to Gross Domestic Product ("GDP") and employment levels. The exposure is further increased by the relatively fixed cost base of the business which restricts the scope to reduce costs in response to reduced demand. From the Group's perspective, our financial returns are driven less by the outlook for rail revenue growth in general and more by how actual revenue growth compares to that assumed in our relevant franchise bid. At this time, we have limited further exposure to long-term rail revenue growth, due to the short-dated nature of our existing rail franchises. On bids for new franchises, the Group's evaluation of macroeconomic risks is a key component of the bid process. We can take account of recent revenue trends, assess revenue risk sharing arrangements and form a view on longer term revenue expectations as part of agreeing any new contracts.
Competition	The business faces competition for customers not only from other train operators but also from other modes of transport. The main competitors that bid against the Group for UK rail franchises are FirstGroup, Go-Ahead Group, Arriva, MTR, Keolis, Trenitalia, SNCF, Eurostar, Serco, Abellio, East Japan Railway Company and Mitsui.
Future market developments	The Labour Party, the main opposition political party in the UK, currently has an official policy to bring UK train operations into public hands as current rail franchises expire. While this is not the policy of the current UK Government, to the extent this policy were implemented (either by a future Labour Government or otherwise) then the Group would be unable to subsequently win new UK rail franchises. However, as noted above, the Group has no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport in any event. The two major franchises where the Group has a continuing involvement, at East Midlands Trains and Virgin Rail Group's West Coast Trains, are both expected to end in the coming months. We were surprised and disappointed to be informed by the Department for Transport that we had been disqualified from a total of three rail franchise bids. A senior Department for Transport official verbally advised that we had been excluded from all three competitions for submitting non-compliant bids, principally in respect of pensions risk. In our bids, we refused to accept the potential pension risks that the Department for Transport requires operators to bear in relation to the three new franchises. There is therefore no certainty of the Group having a material, continuing involvement in UK Rail beyond 2019. Further details on the background to our disqualification from these bids are provided in section 1.5.3 of this Annual Report. The Group will assess each opportunity to bid for a new rail franchise on a case-by-case basis, evaluating the risk/reward profile and considering the extent to which it is commensurate with the Group's risk appetite.

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

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

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

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

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

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

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

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

Government and regulatory bodies
Our managers have ongoing relationships with national and local government to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. We work with local authorities, including passenger transport executives, 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. We work closely with the Department for Transport, the Scottish Government, Transport Scotland, the Welsh Government and Transport for London.

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

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

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

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

Information technology is increasingly important to effectively operate our services and to meet our customers' expectations. Significant investment, internal management resource and external supplier input support the development and operation of IT systems.

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

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

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

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

1.4.5 The challenges we face (principal risks and uncertainties)

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

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

The Board of Directors determines the nature and extent of the principal risks that it is willing for the Group to take in achieving its strategic objectives. Information on the risk management process is provided in section 4.12. The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group.

Description of risk	Management of risk	Developments in year ended 27 April 2019 and since	Section in Annual Report
Catastrophic events			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action. A series of less severe incidents could have similar consequences.	While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.	• We deeply regret and will never forget the tragic events involving one of our bus companies in Coventry in 2015 in which two people lost their lives. The court case related to the accident concluded in November 2018 and the thoughts of everyone at Stagecoach remain with those affected, their families, friends and colleagues. We have made it our continuing priority to work closely with the authorities to help fully understand and learn detailed lessons from what has happened, both for our own Group and the wider bus industry.	
Economy			
The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy. The ongoing negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty, particularly in the event that the departure is on a "no deal" basis. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pensions, financial instruments and other balances. UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff.	Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk. In bidding for new rail franchises, the evaluation of macroeconomic risks is a key element of the bid process. Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.	• Our exposure to UK rail revenue risk is minimal due to: a) the Department for Transport bearing most of the revenue risk at East Midlands Trains; b) the revenue share arrangements in place at West Coast Trains; and c) the short remaining period of those two rail franchises.	

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

Description of risk	Management of risk	Developments in year ended 27 April 2019 and since	Section in Annual Report
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that, whilst not directly targeting public transport, have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.	• No significant matters to report.	
Sustainability of rail profit			
A significant element of the Group's revenue and profit has historically been generated by UK rail franchises, which have a finite duration. There is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new franchises or failing to retain its existing franchises. Included within that overall risk, is the risk that the Group wins a franchise on terms that are unrealistic (whether due to error or overly optimistic assumptions) and which as a result, adversely affects the Group's financial performance and/or financial position.	In order to manage the risks, the Group has devoted significant management resource and financial investment to bidding for new rail franchises. Appropriately experienced personnel are retained to work on rail bids and third party consultants are engaged to provide additional expertise. The Board approves the overall rail bidding strategy and the key parameters for each bid. Significant work involving external advisors has been undertaken to review our rail bid governance to learn lessons from previous franchise bids and, in particular, to learn lessons from the bid for the operation of the previously loss-making Virgin Trains East Coast rail franchise.	• The two major franchises where the Group has a continuing involvement, at East Midlands Trains and Virgin Rail Group's West Coast Trains, are both expected to end later in 2019. • In April 2019, the Department for Transport informed the Group that the three UK rail franchise bids that it was involved with had been disqualified from the franchise competitions (South Eastern, East Midlands and West Coast Partnership) for being non-compliant principally in respect of pensions risk. As a result, the Group's involvement in UK rail franchises will likely end in the coming months, with the expected expiry of the existing East Midlands and West Coast franchises from August 2019 and November 2019 respectively.	• 1.5.3 and 1.5.5
Breach of franchise			
The Group is required to comply with certain conditions as part of its rail franchise agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of one or more of the rail franchise agreements. This would result in the Group losing the right to continue operating the affected operations and consequently, the related revenues and cash flows. The Group may also lose some or all of the amounts committed for the performance bonds and the season ticket bonds. The Group can do more to prevent breaches of franchise where it has control than where it has joint control. As the holder of a 49% joint venture interest in Virgin Rail Group, the Group has less control over the joint venture's operations and that means the Group's management may be less able to prevent a breach of the Virgin Rail Group franchise agreement.	Our UK Rail businesses are subject to complex contractual arrangements. Contractual management is an important part of our rail activities because the way in which contracts are managed can be a significant determinant of financial performance. Compliance with franchise conditions is closely managed and monitored and procedures are in place to minimise the risk of non-compliance. The Group maintains an overview of Virgin Rail Group's business risk management process through representation on its board and audit committee.	• In May 2018, the Department for Transport announced that responsibility for operating the East Coast train services would transfer from Virgin Trains East Coast to a publically owned company, which took effect on 24 June 2018. • Our understanding is that the termination of the Virgin Trains East Coast franchise does not directly affect other franchises and bids for franchises in which the Company has an involvement. In October 2018, the Department for Transport formally confirmed that the Group had retained its "passport", which allows us to bid for UK rail franchises, providing evidence that the outcome on Virgin Trains East Coast does not impair our ability to bid for other rail franchises. • The subsidiary company, East Coast Main Line Company Limited, which traded as Virgin Trains East Coast, remains part of the Group and there remain a number of matters to unwind over the coming months, consistent with our experience of demobilising our South West Trains franchise.	• 1.5.3

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

Description of risk	Management of risk	Developments in year ended 27 April 2019 and since	Section in Annual Report
Changing customer habits			
There are opportunities for the Group to shape its services and its interaction with its customers in response to changes in customer habits such as their working patterns and shopping. People travel on the Group's bus, train and tram services for a variety of reasons, including in some cases, to get to and from work and/or to get to and from shopping locations. Changes in people's working patterns, shopping habits and/or other preferences could affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. For example, increases in the proportion of working time that people spend at home, or in the level of shopping undertaken online, could affect demand for travel.	The Group monitors trends in revenue and passenger numbers across its businesses. In forecasting future revenue and passenger numbers, including in respect of bids for new rail franchises, the Group considers research and evidence on changing customer behaviour. The Group will, from time to time, vary its timetables, pricing, range of ticket types and transport networks in response to actual or anticipated changes in demand.	• We are working with leading technology and digital companies to develop new products and improve existing services to respond to changing consumer priorities. We have joined the Intelligent Mobility Accelerator in Milton Keynes, which attracts disruptive start-ups with high-growth potential into the UK transport industry. • We continue to adjust the timetables for certain of our bus services to adapt to changes in demand from customers.	
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on bus and rail pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. A Pensions Oversight Committee comprising the Finance Director, a non-executive director and other senior executives, oversees the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.	• Pension scheme liabilities have increased during the year, reflecting lower interest rates and an exceptional past service cost in respect of the equalisation of guaranteed minimum pension benefits.	• 1.6.8.2
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.	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.	• With the disposal of the North America Division in April 2019, the risks associated with the US insurance and claims arrangements have reduced significantly, notwithstanding that the Group retains some risk in relation to its exposure to letters of credit and guarantees being left in place in respect of current insurance policies for up to 5 years post-disposal.	

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

Description of risk	Management of risk	Developments in year ended 27 April 2019 and since	Section in Annual Report
Regulatory changes and availability of public funding			
Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects. We see the greatest risk in this respect as being the risk that some bus services in the UK outside London become subject to franchising (whereby a government body specifies the bus services and puts them out to tender) compared to the current model where commercial bus operators are free to design and operate their own services. The Labour Party, the main opposition political party in the UK, currently has an official policy to bring all UK passenger train operations into public hands as current rail franchises expire. While this is not the policy of the current UK Government, to the extent this policy were implemented (either by a future Labour Government or otherwise) then the Group would be unable to subsequently win new UK rail franchises. Current Labour Party policy also favours greater franchising and/or public ownership of UK local bus services. The leader of the Labour Party in Scotland, Richard Leonard, told the party's conference that Scottish Labour would deliver "free bus travel for all" if it wins power, without specifying how that would be funded. Similarly, many of the Group's businesses benefit from Government investment in bus and train services, including tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to political, regulatory or other reasons. There is a risk that Government policy decisions to improve air quality and/or lessen road congestion result in increased capital expenditure and/or operating costs for the Group and that such additional costs are not fully offset by increased revenue. There is also a risk that the Group suffers financial or reputational damage as a result of non-compliance with laws or regulations or as a result of the Group having a different interpretation of laws or regulations from others. In addition, in the case of tax, there is a risk the Group suffers reputational damage because of how others perceive the Group's approach to a tax matter even where the Group has complied with the applicable laws and regulations.	Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in various trade bodies and government forums. The Group seeks to maintain good, cooperative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	• The Williams Rail Review was commissioned by the Department for Transport in September 2018 to consider all parts of the rail industry, from the current franchising systems and industry structures, accountability, and value for money for passengers and tax payers. It will analyse all aspects of the industry alongside the country's changing travel and work patterns. The review's findings and recommendations are expected to be published in autumn 2019, and we would expect there to be significant changes made to the current franchise model. • The Ultra Low Emission Zone ("ULEZ") was launched in Central London in April 2019. Most vehicles driving in the ULEZ will now need to meet the stricter emissions standards, or pay the daily ULEZ charge. Other parts of the country have also launched air quality plans, notably in Manchester, where the Group has recently secured £6.9m of Government funding towards the purchase of 32 electric buses and infrastructure to improve fleet emissions within the Greater Manchester Clean Air Zone. • On 24 June 2019, Transport for Greater Manchester recommended franchising of the bus market in Manchester as being best able to meet the objectives of the Greater Manchester Combined Authority ("GMCA"). On 28 June, the GMCA will consider whether to proceed to appoint an auditor, in accordance with the requirements of the Bus Services Act, to prepare a report on the assessment. Once this auditor's report is complete, the GMCA would decide whether to progress to a public consultation on bus franchising proposals.	• 1.5.1 and 1.5.3
Management and Board succession			
The Group values the continued services of its senior employees, including its directors and management who have skills that are important to the operation of the Group's business. The success of the Group could be adversely affected if effective succession planning is not in place.	Succession planning for the Directors and senior management is an important issue and as such is considered by the Nomination Committee (as described in section 6.5) and the Board. The appropriate level of management deals with recruitment and retention of other staff.	• No significant matters to report.	

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

<table>
<tr><th>Description of risk</th><th>Management of risk</th><th>Developments in year ended 27 April 2019 and since</th><th>Section in Annual Report</th></tr>
<tr><td colspan="4">Disease</td></tr>
<tr><td>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.</td><td>The Group has plans in place to respond to any significant outbreak of disease.</td><td>• No significant matters to report.</td><td></td></tr>
<tr><td colspan="4">Information security</td></tr>
<tr><td>There is a risk that confidential and/or commercially sensitive information relating to and/or held by the Group is subject to unauthorised access, use, disclosure, modification, perusal, recording or destruction.
There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.</td><td>An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts.
Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.</td><td>• There have been several high profile external cyber security breaches, including ransomware attacks, across both the public and private sector during the past year, which increases the risk of the Group being similarly affected.
• We have continued to invest in our personnel and systems to strengthen the Group's information security environment.</td><td></td></tr>
<tr><td colspan="4">Information technology</td></tr>
<tr><td>The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group.
An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue.</td><td>The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new digital platforms and continues to look to ensure that it secures reliable service provision.</td><td>• In our regional UK Bus businesses, we continue to make targeted investment in fleet and technology enhancements which will make travel easier and help attract more people to bus travel. All our buses in Scotland, England and Wales now accept contactless card payments, the UK bus industry's biggest deployment of contactless ticketing. Contactless now accounts for around 30% of our regional on-bus sales and continues to grow in popularity.
• Across the Group, we are exploring how we can enhance our use of data to improve our customers' experience, drive cost efficiencies and grow our businesses. For example, we have partnered with Irish start-up, City Swifter, to use predictive demand analytics to adjust bus schedules to better respond to customer demand, improve punctuality and deliver cost efficiencies. We are working with City Swifter to trial this on four major bus corridors in Oxford where we introduced new bus schedules in September. The initial focus on the trial routes is to deliver improved punctuality.</td><td></td></tr>
<tr><td colspan="4">Competition</td></tr>
<tr><td>Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business. We face competition for customers not only from other operators of trains, trams, coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport.
Developments in new technology and/or new business models could affect the competitive environment in which the Group operates. Technological developments could enable new competitors and/or business models to be developed that disrupt or compete with the Group's business.
Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key divisions.</td><td>We monitor competitive developments in each of our markets and respond as appropriate. That includes monitoring developments in technology and business models that could affect the competitive landscape. Multi-modal travel portals, taxi hailing technology and businesses, ride-sharing technology and businesses, and autonomous vehicles are amongst the developments we are monitoring and assessing.
We work with local authorities, including passenger transport executives and regional transport committees, in the delivery and planning of bus and rail services.</td><td>• Working with Prospective Labs (an organisation founded by researchers from University College London, Cambridge University and the Alan Turing Institute), we identified four locations in our English bus networks where we see saw opportunities for commercially viable demand responsive transport. Existing bus services are continually being redesigned to generate increased demand for our transport services. An initial pilot area was selected to progress this further. After a further assessment of the commercial viability of the pilot the decision has been taken to bring the pilot to an end and focus our efforts in other areas.</td><td></td></tr>
</table>

Details of the Group's treasury risks are discussed in note 25 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1.4.6 How we measure our performance (key performance indicators)

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

- Profitability
- Organic growth
- Safety
- Service delivery

KPI 1 – profitability

The overall strategy of the Group is intended to promote the success of the Group and create long-term value to shareholders. In the shorter term, we measure progress towards this overall aspiration by monitoring growth in adjusted earnings per share.

KPI 2 – organic growth

To create long-term value, we aim to deliver organic growth in revenue. We measure progress on this by division, looking at like-for-like growth in passenger volumes and/or revenue as we consider most appropriate for the particular division.

KPIs 3 and 4 – safety and service delivery

To deliver organic growth in revenue, we aim to provide safe and reliable transport services that people want to use. We measure safety and service delivery by division using a range of measures appropriate for each business.

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

Profitability

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

Adjusted EPS was as follows:

		Year ended		
	Target	**27 April 2019 pence**	28 April 2018 pence	29 April 2017 pence
Adjusted EPS	To increase in excess of the UK Consumer Prices Index	**22.1p**	22.3p	23.3p

Organic growth

The following measures of organic growth are monitored:

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

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

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

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

	Target	**Year ended 27 April 2019 Growth %**	Year ended 28 April 2018 Growth %	Year ended 29 April 2017 Growth %
UK Bus (regional operations) passenger journeys	Positive growth each year	**–**	(2.8)%	(1.5)%
UK Bus (London) revenue		**0.4%**	(4.4)%	(0.8)%
UK Rail passenger miles				
– South West Trains		**n/a**	n/a	(0.8)%
– East Midlands Trains		**(1.6)%**	0.7%	2.1%
– Virgin Trains East Coast		**n/a**	3.2%	2.1%
– Virgin Rail Group – West Coast Trains		**1.6%**	1.3%	5.9%
North America revenue		**n/a**	(0.3)%	(2.1)%

The stabilisation in passenger journeys at UK Bus (regional operations) in the year ended 27 April 2019 reflects the good performance during the year, particularly since vehicle miles operated for the year were 0.4% lower than in the prior year.

The modest increase in revenue at UK Bus (London) in the year ended 27 April 2019 reflects the impact of contracts won in the prior year, partially offset by tenders lost in the first half of the year. The full impact of the current year tender losses will be reflected in lower revenues in the year ending 2 May 2020.

The reduction in passenger miles at East Midlands Trains in the year ended 27 April 2019 is due to the effects of both the reduced services to accommodate changes to the Thameslink network effective May 2018 and the current year resignalling programme at Derby railway station.

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

Safety

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

	Target	Year ended 27 April 2019	Year ended 28 April 2018	Year ended 29 April 2017
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**19.8**	19.5	18.6
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		**47.2**	45.4	45.8
US – number of blameworthy accidents per 1 million miles travelled		**n/a**	7.2	6.9
South West Trains – workforce lost time injuries per 1,000 staff		**n/a**	n/a	1.4
East Midlands Trains – workforce lost time injuries per 1,000 staff		**0.7**	1.0	0.9
Virgin Trains East Coast – workforce lost time injuries per 1,000 staff		**n/a**	1.3	1.1
Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff		**1.0**	1.3	1.0

We believe the small increase in blameworthy accidents across both our UK Bus divisions in the year ended 27 April 2019 partly reflects the increasingly challenging operating environment, with heightened road congestion in our major cities, in spite of our continued investment in leading edge safety technology.

Service delivery

Our measures of service delivery include:

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

Service delivery KPIs are not reported for businesses acquired or disposed of in the year.

The service delivery KPIs were as follows:

		Year ended		
	Target	**27 April 2019 %**	28 April 2018 %	29 April 2017 %
UK Bus (regional operations) reliability	>99.0%	99.4%	99.3%	99.5%
UK Bus (London) reliability	>99.0%	98.4%	98.5%	97.9%
UK Rail punctuality				
– South West Trains	>90.0%	n/a	n/a	87.0%
– East Midlands Trains	>85.0%	89.6%	91.6%	92.1%
– Virgin Trains East Coast	>85.0%	n/a	80.7%	83.1%
– Virgin Rail Group – West Coast Trains	>85.0%	84.1%	83.6%	89.4%

The deterioration in punctuality during the year ended 27 April 2019 at East Midlands Trains reflects the continued poor operational performance of Network Rail across the network.

1.5 Divisional Performance

1.5.1 UK Bus (regional operations)

Summary

- Encouraging financial performance: growth in revenue, operating profit and operating margin
- Like-for-like revenue up 3.4%
- Strong customer satisfaction

Financial performance

The financial performance of the UK Bus (regional operations) Division for the year ended 27 April 2019 is summarised below:

	2019 £m	2018 (restated) £m	Change
Revenue	**1,043.3**	1,013.8	2.9%
Like-for-like* revenue	**1,041.7**	1,007.1	3.4%
Operating profit*	**117.0**	112.9	3.6%
Operating margin*	**11.2%**	11.1%	10bp

Our UK Bus (regional operations) Division has performed well during the year, reflecting a range of management initiatives to deliver sustainable growth and enhance the experience for our customers. The Division has also benefitted from the favourable summer 2018 weather throughout the country and rail replacement work undertaken in relation to resignalling work at Derby railway station.

Like-for-like vehicle miles operated were 0.4% lower than in the previous year. Revenue per vehicle mile grew 3.8% and revenue per journey increased 3.4%. Around 10% of sales in the year to fare paying customers were through digital channels. Like-for-like revenue was built up as follows:

	2019 £m	2018 £m	Change
Commercial on and off bus revenue			
– megabus.com	**28.1**	24.1	16.6%
– other	**627.2**	608.8	3.0%
Concessionary revenue	**244.3**	240.8	1.5%
Commercial & concessionary revenue	**899.6**	873.7	3.0%
Tendered and school revenue	**100.3**	96.5	3.9%
Contract and other revenue	**41.8**	36.9	13.3%
Like-for-like revenue	**1,041.7**	1,007.1	3.4%

Commercial revenue growth has been encouraging, reflecting the progress on management's various growth initiatives. Our yield per journey has continued to improve, and we continue to adjust our bus networks to best match customer demand.

Our megabus.com business in the UK has continued its good performance, growing revenue and profit by capitalising on the network changes and marketing enhancements that were made in the second half of the prior year.

Although concessionary revenue continues to be adversely impacted by the continuing effects of government changes in the age of eligibility for free bus travel by older people, passenger journeys were stronger than expected over the summer and winter months, due to the favourable weather conditions relative to the prior year.

The increase in tender revenue reflects our growth in market share as some smaller operators have exited the market. We continue to work with local authorities to maximise the value for local communities from the financial support councils can provide for socially desirable transport services.

* See definitions in note 34 to the consolidated financial statements

Higher contract and other revenue include the effects of rail replacement work associated with the Derby railway station resignalling work, in addition to year-on-year changes in the amount and timing of other one-off contract and events work.

The movement in operating margin was built up as follows:

Operating margin – 2017/18 (restated)	**11.1%**
Change in:	
Sub-contract costs	**(0.6)%**
Staff costs	**0.2%**
Insurance and claims costs	**(0.2)%**
Fuel costs	**1.6%**
Gain on disposal of land and buildings	**(0.2)%**
Other	**(0.7)%**
Operating margin – 2018/19	**11.2%**

The main changes in the operating margin shown above are:

- As mentioned earlier, the Division undertook work in relation to a railway resignalling project at Derby. Some of this work was sub-contracted and resulted in sub-contractor costs that did not occur in the prior year. That also meant that less of our own employees' time was involved in generating the revenue and contributed to a year-on-year fall in staff costs as a percentage of revenue. Despite the increase in auto-enrolment pension costs, overall staff costs have increased broadly in line with revenue. Staff retention rates and wage awards remain stable and well controlled.
- The increase in insurance and claims costs reflects the non-recurrence of a credit arising in the prior year from a reassessment of the insurance provision held. We continue to make positive progress on underlying claims costs.
- Fuel costs reduced, reflecting market fuel prices and our fuel hedging programme.
- Property gains were lower in the year, reflecting relatively few disposals compared to last year.
- Other costs have increased, including higher IT and digital costs as we advance our investment in technology enhancements.

Investment and innovation

The Group is continuing to invest in the latest technology to support our objective of providing greener and smarter travel for customers and communities. Stagecoach is already the UK's biggest investor in hybrid-electric bus technology and has invested more than £1bn in new greener buses over the past decade. We have recently announced an investment of over £80m in more than 350 new buses and coaches for our UK bus and coach operations in 2019/20.

Stagecoach will deliver one of Europe's largest single investments in electric buses. The investment for Greater Manchester is after winning support funding from the Government under the Ultra-Low Emission Bus Scheme ("ULEBS"), which is aimed at cutting emissions and ensuring cleaner and greener journeys. A combined investment of £16.5m will deliver a new 32-vehicle fleet of zero emissions buses and associated infrastructure over the next two years. The first of the planned double-decker e-buses are expected to go into service later in 2019. In addition, a £6.5m project will deliver a new 16 vehicle fleet of zero emission buses and associated infrastructure over the next two years in Caerphilly in South Wales. The project, which has also won ULEBS funding, is part of a wider ambitious plan to create an all-electric passenger transport network for Caerphilly.

Earlier this year, we launched depot-based trials of the UK's first full-sized autonomous bus in Manchester in partnership with bus manufacturer, Alexander Dennis, and technology company, Fusion Processing. The trial includes the bus being used in autonomous mode for parking and moving into the bus wash. The software being used in the pilot vehicle also forms the basis for a further significant autonomous vehicle trial due to get underway in 2020 when a fleet of five Stagecoach autonomous buses will carry passengers between Fife and Edinburgh, across the Forth Road Bridge. The project - whose partners include Transport Scotland, Alexander Dennis, Fusion Processing, Edinburgh Napier University and University of West of England - is supported by more than £4m in funding from the UK Government's Innovate UK fund.

In addition to steps by Stagecoach to invest in new cleaner vehicles, several local authorities in whose area we operate services - including Manchester, Liverpool, Sheffield, Newcastle and Oxford - have been successful in winning support from the Government's Clean Bus Technology Fund. The fund supports projects to upgrade existing buses to low emissions standards.

Our investment in GreenRoad telematics technology is also continuing to improve the safety, sustainability and efficiency of our bus operations, as well as helping reduce insurance claims. Nearly 4,500 Stagecoach drivers have been awarded elite status under the GreenRoad driving assessment programme, which covers professional drivers in Europe, the Middle East, America, Australia and New Zealand. It is the fifth year in a row that Stagecoach has achieved the most drivers with elite status.

Customer satisfaction and commercial developments

We are pleased that we are continuing to deliver high levels of passenger satisfaction across our regional bus operations in the UK. The latest independent research by consumer watchdog, Transport Focus, found that 90% of Stagecoach bus customers in England and 92% in Scotland were satisfied with their journey. Satisfaction has improved across a number of areas, including journey time, the friendliness of the driver, and the availability of seating. Our relentless focus on customer service also contributed to Stagecoach and its employees winning 13 accolades at the 2018 UK Bus Awards, more than any other group. And earlier this month, our East Scotland bus business was named Public Transport Operator of the Year at the 2019 Scottish Transport Awards.

For many years, independent research has confirmed Stagecoach as the best value major bus operator in Britain. We are continuing to develop our ticketing offer, which already includes discounted travel to help young people, students and jobseekers. As well as taking steps to simplify our commercial ticket range and increase the proportion of our revenues secured through digital channels, we are exploring potential new income streams, including B2B/corporate sales opportunities, and partnerships with airports, festivals and events around the UK. We are also investigating the future growth potential for inter-urban bus services, as well as demand-responsive transport.

At the end of 2018, we completed the biggest deployment of bus contactless ticketing technology in the UK following a multi-million pound investment for customers. Stagecoach now offers contactless payments on every single one of its buses across the UK.

We are working with a range of technology and other partners on opportunities to develop the future of mobility, and we have joined the UK's Intelligent Mobility Accelerator as part of our drive to spark further innovation within the transport industry. Our objective is to provide customers with travel solutions which fit their working and leisure time lifestyles. This includes leveraging our own multi-modal expertise to offer integrated door-to-door journeys or by working with other partners to deliver this through technology platforms. We are working with Enterprise Holdings, for example, on a Mobility as a Service pilot in Greater Manchester and will be studying the results and their wider potential applicability closely.

Partnership initiatives and policy development

We have worked with other bus operators in Greater Manchester to develop a ground-breaking partnership blueprint to revolutionise the region's bus network and deliver on its world-class ambitions. These plans would deliver better connectivity for local communities, ease the cost of travel and tackle the region's growing road congestion and air pollution crisis. This collaborative approach, which is consistent with the new powers in the Bus Services Act, would both improve bus services for customers and support politicians' aspirations for economic growth. We are also working with other bus operators to develop proposals to build on the achievements of partnership in South Yorkshire and support the vision of the Mayor for the Sheffield city region around improved connectivity.

The Sheffield Bus Partnership has delivered passenger growth trends which have outperformed the industry average, along with rising customer satisfaction. This has followed joint investment in bus fleets and infrastructure, integrated smart ticketing, lower ticket prices, a coordinated and stable bus network, and joint marketing. A similar partnership approach in Merseyside is also continuing to deliver positive results. Overall, there has been a 16% increase in fare-paying passenger journeys in five years including strong growth among young people. Data from Transport Focus shows satisfaction of 91% among fare-paying customers in Merseyside, the joint highest of any metropolitan area in England.

As part of our strategy to shape the future of travel, we have joined forces with car hire company, Enterprise Holdings, and Bosch UK to establish the Urban Mobility Partnership ("UMP"). It is focused on engaging a range of stakeholders to develop practical multi-modal policy solutions. We believe mass transit will be central to the future of urban mobility. With finite road space and even with the development of autonomous and electric technology, tough decisions will be needed to improve journeys in our biggest cities and towns. We are pleased that the concept of "mobility credits", championed by UMP, is included in the potential approaches which could win support from the Department for Transport's Future of Mobility Fund. The "mobility credits" proposal would allow people to move away from inefficient car ownership to flexible use of public transport, car and bike hire.

Outlook

We anticipate our vehicle mileage in 2019/20 to be broadly in line with 2018/19, with a continuation in modest revenue growth in the short-term. Notwithstanding the forecast increase in our fuel costs for the year ahead, our costs are generally well controlled.

We have not significantly changed our expectation of the Division's operating profit for the year ending 2 May 2020 since our last update on trading.

1.5.2 UK Bus (London)

Summary

- Tender results disappointing
- Good progress on delivering further cost efficiency
- Reviewing opportunities to improve competitiveness
- Longer term prospects remain positive

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 27 April 2019 is summarised below:

	2019 £m	2018 £m	Change
Revenue and like-for-like revenue	**252.8**	251.8	0.4%
Operating profit	**10.7**	13.3	(19.5)%
Operating margin	**4.2%**	5.3%	(110)bp

Revenue in the year was similar to the previous year, reflecting the strong competition in the markets we operate in, contributing to the lower operating profit.

Competition for new contracts with Transport for London remains strong in the areas of London in which we operate. Some of our bids to retain certain of the services we operate were unsuccessful during the year and, while we successfully won contracts to run services we did not already operate, those were insufficient to fully offset the work we lost. As a result, we expect the Division's revenue and operating profit to reduce in the year ending 2 May 2020.

The movement in operating margin was built up as follows:

Operating margin – 2017/18	**5.3%**
Change in:	
Insurance and claims costs	**0.6%**
Staff costs	**(0.3)%**
Operating lease costs	**(0.8)%**
Depreciation	**0.4%**
Fuel costs	**(0.1)%**
Other costs	**(0.9)%**
Operating margin – 2018/19	**4.2%**

The main changes in the operating margin shown above are:

- Insurance and claims costs have reduced due to lower costs on the self-insured portion of claims. Our strong focus on safety and claims management continues.
- Staff costs, including pension costs, rose by more than inflation, whereas revenue was broadly flat, reflecting the impact of contracts lost in the prior year.
- The rise in lease costs reflects more vehicles held on operating lease and the recognition of an onerous lease provision on a property occupied by the business. This is partly offset by reduced depreciation with fewer vehicles owned outright.
- Fuel costs have increased as a proportion of revenue, due to higher hedged prices and the lag in fuel price rises being reflected in contract revenue.
- Other costs have increased, including rent and rates, where costs do not vary with vehicle miles.

Outlook

Bus use across London has now fallen for four consecutive years and Transport for London is taking steps to address a £700m operating deficit in the franchised bus network. In addition, road congestion is increasing in central London, partly as a result of the reallocation of road space to cycling. Transport for London's business plan envisages further significant cuts to bus services in the short-term. In 2019/20, around 14% (by peak vehicle requirement) of our existing London bus services are due for re-tender.

As a result of these factors, we have undertaken a detailed review of our bid models, contract pricing and cost efficiency to identify opportunities to improve our performance on tenders for Transport for London contracts. We will continue to tender at contract prices designed to deliver financial returns that reflect the capital investment required.

With that approach, we continue to see positive market opportunities to improve the revenue and profitability of the Division over the longer term. Significant housing developments are planned in and around London in the coming years and a considerable proportion of them will be in or adjacent to areas in which our UK Bus (London) Division currently operates. We expect new housing developments to result in new bus services and Transport for London is examining the potential for bus transit schemes. We continue to monitor our depot capacity balancing such future growth potential with possible opportunities to release capital.

1.5.3 UK Rail

Summary

- Good profitability reflecting strong trading at East Midlands Trains and positive resolution of contractual matters for the former South West Trains franchise
- Legal action commenced against Department for Transport in relation to three disqualified franchise bids
- Wholly owned major train operations expected to end in August 2019

Financial performance

The financial performance of the UK Rail Division for the year ended 27 April 2019 is summarised below:

	2019 £m	2018 (restated) £m	Change
Revenue	**589.5**	1,556.0	(62.1)%
Like-for-like revenue	**444.1**	434.1	2.3%
Operating profit	**26.4**	24.9	6.0%
Operating margin	**4.5%**	1.6%	290bp

The reported revenue for the prior year includes revenue at the South West Trains franchise which expired in August 2017 and the Virgin Trains East Coast franchise which ended in June 2018. The substantial fall in reported revenue reflects the end of these franchises.

The like-for-like revenue includes the ongoing East Midlands Trains and Sheffield Supertram businesses.

As expected, like-for-like revenue growth has been suppressed during the year, due to the effects on the East Midlands Trains franchise of both the revised timetable necessary to accommodate changes to the Thameslink network effective May 2018 and the current year resignalling programme at Derby railway station. While these changes have adversely affected East Midlands Trains' revenue, there has been no significant impact on profit due to the contractual arrangements in place.

The operating profit for the year reflects strong profitability at East Midlands Trains, in addition to continued progress in achieving favourable outcomes from concluding industry charges and contractual matters associated with the expired South West Trains franchise.

The UK Rail Division's reported profit reflects the utilisation of the onerous contract provision in respect of the Virgin Trains East Coast franchise. In the period up to the transfer of train services on 24 June 2018, the franchise continued to incur trading losses, which have been applied against the onerous contract provision.

Rail contract update and Williams review

We were surprised and disappointed to be informed by the Department for Transport in April 2019 that three rail franchise bids in which the Group was involved with had been disqualified for being non-compliant, principally in respect of pensions risk. We refused to accept all of the substantial pension risks that the Department for Transport asked operators to bear as part of these bids. We believe the rail system should be about appointing the best operator for customers and tax payers, not about passing unquantifiable, unmanageable and inappropriate risk to train companies or taking decisions which create uncertainty for rail workers over their pensions. We are challenging the Government's disqualification decisions and seeking to have these overturned. Our objective is to encourage a more sensible risk profile for rail contracts and restore confidence in the procurement process. Keith Williams, who is leading the independent review of the rail system, has already made clear that the current franchising model is not fit for purpose.

East Midlands Trains

Strong operational performance and high levels of customer satisfaction continue to underpin our success at East Midlands Trains, which has maintained its position as the most punctual long distance UK rail operator for around a decade. Latest independent research from Transport Focus found that 84% of customers were satisfied with their journeys, higher than the average for the long-distance sector. This has been achieved during a period following the introduction of a major new timetable in May 2018 in support of the industry's wider Thameslink programme and the extensive resignalling work at Derby railway station. East Midlands Trains worked closely with Network Rail and other partners on the delivery of these projects.

In February 2019, Stagecoach agreed a new Direct Award contract with the Department for Transport to continue to operate the East Midlands rail network until 18 August 2019. Stagecoach has operated the East Midlands Trains franchise successfully since 2007 and it has delivered industry-leading levels of performance during that time.

In the final months of our current East Midlands franchise, we are continuing to work hard to deliver a safe, high quality and professional service to our customers, meet our obligations and ensure a smooth transition to the new operator. We are most grateful to all our employees and partners who have been involved in delivering our transformation of the East Midlands rail network over the past 12 years, as well as those who contributed to our strong, deliverable bid for the new franchise. We know they share our disappointment in the result.

Sheffield Supertram

Sheffield Supertram has achieved the joint highest customer satisfaction rating in the latest Transport Focus tram passenger survey. It found that 97% of customers were satisfied with the service, up from 95% in the previous year.

We have worked with Network Rail and the Department for Transport to pioneer the UK's first Tram Train service at Stagecoach Supertram. Launched in October 2018, these services operate with special vehicles that can run on both Sheffield's existing tram lines and a section of railway for passengers travelling to and from Rotherham.

Outlook

Our UK Rail operating profit for 2019/20 is expected to be minimal, reflecting the end of the East Midlands Trains franchise in August 2019.

Over more than 20 years, we have delivered industry-leading performance, record passenger growth, excellent industrial relations, and the highest levels of customer satisfaction in the sector. We will continue to focus on delivering high quality services for our customers at our existing rail businesses. However, we have no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport.

1.5.4 North America

Summary
• Disposal of Division successfully completed
• Profit and revenue in line with our expectations

Financial performance

The financial performance of the North America Division for the year ended 27 April 2019 is summarised below:

	2019 US$m	2018 US$m
Revenue	**595.7**	630.0
Operating profit	**25.8**	28.1
Operating margin	**4.3%**	4.5%

As previously reported, we have now successfully completed the disposal of the North America Division to the private equity firm Variant Equity Advisors, LLC.

The 2019 figures shown above are for the period from 29 April 2018 until the disposal of the business on 16 April 2019.

The disposal represented an opportunity to realise an attractive valuation for the business whilst refocusing Stagecoach's portfolio on the UK. The cash proceeds were used to reduce consolidated net debt. The management of the North America Division have remained with that business following the disposal.

1.5.5 Joint Ventures

1.5.5.1 Virgin Rail Group

Summary
• Continuing good financial performance
• Customer improvement initiatives
• Virgin Rail Group's franchised train operations expected to come to an end in November 2019

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 27 April 2019 is summarised below:

49% share	2019 £m	2018 £m
Revenue	**609.5**	574.0
Operating profit	**25.7**	30.0
Net finance income	**0.8**	0.4
Taxation	**(5.2)**	(4.5)
Profit after tax	**21.3**	25.9
Operating margin	**4.2%**	5.2%

Virgin Rail Group's West Coast rail franchise is continuing to deliver strong growth and profitability. In the last financial year, there were around 40m journeys, nearly triple the 14m in 1997 when Virgin took over the West Coast route. While, as expected, the level of profitability has fallen year-on-year as a result of the business moving onto new contractual terms, the operating margin remains good.

This success has followed more than two decades of partnership between the private and public sector on the routes to deliver industry-leading innovation and investment. As well as modernising Victorian infrastructure, improvements have included new tilting train fleets, successfully introducing one of the biggest timetable changes since privatisation, and transforming the offer to customers.

Recent research by the Campaign for Better Transport found that these improvements have achieved not just better journeys and increased passenger numbers, but also regional and local economic growth, less congested roads and lower carbon emissions from transport. Between 2006 and 2018, Virgin Trains journeys grew by 105%, compared with growth of 59% across all train operators and 62% in the long-distance sector.

During the year to 27 April 2019, Virgin Rail Group became the first train operator to introduce digital season tickets for use on mobile devices, as well as offering a print at home facility. It has also led the rail industry in permanently removing all peak-hour restrictions on its trains that travel on Friday afternoons from London Euston station. The move helps customers save money and eases overcrowding on services to destinations such as Birmingham, Manchester and Liverpool. Virgin Trains is the first travel company in the world to sell tickets through the Amazon Alexa platform. Customers who require travel assistance can also now book JourneyCare via Alexa-enabled devices, including the Amazon Echo. In addition, Virgin Trains became the first rail operator to adopt the JAM card scheme outside of Northern Ireland. The card is designed to support anyone who has a communication barrier to travel or use other services by discreetly letting the member of staff know that they require "just a minute".

The current West Coast franchise is expected to run until November 2019 although the contractual terms allow for it to run through to March 2020.

1.6 Other financial matters

1.6.1 Pre-exceptional EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items (pre-exceptional EBITDA) amounted to £327.0m (2018: £334.4m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

	2019 £m	2018 £m
Total operating profit – continuing operations	**135.7**	110.7
Total operating (loss)/profit – discontinued operations	**(50.2)**	21.4
Exceptional items	**95.1**	47.8
Intangible asset amortisation	**9.6**	12.7
Non-exceptional depreciation	**131.4**	132.9
Non-exceptional impairment	**0.5**	4.5
Add back joint venture finance income & tax	**4.9**	4.4
Pre-exceptional EBITDA	**327.0**	334.4

Intangible asset amortisation reduced from £12.7m to £9.6m, reflecting the end of our Virgin Trains East Coast rail franchise in June 2018.

Depreciation reduced from the previous year reflecting the end of our South Western and Virgin Trains East Coast rail franchises.

1.6.2 Exceptional items

The following exceptional items were recognised in the year ended 27 April 2019:

- In the half-year ended 27 October 2018, a non-cash, exceptional pre-tax expense of £85.4m was recorded as an impairment of North America goodwill and when retranslated at the average rate for the year is reported as an impairment loss of £86.2m. Subsequently, a net loss of £7.4m has been recognised, representing the net effect of the loss on disposal of the Division and the depreciation "saving" arising from this ceasing from 20 December 2018, being the date the Division was classified as held for sale and held at the lower of the carrying amount and fair value less costs to sell.
- On 18 October 2012, the Group issued US$150m of 4.36% Notes as a private placement. The Notes were due to be redeemed at their principal amount on 18 October 2022. The cash proceeds from the sale of the North America business were applied towards the early repayment of the Notes. Consistent with the terms of the Notes, in repaying the Notes earlier than their scheduled redemption date, the Group paid a "make whole" premium of US$7.6m (£6.1m) in excess of the US$150m principal amount. That "make whole" premium has been reported as an exceptional item in the year ended 27 April 2019.
- A pre-tax exceptional expense of £25.3m has been recognised as a past service cost in respect of the equalisation of guaranteed minimum pension ("GMP") benefits. On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for many defined benefit schemes, including those in which the Stagecoach Group participates. We have worked with our actuarial advisors to understand the implications of the judgement for the schemes in which the Group participates and the £25.3m pre-tax exceptional expense reflects our best estimate of the effect on our reported pension liabilities.
- The Group reported pre-tax losses in previous years in relation to its subsidiary, East Coast Main Line Company Limited ("ECML") and the franchised rail services that ECML operated until June 2018. Since then, we have made progress with unwinding ECML's affairs, settling its liabilities and realising its assets. As part of that process, we have progressed the company's tax affairs and in the consolidated financial statements for the year ended 27 April 2019, we have recognised a tax credit of £17.1m.

The net effect of exceptional items from continuing and discontinued operations was a pre-tax loss of £125.0m (2018: £49.5m).

1.6.3 Net finance costs

Net finance costs from continuing operations, excluding exceptional items, for the year ended 27 April 2019 were £28.4m (2018 restated: £31.4m) and can be further analysed as follows:

	2019 £m	2018 (restated) £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**2.1**	3.4
Hire purchase and finance lease interest payable	**0.2**	0.3
Interest payable and other finance costs on bonds	**21.8**	21.8
Unwinding of discount on provisions	**1.2**	1.3
Interest charge on defined benefit pension schemes	**4.6**	5.8
	29.9	32.6
Finance income		
Interest receivable on cash	**(1.2)**	(0.4)
Effect of interest rate swaps	**(0.3)**	(0.8)
	(1.5)	(1.2)
Net finance costs, excluding exceptional items	**28.4**	31.4

The decrease in net finance costs is principally due to lower interest expense on bank loans, trade finance and defined benefit pension schemes from continuing operations. The decrease in respect of pensions arises from changes in market-driven assumptions used to determine pension amounts.

1.6.4 Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax from continuing operations in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge from continuing operations including our share of joint ventures' tax relative to the Group's profit before tax from continuing operations excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 27 April 2019, excluding exceptional items and non-software intangible asset amortisation, was 20.0% (2018: 15.7%).

The tax charge on profit from continuing operations can be analysed as follows:

Year to 27 April 2019	Pre-tax profit £m	Tax £m	Rate %
Excluding exceptional items and non-software intangible asset amortisation	138.6	(27.7)	20.0%
Non-software intangible asset amortisation	(0.3)	–	
Exceptional items	(31.4)	22.5	
With joint venture taxation gross	106.9	(5.2)	
Reclassify joint venture taxation for reporting purposes	(5.7)	5.7	
Reported in income statement	**101.2**	**0.5**	

The effective tax rate on profit from continuing operations, excluding exceptional items and non-software intangible asset amortisation, of 20.0% is marginally higher than the 19.0% rate of UK corporation tax for the year. Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to expected corporate tax rates or laws in the UK, we expect the Group's future effective tax rate (excluding exceptional items) to be between 17% and 20%.

The cash tax paid in the year of £17.8m (2018: £16.3m) compares to the tax credit for continuing and discontinued Group companies of £0.1m (2018: charge of £31.5m). The largest difference relates to the £22.5m tax credit where not all of the related effects on cash tax fall in the year ended 27 April 2019.

The areas where the Group sees greatest uncertainty around the amount of tax that is payable relate to the financing of, and transactions with, overseas operations. Liabilities of £13.3m are held as at 27 April 2019 (2018: £16.3m) in respect of these uncertain tax positions. The liabilities include amounts in respect of the legacy financing of overseas operations, whereby the Group has benefitted from the Finance Company Exemption contained in UK Controlled Foreign Company legislation. Whilst the Group has complied with all the requirements of UK tax law, the European Commission has confirmed its view that the UK exemptions are partly contrary to EU State Aid rules. On 13 June 2019, Her Majesty's Revenue and Customs ("HMRC") applied to annul the decision of the European Commission, and there remains uncertainty regarding how matters will progress over the coming months.

1.6.5 Fuel costs

The Group's operations as at 27 April 2019 consume approximately 348m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending April/May:	2020	2021	2022	2023	2024	2025
Total Group	86%	71%	40%	11%	<1%	<1%

The Group has no fuel hedges in place for periods beyond April 2025.

1.6.6 Cash flows and net debt

Consolidated net debt (as analysed in note 29(c) to the consolidated financial statements) has reduced in the year, principally due to the disposal of the North America Division. Consolidated net debt at 27 April 2019 was £253.3m (2018: £395.8m) and non-rail net debt was £374.9m (2018: £567.0m). The balance at 27 April 2019 includes £36.9m of Virgin Trains East Coast cash, which we expect will reduce to £Nil in the year to 2 May 2020. We also expect further net cash outflows in respect of South West Trains as we conclude open matters relating to that expired franchise and net cash outflows in respect of East Midlands Trains as we unwind that business' affairs following the expected end of its rail franchise in August 2019. We expect a modest increase in non-rail net debt in the year to 2 May 2020, reflecting the Group's previously announced share buyback programme.

Net cash from operating activities before tax for the year ended 27 April 2019 was £124.7m (2018: £208.8m) and can be further analysed as follows:

	2019 £m	2018 £m
EBITDA of Group companies before exceptional items	**298.8**	302.9
Loss/(gain) on disposal of property, plant and equipment	**0.3**	(3.2)
Non-exceptional equity-settled share based payment expense	**1.4**	1.2
Working capital movements	**(173.4)**	(93.0)
Net interest paid	**(27.8)**	(26.3)
Dividends from joint ventures	**25.4**	27.2
Net cash flows from operating activities before taxation	**124.7**	208.8

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

Year to 27 April 2019	Train operating companies* £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	34.8	264.0	298.8
Loss/(gain) on disposal of property, plant and equipment	0.8	(0.5)	0.3
Non-exceptional equity-settled share based payment expense	0.9	0.5	1.4
Working capital movements	(101.7)	(71.7)	(173.4)
Net interest (received)/paid	0.6	(28.4)	(27.8)
Dividends from joint ventures	–	25.4	25.4
Net cash flows from operating activities before taxation	(64.6)	189.3	124.7
Inter-company movements	(22.7)	22.7	–
Tax paid	(4.5)	(13.3)	(17.8)
Investing activities	42.2	48.1	90.3
Financing activities	–	(45.7)	(45.7)
Foreign exchange/other	–	(9.0)	(9.0)
Movement in net debt	(49.6)	192.1	142.5
Opening net debt	171.2	(567.0)	(395.8)
Closing net debt	121.6	(374.9)	(253.3)

*East Midlands Trains and Virgin Trains East Coast.

The movement in net debt shown for train operating companies is principally in relation to Virgin Trains East Coast, with the closing cash balances at East Midlands Trains broadly in line with the opening position.

The expiry of the Virgin Trains East Coast franchise has increased our net debt in the year by around £50m. We would anticipate a further net cash outflow in this respect of around £35m as we conclude open matters.

The £192.1m reduction in other net debt reflects the disposal of the North America Division, partly offset by working capital outflows including £19m for the net payment by the Group in respect of the Virgin Trains East Coast performance bond, in addition to the £6.1m premium paid to redeem the 4.36% private placement Notes in excess of their par value.

The net impact of purchases and sales of property, plant and equipment for the year on net debt ("net capital expenditure") was £61.6m (2018: £100.4m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £102.4m (2018: £111.7m) and new finance lease debt of £9.4m (2018: £27.2m). In addition, £50.2m (2018: £38.5m) cash was received from disposals of property, plant and equipment, of which £17.0m relates to the end of the Virgin Trains East Coast franchise.

Net capital expenditure, split by division, was:

	2019 £m	2018 £m
UK Bus (regional operations)	**50.7**	73.8
UK Bus (London)	**14.9**	2.1
North America	**11.2**	36.0
UK Rail	**(15.2)**	(11.5)
	61.6	100.4

In addition to the amounts shown in the table above, the impact of purchases of intangible assets and other investments was £4.4m (2018: £18.7m). In addition, £28.1m (2018: £3.1m) of cash was received from disposals of intangible assets, principally relating to the end of the Virgin Trains East Coast franchise, and which is included in the overall approximately £50m net cash outflow referred to above in respect of the franchise.

1.6.7 Financial position and liquidity

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

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

The Group's good financial position is evidenced by:

- The ratio of net debt at 27 April 2019 to pre-exceptional EBITDA from continuing operations for the year ended 27 April 2019 was 1.0 times (2018: 1.2 times from all operations).
- Pre-exceptional EBITDA from all operations for the year ended 27 April 2019 was 10.4 times (2018: 9.6 times) pre-exceptional net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £470.1m at 27 April 2019 (2018: £433.5m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- Two major credit rating agencies continue to assign investment grade credit ratings to the Group.

1.6.8 Year-end financial position of the Group

1.6.8.1 Net assets

Net assets at 27 April 2019 were £128.4m (2018: £181.7m).

The reduction in the net assets reflects the impairment and subsequent disposal of the North America Division and dividends paid, partly offset by the underlying profit for the year.

1.6.8.2 Retirement benefits

The reported net assets of £128.4m (2018: £181.7m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £197.7m (2018: £142.2m), and associated deferred tax assets of £33.9m (2018: £24.9m). The increase reflects the £25.3m exceptional pre-tax expense referred to earlier in respect of the equalisation of Guaranteed Minimum Pensions ("GMP"), and pre-tax actuarial losses of £36.2m in the year (2018: £106.7m actuarial gains).

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

1.6.8.3 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 27 April 2019, the Group's capital comprised:

	2019 £m	2018 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	**763.9**	907.6
Cash	**170.4**	238.2
Gross debt	**(423.7)**	(634.0)
Net debt (see section 1.6.6)	**(253.3)**	(395.8)

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

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

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. The Stagecoach Board believes that following the recent announcements regarding UK Rail coupled with the successful completion of the sale of the North America business, it is an appropriate use of the Group's cash at this time to buy back its own equity. The intention is to complete the buy back over the 12 months to April 2020. However, the Board of Directors' will keep the form and quantum of the programme under review.

The purpose of the buyback is to reduce the share capital of the Company and it is being conducted within the limitations of the authority granted to the Board of Stagecoach at the Annual General Meeting, held on 31 August 2018, pursuant to which the maximum number of shares to be bought back was 50,000,000. The buyback is also being conducted within the parameters prescribed by the Market Abuse Regulation 596/2014, the Commission Delegated Regulation (EU) 2016/1052 and Chapter 12 of the Listing Rules. The repurchased ordinary shares are being held in treasury.

From the commencement of the programme on 25 April 2019 until 24 June 2019, the Group has purchased 6,695,775 shares at a total cost of £8.7m, of which 165,779 shares at a cost of £0.2m were purchased in the year ended 27 April 2019.

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

The Group will continue to regularly review its financial strategy and capital structure

1.6.9 Dividend policy

The Board has proposed a final dividend of 3.9p, which will result in a full year dividend of 7.7p per share for the year ended 27 April 2019.

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

- The Group does not wish such targets to be viewed as a commitment or promise by the Board which, in turn, could act as pressure to pay certain levels of dividend in the future even when at that future point in time, that might not be in the best interests of the Company and its stakeholders.
- The appropriate pay-out ratio may vary based on many factors including factors affecting the outlook that are not reflected in the historically reported figures.
- Earnings may be volatile from year-to-year. We would look for dividend rates to be more stable and not to fluctuate as significantly as earnings simply to achieve target cover ratios.

As at 27 April 2019, the Company's distributable reserves totalled £309.6m (2018: £211.5m), which compares to dividends paid in cash in the year ended 27 April 2019 of £44.1m (2018: £68.3m). In addition, we consider that the Company's distributable reserves could be further increased through dividends from subsidiary companies and/or changes in the Group structure. The Group considers there to be a low risk that the level of distributable reserves will be a constraining factor on dividend payments for the foreseeable future.

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

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

1.6.10 Treasury policies and objectives

Treasury risk management is carried out by a treasury committee and a central treasury department (together, "Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. The Board provides written principles for overall treasury risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

See note 25 to the consolidated financial statements, for details of

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

1.6.11 Use of non-GAAP measures

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 34 to the consolidated financial statements provides further information on these non-GAAP financial measures.

1.6.12 Adoption of new accounting standard for leases

The Group will adopt International Financial Reporting Standard 16 ("IFRS 16"), Leases, with effect from 28 April 2019. The consolidated financial statements for the year ended 27 April 2019 are prepared in accordance with International Accounting Standard 17 ("IAS 17"), Leases, and so do not reflect all of the requirements of IFRS 16. More information on the adoption of IFRS 16 and its expected impact on the consolidated financial statements is provided in note 1 to the consolidated financial statements.

1.7 Current trading and outlook

We have made a satisfactory start to the year ending 2 May 2020 and have not significantly changed our expectation of adjusted earnings per share for the year.

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

1.8 Non-financial information statement

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

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

1.8.1 Corporate social responsibility

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

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

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

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

We have published separate documents setting out our approach to corporate social responsibility. These documents can be found on our website at the following link: https://www.stagecoach.com/sustainability.aspx.

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

1.8.2 Our corporate values

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. We have five shared values that drive our people and the brands they represent across our business: safety, service, integrity, enterprise and partnership. We are currently reviewing our corporate values and expected behaviours and plan to roll out our revised values in later 2019. Following that, we will also be updating our Code of Conduct to ensure it is aligned with the revised corporate values and that it reflects other changes in our business and takes account of our future aspirations. Stagecoach promotes a culture of openness across all its businesses and our objective is to ensure the highest standards of probity and accountability.

The Code, which was further updated during the year ended 27 April 2019, sets out key principles and provides practical examples and guidance to help shape employees' behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review and can be found at the following link: https://www.stagecoach.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/code-of-conduct-jan-2019.pdf.

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

In conjunction with revising our corporate values and Code of Conduct (see above), we are planning to launch a new whistleblowing platform. The new platform will provide a channel for employees to report concerns they have while ensuring that all concerns are systematically investigated and tracked.

1.8.3 Health and safety

Operating safely is at the heart of our business and our duty as a provider of transport services to the public. Our approach to safety management is articulated through the Stagecoach Strategic Safety Framework. Understanding safety risk and being compliant with, or exceeding, the health and safety regulations for the different modes of transport our business delivers is core to this Framework. We also have a strong focus on creating a positive safety culture, where all our people feel they have a voice to raise concerns and make suggestions to improve our safety arrangements. We have assurance and audit processes in place to monitor our safety performance and take action should we need to. Our Health, Safety and Environmental Committee, chaired by a non-executive director, considers this area of the business and monitors a range of performance indicators, reporting to the Board on these matters. We expect our suppliers and contractors to have the same commitment as our employees to complying with appropriate health and safety regulations and policies.

Each of our operating companies has a safety management system which is appropriate for their respective risk profile and regulatory requirements. The safety management systems include policies, procedures, risk assessments and safe working procedures to make sure that safety risks are managed and controlled. Performance is measured and reviewed at operating company and Group level. This is supported by analysis of audit results and review of civil liabilities claims to address any issues around policies and working procedures. A core part of our approach is encouraging employees to report any concerns through the development of a positive and open safety culture.

During the year, we continued our journey of further strengthening our safety culture. Within our bus businesses we launched our 'Safety Always' programme which includes initiatives to keep improving our leadership of, and arrangements for, safety across Stagecoach businesses. We have asked our people across our operating businesses, through an employee safety survey, how they feel about safety in Stagecoach and what we can do to improve it. We have used the results of this survey to inform our programme. We have introduced initiatives to improve near miss reporting and undertaken safety leadership conferences with over 300 of our bus engineering and operations managers and our Health and Safety Representatives. We have improved the ways we understand, manage and monitor risk across our businesses and introduced regular Safety Forums in our bus businesses. In addition, we work with local communities to encourage a safe environment around our transport networks and use of our services, particularly with young people. We invest in technologies which can make our services safer for customers, our employees and other people. Further information and examples of our initiatives are available at https://www.stagecoach.com/sustainability/safety-health.aspx.

We deeply regret and will never forget the tragic events involving one of our bus companies in Coventry in 2015 in which two people lost their lives. The court case related to the accident concluded in November 2018 and the thoughts of everyone at Stagecoach remain with those affected, their families, friends and colleagues. We have made it our continuing priority to work closely with the authorities to help fully understand and learn detailed lessons from what has happened, both for our own company and the wider bus industry.

1.8.4 Employees

1.8.4.1 Our employees

The Group's employees are fundamental to its successful development and performance. We encourage diversity across our business. We believe in empowering and engaging with our people, promoting a positive culture where employees are treated with respect and given equal opportunity to develop. This means that we are able to provide a better service to our customers. We aim to make Stagecoach an even better place to work for all of our colleagues and this continues to be a key focus for our leadership team.

The Group's relationship with its employees is therefore fundamental to achieving its objectives. We aim to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service to our passengers.

1.8.4.2 Employment policies

Being an inclusive and diverse employer is key to our success. It is our policy that all people should be treated fairly and with respect. Each of our businesses has detailed employment policies in place that are appropriate to the relevant business and its employees. Across the Group, we aim to have a motivated team of people that will meet the expectations of our customers, improve our business and be rewarded for their commitment.

We value, and have a policy of, equality of opportunity, regardless of disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. It is the Group's policy to give full consideration to applications for employment from people with disabilities. Where existing employees become affected by a disability and where practicable, our Group policy is to provide continuing employment under normal terms and conditions. We also provide training, career development and equal consideration for promotion.

The Group is committed to employee participation and we use a variety of methods to inform, consult and involve employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes and are encouraged to invest through participation in share schemes.

1.8.4.3 Effectiveness of employment policies

Our employment policies give our people and managers the guidance they need to support a positive culture at Stagecoach. We measure the effectiveness of our employment policies in a number of ways. The results of our annual employee engagement survey and our safety survey help us understand how our people feel about key areas such as diversity, reward, training and development, health and safety and speaking up. Our individual businesses have worked with their teams to create action plans that will drive improvements that will have the biggest impact for our people, for example improving the workplace environment, communications, training and development, and rewards and benefits.

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

1.8.4.4 Employee training and development

We are committed to helping our people to be the best they can be so they can deliver the best possible experience for our customers.

During National Apprenticeship Week in 2018, Stagecoach launched a new Bus Driver Apprenticeship scheme, the first ever in the UK. We now have 200 live apprentice drivers on the programme in three of our operating companies. The programme is being delivered in partnership with an external training provider. Stagecoach's existing bus driver training modules have been enhanced to include customer experience learning as well as technical training, within the framework of the Apprentice Levy arrangements, using a combination of practical training and off-the-job learning over a period of 12 months.

The new approach to graduate attraction in 2019 grew our applications from 200 to 2,000, attracting people from a wide range of backgrounds and increasing the diversity of our applicants. The modernised approach to graduate recruitment and our new scheme which is a general leadership programme means the programme is aligned to the future needs and strategic priorities of the business. We are already on-boarding our new first year graduates with an even warmer welcome in readiness for the September 2019 intake.

We have an industry-leading engineering apprenticeship programme in our bus businesses in the UK and this has benefitted hundreds of apprentices over more than a decade. In 2018, we welcomed 37 engineering apprentices new to the business as part of our new first-year intake. Our Trade Up apprenticeship programme gives existing employees in a non-skilled role the opportunity to apply to become part of our skilled engineering team. In 2018, we had more than 200 applications from across the country.

We recognise the importance of investing in the future leaders of our business. Our internal Staff Development Programme in UK bus is designed to nurture the next generation of talent to support the business and help our people achieve their potential and giving them the opportunity to gain the skills and knowledge to become a manager.

1.8.4.5 Employee engagement

Our people play a key role in the success of our business which is why we make it a priority to involve, consult and inform employees at every opportunity. We also give our people the opportunity to share their views and opinions through our annual employee engagement survey.

The new version of the UK Corporate Governance Code places a greater emphasis on employee engagement than prior editions of the Code did. In light of that, we have reviewed our engagement with employees and have made enhancements to our employee engagement arrangements.

For some years now, our Board has met annually over dinner with employees that have been identified as “emerging talent”. They are typically employees who are seen as having potential to progress and develop further within the Group and who are often already in managerial positions. The dinners have allowed an exchange of views on a wide range of topics, with each employee generally given the opportunity to speak on what they see as key challenges and opportunities. At the August 2018 meeting, discussion topics included: managing bus driver numbers and avoiding driver shortages, improving gender diversity amongst bus drivers, rail franchising policy, the importance of the dispatcher/depot manager to driver relations, and digital opportunities. Amongst other matters, these dinners have given the Board an insight into current issues in the business, including workforce issues and views. We intend continuing with these dinners in support of engaging with, and understanding the views of the Group’s workforce.

In addition, we are establishing “Stagecoach Colleague Forums” which will act as a workforce advisory panel. Twice a year, a group of employees from across the business will meet with certain non-executive directors. The purpose of the Forums is to:

- Enable members of the Board to hear, and report to the Board, the views of our people first hand so the Board can take them into consideration in discussions and decision making.
- Facilitate discussion around the results of our employee engagement survey.
- Acknowledge that forum attendees will want to ask questions and comment on issues that are close to their heart and make time to do this in the forum.
- Facilitate networking by employees from across the business.

We held our first group wide employee survey with a single provider in 2018/19, listening to the views of our people. The response rate achieved (71%) was the best ever of any of the employee surveys we have undertaken. The overall engagement score was 70%.

We have evolved and improved our communications approach to ensure we are able to reach our diverse and mobile workforce. Locally, our leaders regularly hold meetings and drop-in sessions to share key messages with their teams and listen to their feedback. We introduced a new employee communications app, Blink, to increase employee voice and reach a wider audience through a modern digital platform. We also introduced a new employee magazine, Focus, to share our people’s stories and help everyone understand how they contribute towards the success of our business.

We have various programmes in place to promote the health and well-being of our people with a particular focus on physical and mental health.

In October 2018, Stagecoach became the first national bus operator in the UK to sign the Time to Change pledge, vowing to tackle workplace stigma around mental health. By signing the Time to Change pledge, Stagecoach is committing to deliver a comprehensive action plan that will promote mental wellbeing in the workplace and encourage employees to talk more about how they feel.

In 2018/19, we introduced our new Stagecoach Star of the Month recognition scheme for our UK bus workforce, recognising and rewarding our people for their outstanding performance and behaviours.

We have established strong working relationships with trade unions and work in partnership with them on a range of issues, including pay, terms and conditions and pensions.

1.8.5 Diversity

The Group recognises the importance of celebrating and embracing diversity and inclusion in our business, and being representative of the customers and communities we serve. We value the individuality and diversity that each employee brings to the business. We are developing a new diversity and inclusion strategy that will support us in attracting and retaining a more diverse workforce as well as creating an inclusive environment for all our colleagues. It is our policy to facilitate diversity of age, gender and background across our workforce.

The table below shows the gender split at different levels within the organisation, as at 27 April 2019. The Group’s workforce is around 86% male and that high proportion is common in the ground transportation industry.

Population	Male	Female	Total	% Male	% Female
Board	8	3	11	72.7%	27.3%
Senior management*	59	11	70	84.3%	15.7%
Whole workforce	23,209	3,849	27,058	85.8%	14.2%

*Senior management is defined as those employees who receive awards under the Group’s Executive Participation Plan and individuals who are statutory directors of the corporate entities whose financial information is included in the Group’s 2019 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013.

The equivalent figures as at 28 April 2018 were:

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

We believe in providing job opportunities and equal pay for everyone regardless of gender, and we ensure that men and women in the same employment performing equal work receive equal pay. We welcome the UK Government’s initiative on Gender Pay Gap reporting as part of our focus on driving change and improvement on these important issues and in 2019 we reported for a second time. It provides us with an opportunity to measure where we are when it comes to be being an inclusive employer and highlight the key areas we are focusing on to reduce the gender pay gap. Stagecoach Group is made up of a portfolio of devolved public transport operating companies with their own management teams. Consistent with that structure, we report Gender Pay Gap data for our operating companies individually. Full details for our businesses can be accessed here:
https://www.stagecoach.com/about/managing-the-business/governance/gender-pay-gap-reporting.aspx

The picture across our businesses is in line with our expectations and generally consistent with the wider transport industry where the number of male employees has for many years been significantly higher than the number of female employees. Data is also influenced by the roles and associated salaries which male and female employees have traditionally undertaken. Most of our employees fulfil frontline operational roles, such as bus drivers, and in customer service.

Nevertheless, we are taking a range of steps to encourage positive change in this area and our approach to strengthening diversity and inclusion across our group is focused on three key areas.

Better awareness of career opportunities for current and future employees

We are committed to attracting, recruiting and retaining the best people in our business. To ensure we achieve this, we are appealing to the widest possible talent pool through the following actions:

- We are working with Women in Transport, Northern Power Women and Women in Rail to provide networking opportunities and support for all women within the sector, devising initiatives aimed at positioning bus as an attractive career choice for young people.
- We run targeted recruitment campaigns to attract female trainee drivers and women only career open days to learn more about train driving.
- We have trialled using gender coded job adverts in our rail business to increase appeal to women.
- Within UK Bus, we are introducing an Application Tracking System this year to monitor the response to recruitment campaigns and undertaking targeted advertising to ensure we attract a diverse talent pool for all roles.

Improved support for our female colleagues

- We are providing more support to our female leaders internally and have recently launched a Stagecoach Group Female Leaders network, running quarterly events to raise the profile and support the women within our businesses.
- We are offering flexible and part-time working arrangements to encourage employees to stay within the business.

Development and training

- Our Talent Programme has been running for four years and has supported a number of women in internal career progression. The programme encourages cross-divisional networking, exposure to broader aspects of Stagecoach, soft skills training as well as a 'Business Challenge' project.
- We have rolled out training for managers on unconscious bias in recruitment.

1.8.6 Accessible and affordable travel

We believe that providing accessible and affordable travel is central to encouraging modal shift from the private car to greener, smarter public transport. Stagecoach has regularly been independently assessed as having the lowest bus fares of any major bus operator in the UK. Research published by Transport Focus in March 2019 found that two thirds of Stagecoach bus customers in Scotland and England were satisfied with value for money. We are working with the Mayor of Greater Manchester and other transport operators on a pilot scheme providing free travel to 16 to 18 year olds, benefitting around 100,000 young people in the region.

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

Our bus business in Worthing hosted a second “Swap With Me” event during 2018/19 to help bus drivers learn more from visually impaired customers. Members of Sight Support Worthing met with drivers to explain what it is like travelling by bus with sight difficulties. The drivers were able to try special glasses to simulate a variety of sight problems.

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

1.8.7 Environmental matters

1.8.7.1 Impact of the Group’s business on the environment

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

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

The data below shows our greenhouse gas emissions for the year ended 27 April 2019 with comparative data for the year ended 28 April 2018.

	2018/19	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	879,135	0.40
Operation of facilities (refrigerants)	18,136	0.01
Total Scope 1	**897,271**	**0.41**
Scope 2		
Purchased electricity	20,192	0.01
Statutory total (Scope 1 & 2)*	**917,463**	**0.42**

	2017/18 (restated)**	
Greenhouse Gas Emission Source	**tonnes CO_2e**	**Kg CO_2e/£ of revenue**
Scope 1		
Fuel combustion (natural gas, diesel, petrol and heating oil)	885,332	0.41
Operation of facilities (refrigerants)	16,348	0.01
Total Scope 1	**901,680**	**0.42**
Scope 2		
Purchased electricity	26,254	0.01
Statutory total (Scope 1 & 2)*	**927,934**	**0.43**

* Statutory carbon reporting disclosures required by the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013.

** The results shown for the year ended 28 April 2018 have been restated from those previously reported to adjust revenue, as described in note 1 to the consolidated financial statements, to reflect the application of International Financial Reporting Standard 15 (“IFRS 15”), Revenue from Contracts with Customers.

The Group has used the UK Government Environmental Reporting Guidance methodology in reporting its greenhouse gas emissions, together with emissions factors from the DEFRA/DECC Greenhouse Gas Conversion Factors for Company Reporting 2018.

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

The Virgin Trains East Coast franchise expired on 24 June 2018 and the business and employees transferred to another operator. Since this franchise was operated for less than two months out of the twelve months of the 2018/19 reporting year, it was excluded from our footprint both for this year and for the restated 2017/18 footprint to ensure that the relative metric of emissions per £ of revenue was as meaningful as possible.

Group Metrics	**2018/19**	**2017/18* (restated)**
Revenue (£m)	2,190.1	2,167.0
Total Scope 1 & 2 emissions tonnes (tCO_2e)	917,463	927,934
Intensity ratio		
Scope 1 & 2 emissions per £ of revenue (Kg CO_2e/£)	0.42	0.43

* The results shown for the year ended 28 April 2018 have been restated from those previously reported to adjust revenue, as described in note 1 to the consolidated financial statements, to reflect the application of International Financial Reporting Standard 15 ("IFRS 15"), Revenue from Contracts with Customers.

1.8.7.2 Environmental policy

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

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

1.8.7.3 Effectiveness of environmental policies

Stagecoach Group's most recent sustainability strategy covered the five years to April 2019 where we had targets to reduce fleet and buildings carbon emissions, cut water consumption and increase the proportion of waste diverted from landfill. These targets covered our wholly owned bus and rail operations in the UK, along with our previously owned North America business.

Over the period of the strategy, the consolidated Group performance has resulted in:

- total Group carbon emissions reduction of 14%
- a 7% reduction in fleet carbon emissions
- a 20% reduction in buildings carbon emissions
- year-on-year reductions in water consumption at our key sites
- around 95% of our waste being diverted from landfill

Part of the Group's approach to sustainability is the ongoing review of its plans, performance and targets. Policy information and annual performance data is provided on the Group's website.

Work has started in partnership with the Carbon Trust on planning for Stagecoach Group's next sustainability strategy and the development of associated environmental targets for carbon, water and waste. We expect this work to be completed by the end of 2019 and in the meantime we are continuing to target year-on-year improvement across the areas outlined above.

1.8.8 Social and community matters

The Group is a major employer, now supporting direct employment for around 27,000 people. Our investment in improving our transport services also supports thousands of other jobs through the supply chain. Further information is available at:
https://www.stagecoach.com/sustainability/economic-contribution.aspx

1.8.8.1 Social and community policies

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

1.8.8.2 Effectiveness of social and community policies

We share our success with local people and communities by investing part of our profits in good causes. During the year ended 27 April 2019, £0.6m (2018: £0.9m) was donated by Stagecoach Group to help a number of charities and to support fundraising events and vital services. Significant additional in-kind support, such as complimentary bus and rail travel, is provided by the Group to good causes.

Stagecoach is continuing to work with the Diana Award on the successful #BeNiceBus project. The Diana Award runs the leading anti-bullying campaign in the UK and Ireland, giving young people the skills, confidence and training to become ambassadors to tackle the problem. As part of the project, a bus donated by Stagecoach undertakes an educational tour of schools across England, Scotland and Wales. Almost 9,000 pupils at over 100 locations have been reached directly in schools as part of the first two years of the initiative, with an estimated 30,000 young people benefitting from the wider educational resources shared with schools following the bus visit.

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

We have a number of initiatives in place to help young people, including mentoring and internship programmes to help students gain a better understanding of the skills and routes to enter work, further and higher education and training. We also have partnerships with veterans' groups in the UK. Stagecoach Group has demonstrated its commitment to the UK Armed Forces by signing a corporate covenant to support the country's military community across all of its bus and rail services.

In 2019, we launched a unique partnership with the Association of Community Rail Partnerships to help improve the quality of local community rail routes and stations, providing vital rail links to connect communities.

More information on our community support and programmes is available at:
https://www.stagecoach.com/sustainability/community.aspx

1.8.9 Human rights

The Group does not see human rights matters as presenting material issues or risks for the Group and therefore the Group does not have specific, detailed policies in respect of human rights. However, in the Group's Code of Conduct (see section 1.8.2), the Group recognises the fundamental civil, political, economic and social human rights and freedoms of every individual and strives to reflect this in its business. A respect for human rights is reflected in our wider policies and in how we do business with customers, suppliers, employees and other stakeholders.

It is our policy to respect the rights of individuals to hold personal political views, to undertake political activity and to personally support or be members of particular organisations. We support the objectives of the Modern Slavery Act 2015 ("the Act") of eliminating slavery and human trafficking.

We have provided a statement on these matters at:
https://www.stagecoach.com/~/media/Files/S/Stagecoach-Group/Attachments/modern-slavery-act-transparency-statements/modern-slavery-act-transparency-statement.pdf

1.8.10 Anti-corruption and anti-bribery

1.8.10.1 Anti-corruption and anti-bribery policy

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

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

1.8.10.2 Effectiveness of anti-corruption and anti-bribery polices

Any known instance of fraud, bribery or attempted bribery that was designed to give an advantage to the Group is reported to the Group's Audit Committee for consideration and appropriate follow up. There were no such matters arising during the year ended 27 April 2019 that were material. The whistleblowing policy provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

1.8.10.3 Anti-corruption and anti-bribery procedures

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

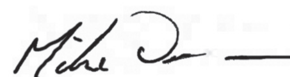
The Group's independent internal auditors review the Group's anticorruption framework every three years and report their findings to the Group's Audit Committee. A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's anti-corruption policy.

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

1.8.11 Non-financial key performance indicators

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

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



Mike Vaux

Company Secretary

26 June 2019

2. Board of Directors

Executive Directors

Non-Executive Directors

Martin Griffiths [1]
Chief Executive

Appointment to the Board: 2000
Age: 53
Committee membership: Health, Safety and Environmental, Digital and Technology.
Executive responsibilities: Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for Group health, safety and environmental matters, overall strategy and management of all of the Group's operations.
Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Martin Griffiths joined Stagecoach in 1997 as Group Business Development Manager, before being appointed to the Board as Finance Director in April 2000. He has also served as the senior independent non-executive director of Robert Walters plc and as a non-executive director of Troy Income & Growth Trust plc. He was young Scottish Finance Director of the year in 2004.
External appointments: Virgin Rail Group Holdings Limited (Co-Chairman), AG Barr plc (Non-Executive Director), Rail Delivery Group Limited (Non-Executive Director).

Ross Paterson [2]
Finance Director

Appointment to the Board: 2013
Age: 47
Committee membership: Pensions Oversight, Digital and Technology.
Executive responsibilities: Ross Paterson is responsible for the Group's overall financial policy, taxation, treasury, corporate finance, City relations, financial reporting, information technology and employee benefits. He supports the Chief Executive in the management of the Group's operations and new business development.
Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Ross Paterson joined Stagecoach in 1999. He became Director of Finance & Company Secretary in 2007, with responsibility for treasury, corporate finance, City relations, financial reporting, internal audit and the company secretariat. He succeeded Martin Griffiths as Finance Director in 2013. He is former Deputy Convenor of the Audit and Assurance Panel of the Institute of Chartered Accountants of Scotland.

Ross Paterson's breadth and depth of finance experience is a key strength and enables the Board to understand well the overall financial position of the Group's businesses and to evaluate and challenge prospective business developments. Ross' broader business experience helps the Board to communicate its strategic vision to the investment community and other stakeholders.
External appointments: Virgin Rail Group Holdings Limited (Director and Audit Committee Chair), The Unite Group plc (Non-Executive Director and Audit Committee Chair). Member of the Business Policy Panel of the Institute of Chartered Accountants of Scotland.

Sir Brian Souter [3]
Chairman

Appointment to the Board: n/a (co-founder)
Age: 65
Committee membership: Nomination (Chair).
Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Sir Brian Souter co-founded Stagecoach. Sir Brian was named UK Master Entrepreneur of the Year at the 2010 Ernst & Young Entrepreneur of the Year Awards and, in 2012, became the first public transport entrepreneur to be inducted into the British Travel and Hospitality Industry Hall of Fame. Sir Brian is the architect of the Group's strategy and philosophy and was the Group's Chief Executive until 1 May 2013. He was President of the Institute of Chartered Accountants of Scotland in 2017. He has extensive knowledge of the ground transportation industry around the world and continues to support Martin Griffiths and the rest of the management team.

Sir Brian has responsibility for the running of the Board. In that role he ensures that the business of Board meetings is appropriate, that all Board members are properly briefed and are able to fully contribute to the governance of the Group, making the most of the skills and experience available to the Board. As Chair of the Nomination Committee he also leads the Board in development and succession planning of the Board membership.
External appointments: Chairman, Souter Investments.

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

Appointment to the Board: 2011
Age: 59
Committee membership: Nomination.
Skills, previous experience and contribution to Group's long-term success: Will Whitehorn joined the Virgin Group in 1987 and served as Group Public Relations manager and as Brand Development and Corporate Affairs Director, before being appointed as President of Virgin Galactic from 2007 to 2011. Will is a former non-executive Chairman of Next Fifteen Communications Group plc and of Crowd Reactive Limited. He was a member of the Science & Technology Facilities Council ("STFC") until 2012, chaired its Economic Impact Advisory Board and was a non-executive director of STFC Innovations Limited.

Will Whitehorn's breadth of commercial experience in the transport, media and other industries provides a strong background for his role as the Deputy Chairman and Senior Independent Director, supporting and challenging the Chairman and the rest of the Board to ensure appropriate governance arrangements are implemented and upheld.
External appointments: Good Energy Group plc (Deputy Chairman), Scottish Event Campus Limited (Chairman), Scottish Gallery (Aitken Dott Limited) (Chairman), ÅAC Microtec A.B. (Non-Executive Director). Royal Air Force (Non-Executive Director), Member of the First Minister of Scotland's 'GlobalScot' Business mentoring network. Vice-President of the Chartered Institute of Logistics and Transport.

Gregor Alexander [5]
Non-Executive Director

Appointment to the Board: 2013
Age: 56
Committee membership: Audit (Chair) and Remuneration.
Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Gregor Alexander has significant recent and relevant financial experience. He is the Finance Director of SSE plc, a FTSE 100 company. He has worked in the energy industry since 1990, when he joined Scottish Hydro Electric. He was appointed Finance Director and joined the Board of SSE in 2002, having previously been its Group Treasurer and Tax Manager.

Gregor Alexander's current role as Finance Director of a FTSE 100 gives an ideal skillset to ensure the Audit Committee properly challenges the finance team and the Group's auditors to ensure that matters of judgement are rigorously reviewed and to produce financial reports that appropriately reflect the Group's position.
External appointments: Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 33.3% owned by SSE plc.

James Bilefield [6]
Non-Executive Director

Appointment to the Board: 2016
Age: 50
Committee membership: Digital and Technology (Chair), Remuneration and Nomination.
Skills, previous experience and contribution to Group's long-term success: James Bilefield has an international track record of successfully leading growing digital businesses. He managed the digital transformation of media group, Condé Nast, across 27 countries, scaled Skype's global operations as part of its founding management team and held senior commercial and management roles at Yahoo!. Formerly CEO of global advertising technology company, OpenX, he also co-founded the local information business, UpMyStreet, following an investment banking career at JP Morgan Chase.

James Bilefield's experience in the digital sector and his Chairing of the Group's Digital and Technology Committee helps the Executive Directors to ensure that the Group's investment in digital and technology projects is appropriate and that the management team are challenged to ensure a strong return on that investment.
External appointments: McKinsey & Company (Senior Advisor), Advent International (Industry Advisor), Teach First (Trustee), SThree plc (Chairman).

Sir Ewan Brown CBE [7]

Non-Executive Director

Appointment to the Board: 1988

Age: 77

Committee membership: Pensions Oversight (Chair) and Nomination.

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

Sir Ewan Brown's considerable experience in the merchant banking sector and his long association with the Board enable him to provide strong challenge to the Board proposals and to guide the Board on how strategic decisions may be viewed from the perspective of the investor community.

External appointments: None.

Dame Jayne-Anne Gadhia [8]

Non-Executive Director

Appointment to the Board: 1 March 2019

Age: 57

Committee membership: Remuneration and Nomination.

Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Dame Jayne-Anne Gadhia spent six years at Norwich Union (now Aviva) before becoming one of the founders of Virgin Direct in 1995. In 1998, she set up the Virgin One account which was acquired by the Royal Bank of Scotland (RBS) in 2001. After five years at RBS as part of the Retail Executive Committee, she returned to Virgin and served as a director and Chief Executive Officer of Virgin Money from 2007 until 2018, when it merged with CYBG. Virgin Money Holdings (UK) plc was listed on the London Stock Exchange from 2014 to 2018. Dame Jayne-Anne was appointed in 2016 as the UK Government's Women in Finance Champion and in 2017 became a founder member of its Business Diversity and Inclusion Group.

Dame Jayne-Anne has indicated that she will be stepping down from the Board on 31 July 2019.

External appointments: UK Industrial Strategy Council, Financial Conduct Authority Practitioner Panel, Scottish Business Taskforce, Scottish Government Financial Services Advisory Board, Mayor of London Business Advisory Board, Scottish Policy Foundation Advisory Board.

Dame Ann Gloag [9]

Non-Executive Director

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

Age: 76

Committee membership: Health, Safety and Environmental.

Skills, previous experience and contribution to Group's long-term success: Dame Ann Gloag co-founded Stagecoach and served as an executive director until 2000. She has extensive experience in transport operations, health and safety matters, property management and wider business management.

Dame Ann Gloag's experience gained from building the Group from its formation and from her many other business interests are drawn on particularly by the Board in developing the Group's strategic direction and to guide on health, safety and environmental matters.

External appointments: None.

Ray O'Toole [10]

Non-Executive Director

Appointment to the Board: 2016

Age: 63

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

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

Ray O'Toole's considerable commercial experience in the transport sector and particularly in both rail and bus passenger services provides him with an ideal background to contribute to the development of the Group's broader strategy in response to the changes taking place in the Group's main markets. He has also served for over 12 months on the remuneration committee at Yorkshire Water, where he is the Senior Independent Director. His experience there and his wider understanding of investor views are well-suited to him being the chair of the Group's Remuneration Committee.

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

Karen Thomson [11]

Non-Executive Director

Appointment to the Board: 2016

Age: 57

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

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

Karen Thomson particularly draws on her experience of digital and consumer brands to help the Group to develop its digital and technology strategy and challenges management in the areas of finance and health, safety and environment through her Board committee memberships.

External appointments: Outplay Entertainment Limited (Chairman).

3. Directors' report

3.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 77.

An interim dividend of 3.8p per ordinary share was paid on 6 March 2019. The Directors recommend a final dividend of 3.9p per share, making a total dividend of 7.7p per share in respect of the year ended 27 April 2019. Subject to approval by shareholders, the final dividend will be paid on 2 October 2019 to those shareholders on the register on 23 August 2019.

3.2 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear in section 2 of this Annual Report.

Table A shows the Directors' interests in the Company's shares. The interests of each director shown include those of their "connected persons".

TABLE A	**Number of ordinary shares (including those held under BAYE scheme)**			
	25 June 2019	**27 April 2019**	27 June 2018	28 April 2018
Sir Brian Souter	86,900,445	86,900,445	86,900,445	86,900,445
Martin Griffiths	596,574	596,313	564,879	564,662
Ross Paterson	332,264	332,003	292,093	291,876
Gregor Alexander	10,406	10,406	10,406	10,406
James Bilefield	–	–	–	–
Sir Ewan Brown	See below	See below	See below	See below
Dame Jayne-Anne Gadhia (appointed 1 March 2019)	–	–	n/a	n/a
Dame Ann Gloag	62,501,721	62,501,721	62,501,721	62,501,721
Ray O'Toole	–	–	–	–
Julie Southern (resigned 31 August 2018)	n/a	n/a	–	–
Karen Thomson	–	–	–	–
Will Whitehorn	72,288	72,288	72,288	72,288

Sir Ewan Brown had an indirect interest in the share capital of the Company through his interest in Noble Grossart Investments Limited, which he disposed of during the year ended 27 April 2019. Noble Grossart Investments Limited is a subsidiary of Noble Grossart Holdings Limited, in which Sir Ewan Brown and his connected parties held 18% of the ordinary shares as at 28 April 2018 and at 27 June 2018. Noble Grossart Investments Limited held 0.6% (3,567,999 shares) of the ordinary shares in the Company at 28 April and 27 June 2018.

The Listing Rules of the Financial Conduct Authority (LR 9.8.6 R(1)) require listed companies to disclose in their annual reports the interests of each director. The Directors' interests set out in Table A have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The voting rights of Sir Brian Souter and Dame Ann Gloag determined in accordance with the Disclosure Guidance and Transparency Rules as at 27 April 2019 were 86,896,413 ordinary shares (2018: 86,896,413) and 62,501,721 ordinary shares (2018: 62,501,721) respectively, of which 86,896,009 (2018: 86,896,009) are held via HGT Finance B Limited and 62,501,721 (2018: 62,501,721) are held via HGT Finance A Limited.

Details of share based awards held by the Directors are contained in the Directors' remuneration report in section 8 of this Annual Report. No non-executive director had an interest in share based awards at 28 April 2018, 27 June 2018, 27 April 2019 or 25 June 2019.

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

3.3 Indemnification of directors and officers

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

3.4 Substantial shareholdings

As at 27 April 2019 and 25 June 2019 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings, details of which are set out in section 3.2 of this report):

	25 June 2019	27 April 2019
Ameriprise Financial, Inc. and its Group	19.0%	18.1%

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the parent company financial statements and the Directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101, Reduced Disclosure Framework, ("FRS 101"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the relevant period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union, and applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group or as the case may be, the Company, will continue in business.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 5.4.7 of this Annual Report.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of financial information on the Company's corporate website, www.stagecoach.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors,

whose names and functions are listed in section 2 of this Annual Report, confirms that, to the best of their knowledge:

- the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and Directors' report contained in sections 1 and 3 of this Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

3.6 Conflicts of interest

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

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

For the period from 29 April 2018 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

3.7 Financial risk management

Information regarding the Group's use of financial instruments, its financial risk management objectives and policies, and its exposure to price, credit, liquidity and cash flow risks can be found in note 25 to the consolidated financial statements.

3.8 Political donations

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

3.9 Shareholder and control structure

As at 27 April 2019, there were 576,099,960 ordinary shares (2018: 576,099,960) in issue with a nominal value of 125/228th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against") and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. It is the Group's current policy to hold a poll on each resolution proposed at an annual general meeting. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned. As at 27 April 2019, 3,458,907 (2018: 2,756,662) ordinary shares representing 0.6% (2018: 0.5%) of the Company's called-up share capital (excluding treasury shares) were held in treasury and carried no voting rights.

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

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

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- in accordance with the Group's policy and applicable regulations, certain employees of the Group require the approval of the Company to deal in the Company's securities.

Section 3.4 of this Directors' report gives details of any shareholders (other than the Directors and their connected persons) that hold major interests in the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 3.2 of this Directors' report. Two directors of the Company, Sir Brian Souter and Dame Ann Gloag, who are siblings, were interested in 26.1% of the ordinary shares in issue as at 27 April 2019, excluding shares held by the Company in treasury (2018: 26.1%). The other directors of the Company held 0.2% of the ordinary shares in issue as at 27 April 2019 (2018: 0.2%).

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

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

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

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

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

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

- The Group operates the East Midlands Trains rail franchise. The Group's joint venture, Virgin Rail Group, operates the West Coast Trains franchise. The franchise agreements in respect of these two franchises each contain provisions that would enable the Department for Transport to terminate the franchises on a change of control of the franchise.
- Each of the two rail franchises referred to above lease trains. The leases generally contain termination rights for the benefit of the lessor on a change of control of the Group.
- Certain of the Group's bank facilities (including asset finance) contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Group's arrangements with surety companies for the issue of rail performance bonds and season ticket bonds could terminate following a change of control of the Group.
- The Company's £400m 4.00% Guaranteed Bonds due 2025 contain provisions that would require repayment of the outstanding bonds following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.

The impact of a change of control of the Group on remuneration arrangements is determined by the Directors' remuneration policy.

3.10 Authority for company to purchase its own shares

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

	Issued share capital	Shares held in treasury	Issued share capital, excluding treasury shares	Authorised for Company to purchase its own shares
As at 29 April 2017	576,099,960	2,467,204	573,632,756	57,363,275
Shares purchased into treasury	–	506,927	(506,927)	(506,927)
Transfer of treasury shares	–	(199,490)	199,490	–
Prior to 2017 AGM	576,099,960	2,774,641	573,325,319	56,856,348
Renewal of buy-back authority	–	–	–	(6,856,348)
Transfer of treasury shares	–	(17,979)	17,979	–
As at 28 April 2018	576,099,960	2,756,662	573,343,298	50,000,000
Transfer of treasury shares	–	(50,134)	50,134	–
Prior to 2018 AGM	576,099,960	2,706,528	573,393,432	50,000,000
Renewal of buy-back authority	–	–	–	–
Shares purchased into treasury	–	860,940	(860,940)	(860,940)
Transfer of treasury shares	–	(108,561)	108,561	–
As at 27 April 2019	576,099,960	3,458,907	572,641,053	49,139,060

At the 2017 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 50,000,000 of its ordinary shares. During the year ended 27 April 2019, the Company transferred 158,695 (2018: 217,469) of the shares held in treasury for nil consideration to employees to satisfy awards made under the Group's Executive Participation Plan. This represented less than 0.1% (2018: less than 0.1%) of the Company's called up share capital (excluding treasury shares) on the dates of transfer.

At the 2018 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 50,000,000 of its ordinary shares. On 6 and 7 December 2018, the Company acquired 695,161 of its own ordinary shares and held these in treasury. The aggregate amount paid for these shares was £1.2m. This represented 0.1% of the Company's called up capital (excluding treasury shares) on 7 December 2018. The shares were purchased to satisfy awards made under the Group's employee share schemes. In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. From the commencement of the programme on 25 April 2019, the Group purchased 165,779 shares at a cost of £0.2m in the year ended 27 April 2019. This represented less than 0.1% of the Company's called up capital (excluding treasury shares) on 27 April 2019. Under the existing authority, the Company may therefore repurchase up to a further 49,139,060 ordinary shares. This authority will expire at the conclusion of the 2019 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 45,000,000 of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2018 Annual General Meeting and will lapse at the conclusion of the 2020 Annual General Meeting.

3.11 Going concern and longer term viability

Assessment process

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

We update our financial forecasts and capital expenditure plans to take account of any changes in risks, opportunities and market conditions. We have recently updated our financial forecasts for the three-year period to 30 April 2022. In considering the "viability statement" that the Board is expected to make under the UK Corporate Governance Code, the Board has formally considered the three-year period to 30 April 2022 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 30 April 2022. The first year of the financial forecasts represents the Group's budget for the year ending 2 May 2020, adjusted for any known, material changes since the budget was approved. The period to 30 April 2022 was chosen because the Board considers this to be a reasonable period over which to assess the financial position and performance of the Group. The level of forecasting accuracy reduces significantly beyond three years and forecasts may be affected by factors such as changes in government transport policy and/or major contract wins and losses. We see limited value in producing detailed financial forecasts for the Group as a whole beyond three years.

The key assumptions in the financial forecasts, reflecting our strategy, include the intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. The base financial forecasts do not assume any rail franchise wins over and above our existing contracts. Our key assumptions also include a stable regulatory environment in the UK. The key assumptions include no major changes to transport policy. East Coast Main Line Company Limited (which traded as Virgin Trains East Coast), is still expected to be wound up on a solvent basis, based on the agreed terms of the transfer of the business of Virgin Trains East Coast to a public sector company.

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

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

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

Stress testing of the financial forecasts has been undertaken with reference to a number of severe but plausible scenarios involving our principal risks. The scenario analysis undertaken included reverse stress testing that involved constructing scenarios that would threaten the Group's viability then assessing the likelihood of those scenarios occurring. The stress testing also considered the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the conclusions of the Board's monitoring and review of risk management and internal control systems, as described in sections 4.12 and 4.13, were taken into account. The financial forecasts and the scenario analysis considered profitability, cash flows, financial covenant compliance, rating agency metrics, debt facility headroom, and other key financial ratios. The Group's exposures to external factors such as GDP, population, fuel prices, inflation, consumer confidence, competition and terrorism risks were considered. The results of this stress testing illustrated that the Group was expected to be able to withstand the impact of these scenarios occurring over the three-year period through adjusting its operating plans within the normal course of business. Of course, it is not possible to guarantee the viability of the Group; any such assessment is subject to a degree of uncertainty that can be expected to increase the longer the time horizon.

Viability statement

Based on its assessment of the Group's prospects and viability above, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 April 2022.

Going concern

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

3.12 Auditors

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

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

A resolution to re-appoint Ernst & Young LLP as auditors of the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Audit Committee be authorised to fix the remuneration of the auditors.

3.13 Material included in the Strategic report

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

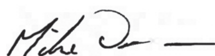
- Employment policies;
- Future developments in the business; and
- Greenhouse Gas Emissions.

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

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

Listing Rule 9.8.4	Required disclosure	Location in Annual Report
(1)	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any tax relief.	Not applicable
(2)	Any information required by Listing Rule 9.2.18R relating to any unaudited financial information in a class 1 circular or a prospectus; or any profit forecast or profit estimate.	Not applicable
(3)	Listing Rule deleted.	Not applicable
(4)	Details of long-term incentive schemes as required by Listing Rule 9.4.3R, being any arrangement where the only participant is a director of the Company (or an individual whose appointment as a director of the Company is being contemplated) and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual.	Not applicable
(5)	Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.	Section 8.5.9 of this Annual Report explains arrangements under which Sir Brian Souter, Chairman, waived emoluments in prior financial years.
(6)	Details of any agreements by a director to waive future emoluments.	Not applicable
(7)	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders.	Not applicable
(8)	The information required in item (7) above for any unlisted major subsidiary undertaking of the Company.	Not applicable
(9)	Details of any share placing where the Company is a subsidiary undertaking of another Company.	Not applicable
(10)	Details of any contract of significance subsisting during the period under review: (a) to which the Company, or one of its subsidiary undertakings, is a party and in which a director of the Company is or was materially interested; and (b) between the Company or one of its subsidiary undertakings, and a controlling shareholder;	Details of related party transactions, including those where a director is materially interested, are provided in note 32 to the consolidated financial statements. The Company has no controlling shareholders.
(11)	Details of any contract for the provision of services to the Company or any of its subsidiary undertakings by a controlling shareholder.	Not applicable
(12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Not applicable
(14)	A statement made by the Board in respect of matters relating to a controlling shareholder.	Not applicable

By order of the Board



Mike Vaux
Company Secretary

26 June 2019

4. Corporate governance report

4.1 Introduction from Will Whitehorn, Deputy Chairman

The Stagecoach Group is committed to operating with the high standards of corporate governance that are expected of a group with shares traded on the London Stock Exchange. In this introduction to the Group's corporate governance report, I look back at the year 2018/19, at the progress that has been made with the governance of the Group and look forward to the governance challenges for the future.

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

As we announced last year, Julie Southern stepped down from the Board at the end of the 2018 Annual General Meeting. Dame Jayne-Anne Gadhia has indicated that she will be stepping down from the Board on 31 July 2019 and I will work with the Chairman and Nomination Committee to bring forward proposals on the future shape of the Board.

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

Our Board structure comprises experienced executive directors managing the business, non-executive directors with the skills and experience both to bring new ideas to the Board and to challenge the executive directors, and our co-founder and former Chief Executive continuing as non-executive Chairman. This structure allows the Board to develop the strategic direction of the Group to meet future challenges while ensuring the sound management of the Group's current business. I am satisfied that the governance structure allows the views of all of the Directors to be heard and given due weight and that our corporate governance procedures are appropriate for the Group.

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

In the past year, the Board concluded that it was appropriate for the Group to consider opportunities to exit from the Group's North American business at an appropriate valuation. The decision followed Board discussions of the overall balance of the Group, the required management time and focus for the Division and return on capital invested in the North America Division, as well as emerging opportunities for growth in the UK. The Board has continued to discuss franchise opportunities available in the rail sector and was pleased to secure an extension for up to one year of the franchise operated by the Company's joint venture, Virgin Rail Group and an extension of the East Midlands franchise until 18 August 2019. The Board is concerned by the Department for Transport's decision to disqualify three rail franchise bids we were involved in as non-compliant, principally in respect of pensions risk. The Board believes strongly that the private sector should not be expected to accept material risks it cannot control and manage.

I am confident that the corporate governance structure of the Board provides an appropriate forum to develop and adapt the Group's strategy to address future challenges and opportunities.

Will Whitehorn
Deputy Chairman
26 June 2019

4.2 Corporate governance and compliance with the Code

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

The Code issued in April 2016 applied to the Company's financial year from 29 April 2018 to 27 April 2019. The Directors believe that throughout the year ended 27 April 2019 the Group complied with all of the provisions of the Code. A copy of the Code is available at: https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016

A revised UK Corporate Governance Code was issued by the FRC in July 2018 (the "New Code") and will apply to reporting periods beginning on or after 1 January 2019. The Company will report on its compliance with the New Code for the financial year beginning 28 April 2019 in its 2020 Annual Report.

The New Code places a greater emphasis on employee engagement than prior editions of the Code did. As part of its focus on the relationships between companies, shareholders and stakeholders, the New Code has placed a stronger emphasis on engagement, culture, diversity and inclusion. In light of the New Code, we have reviewed our engagement with employees and have made enhancements to our employee engagement arrangements including the creation of "Stagecoach Employee Forums" to act as a workforce advisory panel. Further details on that are provided in section 1.8.4.5 of this Annual Report.

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

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

4.3 Composition of the Board

The composition of the Board is as follows:

	Chairman	Independent Non-Executive Director*	Other Director
Sir Brian Souter *Chairman*	✓		
Gregor Alexander *Non-Executive Director*		✓	
James Bilefield *Non-Executive Director*		✓	
Dame Jayne-Anne Gadhia *Non-Executive Director*		✓	
Ray O'Toole *Non-Executive Director*		✓	
Karen Thomson *Non-Executive Director*		✓	
Will Whitehorn *Senior Independent Director & Deputy Chairman*		✓	
Sir Ewan Brown *Non-Executive Director*			✓
Dame Ann Gloag *Non-Executive Director*			✓
Martin Griffiths *Chief Executive*			✓
Ross Paterson *Finance Director*			✓

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

The Board comprises eleven directors, six of who meet the criteria suggested by the Code for determining director independence. Following Dame Jane-Anne Gadhia's planned resignation on 31 July 2019, five of the remaining ten directors will meet those criteria.

4.4 Division of responsibilities

Sir Brian Souter was the Chief Executive of the Group until 1 May 2013. When Sir Brian became the Chairman of the Group and Martin Griffiths became Chief Executive, the Board created the new role of Deputy Chairman to maintain the strength of its governance arrangements. The split of the Chairman's, Deputy Chairman's and Chief Executive's responsibilities has been agreed in writing and has been approved by the Board. The Deputy Chairman reports to the Chairman and to the Board and has responsibility for ensuring proper corporate governance. The Deputy Chairman's role includes ensuring that the Board's consideration of matters is in the best interests of the Group and unaffected by conflicts of interest. No executives report directly to the Deputy Chairman.

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

Will Whitehorn, as well as being Deputy Chairman, is the Group's Senior Independent Director and is available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

4.5 Board independence and balance

The Directors' biographies appear in section 2 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Board delegates the operational management of the Group to the Chief Executive and Finance Director ("Executive Directors"). The Non-Executive Directors bring an independent viewpoint and create an overall balance. The Directors have a complementary range of experience that ensures no one director or viewpoint is dominant in the decision-making process.

The Code recommends that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the year from 29 April 2018 to 27 April 2019, the Board considers that it complied with this Code requirement.

All of the Directors who intend to continue on the Board stand for election or re-election at each annual general meeting of the Company.

4.6 Operation of the Board

Additional meetings of the Board are held, or resolutions are circulated in writing, as appropriate, to consider matters where a decision of the Board is required prior to the next scheduled meeting. In addition to the formal meetings of the Board and its Committees, the Directors are in more frequent but less formal contact with each other and with the Group's management on a range of matters.

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

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

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

The number of full Board meetings during the year was six. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. In September 2018, the Board met during a conference of senior managers, giving the Non-Executive Directors an opportunity to meet managers and to receive briefings from them. During the year, the Health, Safety and Environmental Committee met at the UK Bus (London) Division depot in West Ham and was briefed on a number of safety-related initiatives being undertaken in the London and Regional Bus operations as well as its usual business.

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 27 April 2019 included:

- Briefings on the investigation into and prosecution relating to the fatal incident involving a Midland Red (South) Limited vehicle in 2015, in which Rowan Fitzgerald and Dora Hancox were tragically killed and the steps taken by the UK Bus (Regional) and UK Bus (London) Divisions to address the findings from that investigation
- Discussion of emerging scenarios for the termination of the East Coast franchise concluding in an agreement with the Department for Transport of documentation to finalise and terminate the East Coast franchise agreement and to transfer operations to London North Eastern Railway Limited
- Consideration of the Group's current and future strategy for participation in UK Rail, bid for the West Coast Partnership rail franchise and re-submission of bid for South Eastern rail franchise
- Approval of proposed terms of directly awarded franchise for the operation of the East Midlands rail franchise until August 2019
- Approval of submission of bid for new East Midlands rail franchise expected to commence August 2019
- Rebasing of full year dividend
- Proposals for possible restructuring, or realisation of investment in the Group's North America Division
- Consideration of candidates for the Board proposed by the Nomination Committee, resulting in the appointment of Dame Jayne-Anne Gadhia on 1 March 2019
- Proposed governance changes to ensure compliance with the New Code from 28 April 2019
- Consideration of the Department for Transport's decision to disqualify three UK rail franchise bids that the Group was involved in, and the related implications on strategy, organisational structure and capital structure

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

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

4.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly There are three principal operating divisions:

- UK Bus (London): headed by a managing director
- UK Bus (regional operations): headed by two managing directors
- UK Rail: headed by a managing director

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

One of the joint ventures in which the Group has an interest, Virgin Rail Group, is managed independently of the Group. It is headed by its own managing director. The Group has two representatives on the Board of Virgin Rail Group. The other trading joint venture in which the Group has an interest, Scottish Citylink Coaches Limited, has a joint board. The Group is responsible for the day-to-day management of that business.

4.8 Performance evaluation

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

The Directors have reviewed the effectiveness of the Board as a whole and its committees. The Code recommends board performance evaluation should be externally facilitated at least every three years. The Board appointed Margaret Exley of SCT Consultants to facilitate its evaluation in the year ended 29 April 2017 and details of the review and recommendations made were included in the 2017 Annual Report. The 2018 and 2019 evaluations were not externally facilitated. The Board intends to continue to use external facilitation of its performance evaluation no less frequently than every third year.

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

4.9 Composition of Committees

The current composition of the various Board Committees is summarised below.

Audit Committee

Number of members of Committee: 3

All members are independent non-executive directors.

Chairman and designated member with recent and relevant financial experience

Gregor Alexander

Other members

Ray O'Toole

Karen Thomson

Nomination Committee

Number of members of Committee: 6

Chairman

Sir Brian Souter

Other members

James Bilefield

Sir Ewan Brown

Dame Jayne-Anne Gadhia

Ray O'Toole

Will Whitehorn

Remuneration Committee

Number of members of Committee: 4

All members are independent non-executive directors.

Chairman

Ray O'Toole

Other members

Gregor Alexander

James Bilefield

Dame Jayne-Anne Gadhia

Health, Safety and Environmental Committee

Number of members of Committee: 4

Chairman

Ray O'Toole

Other members

Martin Griffiths

Dame Ann Gloag

Karen Thomson

4.10 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by directors during the year ended 27 April 2019:

PARTICIPATION IN MEETINGS	Full Board meetings		Audit Committee		Remuneration Committee	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	6	6	n/a	n/a	n/a	n/a
Martin Griffiths	6	6	n/a	n/a	n/a	n/a
Gregor Alexander	6	6	3	3	3	3
James Bilefield	6	6	n/a	n/a	3	3
Sir Ewan Brown	6	6	n/a	n/a	n/a	n/a
Dame Jayne-Anne Gadhia	1	1	n/a	n/a	1	1
Dame Ann Gloag	5	6	n/a	n/a	n/a	n/a
Ray O'Toole	6	6	3	3	2	2
Ross Paterson	6	6	n/a	n/a	n/a	n/a
Julie Southern	2	2	1	1	1	1
Karen Thomson	6	6	3	3	n/a	n/a
Will Whitehorn	5	6	n/a	n/a	n/a	n/a

PARTICIPATION IN MEETINGS	Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
	Actual	Possible	Actual	Possible	Actual	Possible
Sir Brian Souter	n/a	n/a	1	1	1	1
Martin Griffiths	4	4	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	n/a	n/a	1	1
James Bilefield	n/a	n/a	1	1	1	1
Sir Ewan Brown	n/a	n/a	1	1	1	1
Dame Jayne-Anne Gadhia	n/a	n/a	n/a	n/a	n/a	n/a
Dame Ann Gloag	3	4	n/a	n/a	1	1
Ray O'Toole	4	4	1	1	1	1
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Julie Southern	n/a	n/a	n/a	n/a	1	1
Karen Thomson	4	4	n/a	n/a	1	1
Will Whitehorn	n/a	n/a	1	1	0	1

4.11 Relations with shareholders

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

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

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

All shareholders are welcome to attend and participate at the Annual General Meeting and any other general meetings. The Group aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. All resolutions proposed to the 2018 Annual General Meeting were decided by a poll (as opposed to a show of hands) and details of all votes lodged for and against, or withheld, in respect of each resolution of the 2018 Annual General Meeting were published on the Group's website at https://www.stagecoach.com/investors/shareholder-services/agm.aspx

The Group intends to undertake a poll on each resolution put to the 2019 Annual General Meeting. All votes cast for or against each resolution, whether by proxy or in person at the meeting, will be aggregated and the results will be reported on the Group's website.

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

4.12 Risk management

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

4.12.1 Risk appetite

The Board considers that it is in the interests of the Group's stakeholders for the Group to evaluate and accept risk. Delivering the Group's strategy and objectives necessitates some risk taking.
It is the Group's objective that the risk of it not remaining viable for the foreseeable future should be low. Its appetite for risk reflects that overall objective. Consistent with that risk appetite:

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

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

4.12.2 Risk management process

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

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

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

For those businesses that have been part of the Group for the whole of the financial year ended 27 April 2019, the Group's risk management process was embedded throughout the businesses for that year and up to the date of the approval of this report.

The Board has carried out a review of the effectiveness of the Group's risk management and internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

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

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

The Group Risk Assurance (or internal audit) function, which is outsourced to and managed by PricewaterhouseCoopers, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented.

A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving, where possible, the Group's risk management process in the context of the Group's overall goals.

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

The Group's risk management process does not specifically cover joint ventures, but the Group maintains an overview of joint ventures' business risk management processes through representation on the boards and in the case of Virgin Rail Group, its audit committee. Stagecoach management representatives also meet regularly with representatives of joint ventures to ensure that they follow appropriate risk management procedures.

4.12.3 Principal risks and uncertainties

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

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

4.13 Internal control

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

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

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. No control failings or weaknesses that are significant to the Group as a whole have been identified in the year to 27 April 2019.

4.14 Process for preparing consolidated financial statements

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

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

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

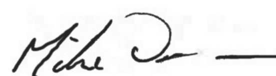
4.15 Diversity policy

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

4.16 Pension schemes

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

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



Mike Vaux
Company Secretary
26 June 2019

5. Audit Committee report

5.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 27 April 2019 in accordance with the UK Corporate Governance Code. The report describes how we have discharged our responsibilities under the Code and monitored the effectiveness of the Group's financial reporting, internal control systems and risk management.

Gregor Alexander
Chairman of the Audit Committee
26 June 2019

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report and this section 5.2 explains how we have addressed the audit committee composition requirements of the UK Corporate Governance Code. Gregor Alexander is the current Chairman of the Audit Committee and is a Chartered Accountant. Gregor is the Finance Director of SSE plc, a FTSE 100 company, and is the designated Committee member with recent and relevant financial experience.

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

5.3 Operation of the Audit Committee

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

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

In addition, the Group Tax Director and Group Treasurer are expected to present to the Committee at least annually. The Committee may also invite other directors of the Company to attend meetings of the Committee and does so from time to time.

5.4 Activities of the Audit Committee

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

The terms of reference of the Audit Committee are available on the Group's website at:
https://www.stagecoach.com/terms-of-reference-audit-committee

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 27 April 2019.

5.4.1 Financial Reporting

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

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 27 April 2019, of which it considered the most significant to be those set out in the table on the following pages.

In addition to the significant accounting judgements set out in the table, the Committee also considered other accounting and reporting matters in respect of the year ended 27 April 2019, including the following:

- Exceptional items – The Committee considered the appropriateness of the amounts disclosed as exceptional items in the financial statements and the adequacy of the disclosure related to such items. The Committee is satisfied that the Group's approach is appropriate in this area.
- Rail franchise opportunities – Reflecting the imminent expiry of the Group's existing UK rail franchise interests, the Committee considered whether any actual or anticipated changes in contractual claims against third parties and the commercial terms or duration of rail franchises resulted in any changes in accounting estimates. The Committee also considered the accounting for any costs incurred in pursuing rail franchise opportunities. The Committee concluded that the accounting estimates in the consolidated financial statements had been appropriately updated for such franchise changes and that any costs incurred in pursuing rail franchise opportunities had been appropriately expensed.
- New accounting standards – The Committee received updates over the course of the year in relation to the implementation of new accounting standards IFRS 9 and IFRS 15, in addition to the impact assessment of implementing IFRS 16.

The Audit Committee also reviewed the evidence that supported the conclusions that the Group remains a going concern and that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 April 2022, noting it was consistent with the disclosure given in section 3.11 of this Annual Report. The Committee reviewed and challenged management on its modelling and scenario analysis, reflecting the reduction in the scale of the Group arising from the disposal of the North America Division.

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
CURRENT YEAR ISSUES			
North America impairment review			
The financial performance of the North America Division has been less favourable than was assumed in estimating its value in use as at 28 April 2018. Recognising the increasingly competitive market environment, and the associated financial impact, we considered it appropriate to revise our view on the long-term profitability of the Division. As a result of the revised forecasts and assumptions, an £86.2m impairment of North America goodwill was calculated to reduce the carrying value of the relevant assets to the estimated value in use of the cash generating unit.	The Committee considered and challenged the methodology and assumptions used by management in estimating the value in use of the non-current assets of the North America Division. The Committee considered sensitivity analysis undertaken on those assumptions. The Committee also considered third party evidence relevant to assessing whether the carrying value of the assets was impaired. The Committee agreed with management that the carrying value of the North America non-current assets was impaired and concluded there should be an impairment charge of £86.2m.	A non-cash impairment of the North America Division's goodwill of £86.2m was recognised, which we have presented as an exceptional charge.	5, 11
Disposal of North America			
The determination of the loss on disposal of the North America Division is dependent on the selection by the Directors of certain assumptions including those underpinning the valuation of the US$65m Deferred Payment Instrument, which formed part of the consideration for the sale. The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include the valuation of the Deferred Payment Instrument.	The Committee reviewed the treatment of the North America Division as discontinued operations and considered the calculation of the loss on disposal. In particular, the Committee challenged the valuation of the Deferred Payment Instrument as part of the transaction. The Committee noted that there was a range of acceptable estimates for the valuation and after challenge, concluded that the valuation of £22.3m recorded was at an appropriate point within that range.	A pre-tax loss on disposal of £23.8m was recognised, which we have presented as an exceptional item.	1, 5
Rail contractual positions			
The Group's current and former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. These include arrangements with the Department for Transport, Network Rail, Transport for London and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements. The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include rail contractual positions	The Committee considered the work undertaken by the auditors in relation to rail contractual positions, including the extent to which balances had been validated with the relevant counterparties. The Committee agreed that management's estimates of contractual receivables and payables in relation to current and former train operating companies were appropriate.	As at 27 April 2019, the UK Rail net liabilities shown in note 2(d) were £157.0m (2018: £234.6m). The Directors estimate that these could require adjustment by up to £10.0m in the year ending 2 May 2020, as a result of the reassessment of rail contractual positions.	1

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
RECURRING AGENDA ISSUES			
Pensions assumptions			
The determination of the Group's pension benefit obligation and expense for bus and rail defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and life expectancies. Pensions assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, comparing these assumptions to those applied by other companies operating in the same sector as the Group as well as by companies more generally, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there was a range of acceptable assumptions but concluded that the assumptions applied were appropriate. The Committee in particular focused on the assumptions underpinning the calculations of the past service cost in respect of the equalisation of guaranteed minimum pension benefits.	The total pensions expense recognised in the consolidated income statement for the year ended 27 April 2019 was £96.3m (2018: £90.6m) and the net retirement benefit liability as at 27 April 2019 was £197.7m (2018: £142.2m). In note 24 to the consolidated financial statements, analysis is provided that shows the sensitivity of pension amounts to changes in key assumptions.	1, 7, 24
Insurance provisions			
The estimation of the insurance provision in respect of traffic accidents and employee incidents is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. Insurance provision assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee discussed with management the key judgements made in determining the insurance provision, challenging the methodology used, and understanding the extent to which estimates are supported by third party actuarial advice and analysis provided by the external auditors. The Committee noted that there was a range of acceptable estimates for the year-end insurance provision and after challenge, concluded that the amount of the insurance provision was at an appropriate point within that range	The insurance provision in the consolidated balance sheet as at 27 April 2019 was £97.0m (2018: £153.8m), with the significant reduction from last year reflecting the disposal of the North America Division.	1, 5,23
Uncertain tax positions			
Estimation of the tax charge requires an assessment to be made of the potential tax consequences of certain items that will only be resolved when agreed by the relevant tax authorities. Uncertain tax positions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee considered the judgements made in respect of tax by reviewing reports from management outlining the basis of the assumptions, challenging the estimates formed and considering the extent to which third party professional advice and/or historical experience informed the judgements. The Committee met with the Group's Tax Director, the Group Tax Manager and a tax specialist from the external auditors in April 2019. The specific tax accounting judgements considered by the Committee included tax losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas (i.e. non-UK) operations and losses incurred by overseas operations in the ordinary course of business. The Committee concluded that appropriate judgements had been made in determining the tax amounts recorded in the financial statements.	The consolidated tax credit on continuing operations for the year ended 27 April 2019 was £0.5m (2018: £29.5m charge). The net consolidated tax liability as at 27 April 2019 was £32.9m (2018: £67.0m). Further information on uncertain tax estimates is provided in section 1.6.4 of this Annual Report.	1, 8, 22

5.4.2 External auditors

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

The external auditors presented a detailed audit plan to the Committee, setting out their analysis of significant audit risks and key judgemental accounting matters, which would inform their planned scope and approach to the current year audit. For the year ended 27 April 2019, the most significant risks identified were in relation to provisioning for insurance claims, carrying value of goodwill and intangibles, valuation of pension liabilities, rail contractual positions and uncertain tax positions, based on the inherent level of management judgement required in these areas. These risks are monitored through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates.

Private meetings were held with the external auditors at each Committee meeting without the presence of management. The Committee Chairman also holds discussions with the external auditors between Committee meetings.

The Audit Committee is responsible for agreeing the audit engagement letter, agreeing the scope of the audit, appointing the audit partner and making recommendations on the appointment, reappointment and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

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

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

The Committee formally assesses the effectiveness of the external audit process on an annual basis in the context of the wider assurance processes across the Group. As well as undertaking its own assessment of the audit effectiveness, the Committee also considers the views of a number of finance managers from various parts of the Group. The auditor assessment questionnaire is completed on an annual basis and examines three main performance criteria – robustness of the audit process, quality of delivery and quality of people and service. This assessment also includes consideration of the auditors' independence and objectivity, taking into account relevant laws, regulations and professional requirements. The assessment involves considering all relationships between the Group and the auditors, including the nature and quantum of non-audit services. Assurances are obtained from the auditors that they and their staff have no financial, business, employment, family or other personal relationship with the Group that could affect the auditors' independence and objectivity, taking account of relevant ethical standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements.

Having completed the assessment of both the external audit process and the external auditor for the year ended 27 April 2019, a resolution to reappoint Ernst & Young as the Group's auditor will be put to the forthcoming Annual General Meeting.

5.4.3 Non-Audit services

Procedures in respect of other services provided by the auditors are in place to safeguard audit objectivity and independence. The Group's policies on non-audit services are set by the Audit Committee and are currently:

- General – The auditors are not permitted to provide any non-audit services that they would be prohibited by law from providing due to either the nature of the services or the level of the fee for the services.
- Audit related services – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to any legal restrictions.
- Tax consulting – It is the Group's policy not to use the auditors for tax consulting work.
- General consulting – For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken and subject to any legal restrictions.
- The auditors are only permitted to provide non-audit services to the Group when the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest that could not be effectively safeguarded

In addition to the audit fee, the external auditor received non-audit related fees of £0.4m (2018: £0.1m), which equate to 39.9% (2018: 7.7%) of the audit fee and further details of which can be found in note 3 to the consolidated financial statements. The increase in non-audit fees from the prior year related principally to additional assurance services regarding the Group's disposal of the North America Division.

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

5.4.4 Internal auditors

PricewaterhouseCoopers has managed the outsourced Risk Assurance Function (internal audit) since September 2016. The Committee has received several reports from PricewaterhouseCoopers, detailing the planned schedule of audits as well as tracking key findings and any related material actions to address unsatisfactory results. PricewaterhouseCoopers attended all meetings of the Committee, in addition to meeting privately with the Committee without the presence of management. The Audit Committee reviews the internal audit plan at least annually and considers whether it is aligned to the key risks of the Group. The Committee also has the responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function. There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Committee formally assesses the effectiveness of the Risk Assurance Function on an annual basis and seeks to satisfy itself that the quality, expertise and experience of the function is appropriate for the Group. This assessment involves both Audit Committee members and members of the management team completing a questionnaire with the results of that exercise then considered by the Committee. This assessment includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

5.4.5 Code of Conduct and Whistleblowing Policy

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

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were material.

5.4.6 Other activities

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

- A presentation was received from the Group Tax Director and the Group Tax Manager on the Group's tax affairs and related accounting judgements and risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance. In particular, the Committee received a detailed briefing on the Kingman Review of the Financial Reporting Council ("FRC") and the Competition and Market Authority Market Study on statutory audit services, and how the recommendations would likely impact the Committee.
- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture. The Group's Finance Director is Chairman of the Virgin Rail Group Audit Committee

5.4.7 Fair, Balanced and Understandable

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

In advising the Board, the Audit Committee noted that:

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

The Audit Committee's assessment considered whether:

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

The Audit Committee also noted the established internal control and risk management systems in relation to the process for preparing consolidated financial statements, including those matters detailed in section 4.14 of this Annual Report.

5.5 Viability statement

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

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

A draft of the viability statement was presented to the Audit Committee and Board in June 2019 for review and finalisation.

5.6 Committee evaluation

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

6. Nomination Committee report

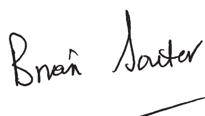
6.1 Introduction from Sir Brian Souter, Stagecoach Group Chairman and Chairman of the Nomination Committee

The Nomination Committee has an important place in the governance structure of the Stagecoach Group. An effective board needs to maintain balance over time, taking account of planned and unplanned changes to membership and the changing needs of the business. As Chairman of the Committee, I ensure that we regularly review our Board composition and ensure that the mix of skills available is appropriate. We are aware that talented individuals can come from diverse backgrounds and we aim to promote diversity in the recommendations that we make to the Board. The Stagecoach Group aims to identify and break down barriers to candidates from diverse backgrounds throughout the business and ensure that its talent pipeline reflects the diversity of the population.

Julie Southern stepped down from the Board at the end of the 2018 Annual General Meeting and we thank her for her contribution to the Board over the last two years.

Dame Jayne-Anne Gadhia, Non-Executive Director, has indicated that she will be stepping down from the Board on 31 July 2019. On behalf of the Board, I thank Dame Jayne-Anne Gadhia, Non-Executive Director, for the contribution she has made to the Company.

We have reviewed the performance and length of service of our executive and non-executive directors and are pleased to be able to recommend all of the other Directors for re-election at the 2019 Annual General Meeting.



Sir Brian Souter
Chairman of the Nomination Committee

26 June 2019

6.2 Composition of the Nomination Committee

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

6.3 Operation of the Nomination Committee

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

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

The search for candidates for non-executive directors is undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company. Dame Jayne-Anne Gadhia was known to certain members of the Board and was viewed as a strong candidate for the role. No recruitment consultant was involved in the process. Board members were invited to propose alternative candidates. Her appointment was made by the whole Board following a recommendation of the Nomination Committee.

Non-executive directors receive a letter of appointment. For any new appointments, the expected time commitment is agreed with the director and included in the letter of appointment. No director of the Company is currently a chairman of a FTSE 100 company.

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

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

6.4 Board diversity

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

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

We consider that our policy in respect of Board diversity has remained effective during the financial year ended 27 April 2019. In recent years, we have widened the range of skills and backgrounds that the Directors have by adding directors with greater expertise in digital, technology and marketing. We have also increased the percentage of women on the Board. The Company was co-founded by Dame Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and for almost all of the time since May 2001, at least two. There are currently eleven directors of the Company, of whom three are women. Women constitute 27% of the full Board and 38% of the Non-Executive Directors (excluding the Chairman).

The Board has previously set its aspiration for female representation on the Board at 25%. As part of reviewing future Board composition, we are reviewing that aspiration. In addition to board diversity, the Company believes in promoting diversity at all levels of the organisation, further details of which is provided in section 1.8.5 of the Strategic report.

6.5 Succession planning arrangements

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

The Nomination Committee aims to ensure that appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seek to identify new directors and senior managers to ensure succession of directors is conducted in a managed way, without significant disruption to the ongoing business of the Group. The Committee believes that it is important to develop and promote existing talent from within the organisation.

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

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

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

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

7. Health, Safety and Environmental Committee report

7.1 Introduction from Ray O'Toole, Chairman of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee assists the Board to fulfil its responsibilities by recommending Group policy in these areas and monitoring compliance with the Group policy. As the Chairman of the Committee, I am determined to ensure that the Committee challenges the Group management team to further strengthen its safety management processes over time.

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

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

During the year, our operating company, Midland Red (South) Limited, was found liable for safety failings that led to the tragic deaths in October 2015 of Rowan Fitzgerald and Dora Hancox. We are deeply sorry to everyone affected, particularly the families of Rowan Fitzgerald and Dora Hancox.

As a Committee we have sought to understand the failings in our operating company and to ensure that the lessons are learned both within that company and across the UK Bus division.

The UK Bus Divisions carried out a comprehensive review of all of their policies and has made several key changes. The Divisions have in place a significantly more robust safety regime than is required by law, including more frequent medical testing and a pre-medical review for older drivers, with appropriate checks being carried out every six months rather than on a statutory annual basis.

Stronger measures have been implemented to control working hours and improve communications with our operational teams. Additional training has been provided to UK Bus' drivers and the business has strengthened the application of its accident reduction processes.

The Committee supports a review of how current age discrimination law impacts specific roles with key safety considerations. This includes whether there should be a statutory maximum legal age limit for drivers of buses and other heavy vehicles. The Group is working with industry partners to establish a consistent approach by government on these issues.

Ray O'Toole
Chairman of the Health, Safety and Environmental Committee
26 June 2019

7.2 Composition of the Health, Safety and Environmental Committee

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

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at: https://www.stagecoach.com/HSE-terms-of-reference

7.3 Operation of the Health, Safety and Environmental Committee

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

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. Senior managers from each of the Group's key divisions attend meetings of the Committee, providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters and to share best practice across the Group. As incidents occur, the Committee, aided by the safety management teams, is able to analyse those incidents and learn lessons to further improve the Group's safety processes.

The Committee and its members visit operational locations to observe health, safety and environmental management in practice.

The November 2018 meeting of the Committee was held at the UK Bus (London) West Ham depot. A number of members of the management team presented information on initiatives being rolled out in the depot and more widely across the London and Regional bus operations. This included areas of focus such as improving the safety culture and driver performance management. The attendees included representatives from each of the Group's divisions, enabling best practice to be shared across the Group.

The Committee allocates time in its agendas to receive detailed briefings on areas of specific interest or concern to it. During the year, presentations were received on a range of topics, including:

- Briefing on the outcome of investigations into the fatal incident in 2015 involving Midland Red (South) Limited and the lessons learned from those investigations
- The planning for the launch of the Sheffield Supertram Tram/Train project
- Leadership training in North America
- Driver fatigue risk management
- Safety risk analysis

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

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

8. Directors' remuneration report

8.1 A statement to shareholders from Ray O'Toole, Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 27 April 2019. I joined the Stagecoach Board in September 2016. I bring over five years' relevant experience from serving on the remuneration committee of a major utility company, including a period as the committee Chairman from 2015 to 2017, and I assumed the chairmanship of the Stagecoach Group Remuneration Committee following the 2018 Annual General Meeting. I would like to thank my predecessor, Julie Southern, for her chairmanship of the Committee. The report includes a tabular summary of the Directors' remuneration policy (as approved at the Annual General Meeting on 25 August 2017, the "Policy"), and the Annual Report on Remuneration. A complete copy of the approved remuneration policy is available on our website at:

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

In line with UK legislation, we do not intend to seek further approval of the Policy at the 2019 Annual General Meeting because no changes are proposed to the approved Policy.

Our remuneration Policy was designed with the long-term success of the Company in mind. We believe our remuneration arrangements should provide a clear alignment between the long-term interests of our shareholders and the corporate strategy to be implemented by the executive management. We also consider it is important that the components of remuneration are consistently applied over the term of the Policy approved by shareholders, are easily understood and that overall remuneration is not excessive. The principles applied to our approach to executive pay and remuneration have, therefore, remained unchanged during 2018/19.

Activities of the Remuneration Committee

The main tasks and decisions of the Committee during the year ended 27 April 2019 were:

- Reviewed the performance and approved the Executive Directors' bonuses for the year ended 28 April 2018. Despite achievement of financial targets and personal objectives, no bonus was paid to the Chief Executive and all of the bonus awarded to the Finance Director for 2017/18 was satisfied with an award of Deferred Shares (no cash element was paid).
- Set annual performance targets for the Executive Directors' bonuses for the year ended 27 April 2019.
- Reviewed the performance targets of the 2015 awards under the LTIP, in June and December 2018, and in each case nil amounts were payable on vesting.
- Reviewed and approved targets for LTIP awards made in the year ended 27 April 2019.
- Reviewed and approved the vesting of 2015 Deferred Shares awards under the Executive Participation Plan ("EPP") in June and December 2018.
- Decided on levels of pay and benefits in the annual salary review for the Executive Directors and made recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman, which for all Board members resulted in a consecutive annual pay freeze on basic pay for 2019/20.
- Reviewed the remuneration for senior non-Board managers.
- Obtained shareholder approval in the advisory vote at the 2018 Annual General Meeting for the Directors' remuneration report.
- Considered the implications of the Financial Reporting Council's revised UK Corporate Governance Code (the "New Code"), which applies for our year ending 2 May 2020.
- Recommended changes to the Board on the terms of reference of the Committee to reflect the requirements of the New Code.

Remuneration for 2018/19

I am satisfied that the remuneration for the year to 27 April 2019 has been applied in accordance with the Policy, properly reflects the performance for the period and that remuneration is not excessive. I also note that during the year, both Executive Directors again increased their holding in the number of shares they own of the Company, and that there continues to be a strong alignment of the interests of directors, senior managers and shareholders.

The maximum annual bonus potential permitted under the policy is limited to 150% of basic pay in any year. For the 2018/19 year, this was capped at 130% of basic pay, comprised of up to 100% of basic pay that can be earned in respect of the Group's financial performance over the period, and a maximum of 30% on each director's individual business related (i.e. 'personal') objectives. As required by the Policy, the financial performance conditions for the directors' objectives for the 2018/19 year included stretched targets and a sliding scale to encourage out-performance. Applying the sliding scale approach under the Policy, the total 'on-target' payout for 2018/19 was set at 97.5% of basic pay, of which 67.5% could be earned by meeting the key financial targets.

For 2018/19, the setting of challenging financial targets for annual bonuses was also accompanied by a freeze on basic pay for all directors for the year.

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

The Group exceeded its expectations of adjusted earnings per share for the year ended 27 April 2019, and made substantial progress in the refocussing of the Group around its core UK Bus businesses. We completed the successful disposal of our North American business in April 2019, and continued to make good contractual progress in the handover of the two expired rail franchises. Further, good profitability was achieved for shareholders from the good stewardship of the East Midlands Trains and Virgin Trains West Coast rail franchises.

As mentioned elsewhere in this Annual Report, the disqualification by the Department for Transport of three bids we were involved in for new rail franchises was disappointing. However, the Board remains satisfied with the strong governance and risk control processes used, and holds firm with the view that it will not accept exogenous risks for the Group that it cannot reasonably manage or influence. The Board accepted that there are times when its responsibility is to not enter into contracts, when to do so would import unmanageable and significant risks to the Group for shareholders.

We continue to manage the business with its long-term success in mind and that approach is reflected in the continued investment both in assets of the business and in the development of our people during the year, and our remuneration arrangements are aligned with that approach. As a Committee, we look to maintain remuneration arrangements that balance meeting short-term financial objectives and which also support investment in the Group's long-term success. It is important to recognise that the businesses have performed well during the year, and also that the Executive Directors have delivered on a range of non-financial personal objectives to support the strategy and future growth of the business.

Financial objectives

The consolidated profit before interest and taxation ("PBIT") from Group companies was ahead of the target level set at the start of the year, and just exceeded the maximum level for bonus purposes. Accordingly, out of the potential maximum of 33.4% of basic salary that the Executive Directors could have earned as an annual bonus based on this measure, 33.4% of basic salary was awarded. Performance against the target for consolidated adjusted earnings per share ("EPS") was also ahead of target and meeting the threshold required for a maximum payout meriting an award of 33.3% of basic salary. Even before the positive impact on net debt from the sale of our North American business, net debt was also better than the target required for maximum bonus, meriting an award of 33.3%% of basic salary. Consequently, the financial performance supports a pay-out at the maximum amount for the financial element of the bonus assessment for the year ended 27 April 2019.

Personal business related objectives

Details of the objectives and the Committee's assessment of the performance against the personal objectives are provided in Tables 5 and 6 later in this report. In summary, the Committee determined that Martin Griffiths achieved all five of the personal, non-financial objectives that we set for him for the year. That would entitle him to a bonus amount of 30% of basic salary from a potential 30% in respect of his personal, non-financial objectives.

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

Overall assessment

Taking the financial and personal objectives together, based on the performance relative to the objectives set for the year, the Committee considered therefore that a bonus of 100% of the maximum available for the year would be payable and is representative of the performance for the year for both Martin Griffiths and Ross Paterson.

For each director, in accordance with the Policy, half of any bonus award will be paid in cash and the other half by an award of Deferred Shares under the EPP.

The Committee remains focused in ensuring that there is a clear linkage between pay and performance and that there is a strong alignment of interests of managers, shareholders and other major stakeholders through an appropriate mixture of pay, incentives and the use of shareholding guidelines for the Executive Directors. Both executive directors hold meaningful levels of shareholdings in the Company and made further investment in the shares of the Company during the year, and have indicated their intention to do so again over 2019/20. We believe directors' shareholdings are important for retaining the alignment that exists when directors are shareholders, as well as managers of the business.

New Corporate Governance Code

The Board and the Committee have reviewed the implications of the New Code, which first applies for Company's financial year ending 2 May 2020. The Committee is supportive of the changes in the New Code, noting the encouragement in placing a stronger emphasis on engagement, culture, diversity and inclusion. The Group welcomes the opportunity to further enhance employee engagement, and is establishing a Workforce Advisory Panel to meet over 2019/20 which will involve a diverse range of employees from different parts of the business with differing roles and aspects to be considered. The Group also engages with employees in a number of ways, including working with trade unions on a range of issues, communication through the employee publications and with pension groups. We intend to continue with all these various communication channels.

We are required to submit our remuneration policy for approval at our 2020 Annual General Meeting. Ahead of that, the Committee is reviewing the remuneration policy in light of the change in the business following the sale of our overseas interests and the expected exit from UK rail franchising. In the meantime, the Committee is cognisant of evolving investor views and changes to the New Code. In order to align our practice with these latest developments, the Committee has agreed to make a number of changes to the executive remuneration framework effective for 2019/20:

- Introduction of a holding period – for all LTIP awards granted to executive directors and senior managers in 2019/20, an additional two-year holding period will apply following the completion of the performance period. This extends the total time horizon to a period of five years.
- Reduction in pension for future hires – for future external executive director appointments, pension benefits or contributions will be aligned with what is available across the workforce. The Group has a wide range of pension arrangements for employees and the Committee is mindful of expectations that director pension arrangements should be aligned over time with what is available to the workforce. In developing the remuneration policy to be considered at the 2020 Annual General Meeting, the Committee will be considering the treatment of executive director pension arrangements taking into account broader workforce pensions arrangements, existing contractual obligations, and arrangements for any new director appointments.

In addition, the Committee will introduce a post-employment shareholding policy to reflect the recommendation in the New Code and shareholder expectations.

The Committee considers that the introduction of these changes will strengthen the alignment of the executives with the interests of our other stakeholders, and the Committee looks forward to fully engaging and consulting with shareholders as it reviews and develops the remuneration policy for renewal at the 2020 Annual General Meeting.

We are grateful for the work undertaken by the Group and our remuneration advisers and for the support we have received from our major shareholders and investor representative bodies. We continue to value shareholders' views on our remuneration arrangements and I can be contacted via the Company Secretary should any shareholder wish to meet or discuss this report with me before the Group's Annual General Meeting on 30 August 2019.

At the Group's 2019 Annual General Meeting, shareholders will be invited to approve this statement and the Annual Report on Remuneration together in an advisory vote.

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

Ray O'Toole
Chairman of the Remuneration Committee

26 June 2019

8.2 Compliance statement

This Directors' remuneration report covers the year from 29 April 2018 to 27 April 2019 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration.

This report has been prepared in accordance with the Large & Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the 2013 Regulations"). In accordance with Sections 439 and 439A of the Companies Act 2006, an advisory ordinary resolution to approve the statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration will be proposed at the 2019 Annual General Meeting.

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

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

8.3 Remuneration Committee

During the year ended 27 April 2019, the Committee's principal function was to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages and service contracts for the Group's Executive Directors and such senior members of the executive management as it is asked by the Board to consider. The Committee was also responsible for making recommendations to the Board in respect of the remuneration of the Chairman and Deputy Chairman.

With effect for financial year 2019/20 the terms of reference of the Committee were amended to provide that the Committee has the delegated responsibility from the Board for determining the policy and setting of remuneration for the Executive Directors, senior executives, the Chairman and Deputy Chairman of the Board.

The terms of reference of the Committee are available on our website at: https://www.stagecoach.com/Terms-of-reference-of-the-Remuneration-Committee

8.4 Directors' remuneration policy

This section of the report sets out the tabular summary of the remuneration policy for executive directors and non-executive directors. The full policy was approved by a binding shareholder vote at the Company's Annual General Meeting on 25 August 2017 and took effect from that date. A complete copy of the approved remuneration policy is available on the Company's website at:
http://www.stagecoach.com/directors-remuneration-policy

8.4.1 Key principles of the remuneration policy

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

The Committee believes that remuneration packages for the Executive Directors should contain meaningful and effective performance-related elements, and that the performance-related elements should be designed to align the interests of the Executive Directors and other senior managers with the interests of shareholders.

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

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

We also consult our major shareholders in developing remuneration policy.

8.4.2 Remuneration policy table for the Executive Directors

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

8.4.2.1 Fixed elements of pay

BASIC SALARY

Purpose and link to strategy objectives

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

Operation

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

Maximum value

Basic salary increases are applied in line with the outcome of the annual review.

An executive director's annual basic salary may not exceed £850,000. The Committee would only set a salary which exceeded the top quartile of salaries applicable in FTSE 250 companies in unforeseen and exceptional circumstances.

Performance metrics

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

Salary levels set effective from 1 May 2019 are set out in section 8.5.13.1.1 of the Annual Report on Remuneration

PENSIONS AND LIFE ASSURANCE ARRANGEMENTS

Purpose and link to strategy objectives

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

Operation

Pension arrangements for executive directors are designed to provide pension benefits on retirement of up to two thirds of final pensionable pay and may be met through a combination of defined benefit pension arrangements, money purchase or cash allowances. Her Majesty's Revenue and Customs ("HMRC") and pension scheme rules provide that defined benefit pension benefits may not be drawn before age 55.

Freedom and Choice regulations introduced by the United Kingdom Government in 2015 have impacted the flexibility for pension scheme members in transferring benefits out of pension schemes. Consistent with arrangements for other members of the relevant pension schemes, accrued defined benefits pensions may be transferred out to the beneficiary in accordance with the transfer arrangements established by the trustees or in the case of the Company funded arrangements, at the amount accrued in the Group accounts in respect of such benefits at the point of transfer.

Maximum value

Final salary elements are related to basic salary and length of service, and any payment to a money-purchase arrangement or an employer cash allowance would be limited to a third of basic salary.

Performance metrics

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

BENEFITS IN KIND AND OTHER ALLOWANCES

Purpose and link to strategy objectives

Designed to be competitive in the market.

Operation

Benefits in kind and other allowances can include:

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

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

Maximum value

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

Participation in the BAYE scheme is subject to HMRC limits.

Performance metrics

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

8.4.2.2 Variable pay

PERFORMANCE-RELATED ANNUAL CASH BONUSES

Purpose and link to strategy objectives

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

Operation

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

In accordance with the rules of the Executive Participation Plan ("the EPP"), at least 50% of any actual bonus will be deferred as shares.

Claw-back and malus provisions will apply to the cash and deferred elements of the annual bonus.

Maximum value

The potential annual bonus that can be earned by an executive director in respect of any financial year may never exceed 150% of basic salary. The maximum annual bonus would be set each year within a range of 100% to 150% of basic salary, of which no more than 50% of any actual bonus award in the year will be settled in cash.

Performance metrics

The performance conditions for the annual bonus awards are subject to a combination of financial objectives and individual business related objectives.

Around the start of each financial year, the Committee will determine one or more financial measures that will apply for bonus purposes for that year. The Committee will also determine the maximum potential bonus amount (expressed as a percentage of basic salary) that an executive director will have the ability to earn in respect of each financial measure.

8.4.2.2 Variable pay (continued)

PERFORMANCE-RELATED ANNUAL CASH BONUSES (continued)

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

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

For each financial measure:

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

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

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

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

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

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

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

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

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

Further details of the performance measures used for the 2019 bonus are set out in the Annual Report on Remuneration in section 8.5.3 (iii).

8.4.2.2 Variable pay (continued)

LONG TERM INCENTIVE PLAN ("LTIP")

Purpose and link to strategy objectives

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

Operation

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

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

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

Maximum value

The maximum awards granted in relation to any financial year for an individual is limited to Incentive Units with an aggregate face value at the time of award, not exceeding 150% of basic salary. The actual value of the awards at vesting will reflect the face value of the Incentive Units at the time of award but also subsequent movements in the Company's share price, dividends paid by the Company and actual performance relative to the performance metrics.

Performance metrics

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

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

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

TSR is calculated as the movement in share value after taking account of re-invested dividends. TSR is measured relative to an appropriate comparator group of FTSE 250 companies or other peer grouping of companies in the public transport industry.

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

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

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

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

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

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

The performance conditions are tested over a three-year period, being the three years commencing on or around the 1 May or 1 November immediately preceding the date of the relevant award.

8.4.2.2 Variable pay (continued)

EXECUTIVE PARTICIPATION PLAN ("EPP")

Purpose and link to strategy objectives

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

It is also designed to provide an incentive for managers to remain with the Group.

Operation

Participants are awarded Deferred Shares (with a minimum 3 year vesting period), which can be issued as either a conditional award or a nil-cost option, with an initial market value approximately equal to the amount of the actual cash bonus forgone.

Unvested awards are subject to malus.

Maximum value

At least 50% of any actual bonus earned in the year will be deferred as shares under the EPP. By agreement with the Remuneration Committee, more than 50% may be deferred.

Additional shares are allocated in respect of dividends payable during the relevant period.

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

Performance metrics

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

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

The Committee is satisfied that the remuneration policy is in the best interests of shareholders and does not promote excessive risk taking. As part of the Directors' remuneration policy, the Committee reserves the right to make minor amendments to the policies set out for regulatory, exchange control, administrative or tax purposes.

8.4.3 Remuneration policy table for the Non-Executive Directors

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

BASIC SALARY/FEES

Purpose and link to strategy objectives

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

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

Operation

Fee levels for non-executive directors are generally reviewed by the Board annually with any adjustments effective 1 May in the year following review although there is discretion to adjust them at other times of the year. Account is taken of individual responsibilities, involvement in Board committees and fees for similar roles in comparable companies.

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

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

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

Maximum value

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

Non-Executive Directors' fees are subject to an aggregate maximum cap which is stated in the Company's Articles of Association. Following shareholder approval at the 2017 Annual General Meeting, that cap was set at £1,200,000 and may subsequently be further adjusted by an ordinary resolution of the Company. That cap, as adjusted from time-to-time, is the only limit in place that acts as setting a maximum value for fees payable to non-executive directors.

Performance metrics

Continued good performance.

8.4.4 Employment conditions across the Group

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

8.4.5 Consideration of shareholder views

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

8.4.6 External appointments

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

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 27 April 2019.

8.5.1 Committee members

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

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

The members who served on the Committee during the year ended 27 April 2019 were:

- Ray O'Toole (Chair), appointed 31 August 2018
- Julie Southern (formerly Chair), until 31 August 2018
- Gregor Alexander
- James Bilefield
- Dame Jayne-Anne Gadhia (from 1 March 2019).

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

8.5.2 Advisers

The Committee retained Osborne Clarke LLP as its remuneration consultant to provide access to independent research and advice. It has no other connection to the Group. £15,674 (2018: £12,697) was payable to Osborne Clarke LLP in respect of work it carried out in the year ended 27 April 2019. The fees payable were determined by Osborne Clarke LLP with reference to time spent and applicable hourly rates. We do not consider the level of fees paid or the nature of the work performed would prejudice the objectivity or independence of Osborne Clarke LLP.

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

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

Directors' remuneration and the single figure total for the year ended 27 April 2019 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

TABLE 1 – DIRECTORS' REMUNERATION	Basic Salary/Fees		Benefits in kind		Short-term Incentives (performance related bonus)		Long-term Incentives vested (LTIP)		Pension related benefits		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Executive directors												
Martin Griffiths	**652**	652	**24**	25	**848**	–	**–**	–	**279**	310	**1,803**	987
Ross Paterson	**435**	435	**23**	23	**565**	198	**–**	**–**	**197**	211	**1,220**	867
Non-executive directors												
Gregor Alexander	**61**	61	**–**	–	**–**	–	**–**	–	**–**	–	**61**	61
James Bilefield	**61**	61	**–**	–	**–**	–	**–**	–	**–**	–	**61**	61
Sir Ewan Brown	**53**	53	**–**	–	**–**	–	**–**	–	**–**	–	**53**	53
Dame Jayne-Anne Gadhia (appointed 1 March 2019)	**5**	–	**–**	–	**–**	–	**–**	–	**–**	–	**5**	–
Dame Ann Gloag	**56**	56	**–**	–	**–**	–	**–**	–	**–**	–	**56**	56
Ray O'Toole	**61**	61	**–**	–	**–**	–	**–**	–	**–**	–	**61**	61
Sir Brian Souter	**217**	217	**–**	–	**–**	–	**–**	–	**–**	–	**217**	217
Julie Southern (resigned 31 August 2018)	**20**	61	**–**	–	**–**	–	**–**	–	**–**	–	**20**	61
Karen Thomson	**61**	61	**–**	–	**–**	–	**–**	–	**–**	–	**61**	61
Will Whitehorn	**153**	153	**–**	–	**–**	–	**–**	–	**–**	–	**153**	153
Total	**1,835**	1,871	**47**	48	**1,413**	198	**–**	–	**476**	521	**3,771**	2,638

Notes to Table 1:

i. Basic Salary/fees

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

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

ii. Benefits in kind and other allowances

TABLE 2 – BENEFITS IN KIND AND OTHER ALLOWANCES	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
	2019 £	2018 £	**2019 £**	2018 £	**2019 £**	2018 £	**2019 £**	2018 £	**2019 £**	2018 £
Martin Griffiths	**22,000**	22,000	**1,084**	1,086	**886**	1,549	**226**	214	**24,196**	24,849
Ross Paterson	**22,000**	22,000	**1,084**	1,086	**–**	–	**226**	214	**23,310**	23,300
Sir Brian Souter	**–**	–	**–**	–	**304**	350	**–**	–	**304**	350

During the year, both Executive Directors participated in the Buy As You Earn ("BAYE") Plan. We believe that the BAYE plan aligns the interests of employees and shareholders by allowing all UK employees of the Group to purchase shares out of their salary. It is designed to aid staff motivation and retention. The maximum employee purchase is governed by HMRC limits and is currently £1,800 per annum. The Group provides two matching shares for every share purchased on the first £10 of each employee's monthly investment. The amounts shown in Table 2 are the values of such matching shares allocated to directors as at the dates of allocation. Additional shares are allocated in respect of dividends payable during the relevant period. Details of the shares held under the BAYE plan are shown in Table 13.

iii. Performance-related bonus

Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Committee determines the annual bonus for each executive director for the year just ended. This is based on the director's performance in achieving the set objectives. The objectives comprise both financial objectives for the Group and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 27 April 2019 were with respect to adjusted measures of profit before interest and taxation, earnings per share, and net debt.

For the year ended 27 April 2019, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 130% of basic salary, made up of 100% from a range of key financial objectives and 30% for meeting individual business related objectives. The Committee considered it was not necessary to exercise its discretion during the year to increase or decrease the level of bonus earned by the directors, and the bonus awards have therefore been determined with reference to the performance against the objectives set at the start of the year. As a result the maximum potential awards and the performance-related assessment in respect of the year ended 27 April 2019 are summarised in Table 3:

TABLE 3 – EXECUTIVE DIRECTORS' ANNUAL BONUSES FOR THE YEAR ENDED 27 APRIL 2019	**Chief Executive**		**Finance Director**	
	Maximum bonus (% of basic salary)	Performance Related Assessment (% of basic salary)	Maximum bonus (% of basic salary)	Performance Related Assessment (% of basic salary)
Annual bonus in respect of financial objectives – See Table 4	100%	100%	100%	100%
Annual bonus in respect of personal objectives – See Tables 5 and 6	30%	30%	30%	30%
Performance related assessment 2018/19	**130%**	**130%**	**130%**	**130%**
Bonus Awarded as a percentage of maximum available		**100%**		**100%**

Under the Policy, one-half of any bonus award will be paid in cash and the other half by an award of Deferred Shares under the EPP. Therefore, applying the bonus awards from Table 3, the Chief Executive would receive a cash bonus amount of £423,800 and an award of Deferred Shares of £423,800. The Finance Director would receive a cash bonus amount of £282,555 and an award of Deferred Shares of £282,555.

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

TABLE 4 – DIRECTORS' FINANCIAL OBJECTIVES Proportion of maximum potential bonus achievable:	Threshold 35%	Target 67.5%	Maximum 100%	Achieved	Maximum Potential Bonus (% of basic salary)	Level of Performance (% of basic salary)
Consolidated adjusted profit before interest and taxation ("PBIT") from Group companies	£127.8m	£142.0m	£156.2m	£158.2.m	33.4%	33.4%
Consolidated adjusted earnings per share ("EPS")	17.2p	19.1p	21.0p	21.4p	33.3%	33.3%
Consolidated net debt ("Net Debt")	£484.9m	£459.9m	£434.9m	£429.4.m	33.3%	33.3%
Element of bonus related to Group financial objectives					100.0%	100.0%

The PBIT and EPS measures shown above are determined in accordance with International Financial Reporting Standards but adjusted to exclude exceptional items. The PBIT measure also excludes any share of profit or loss from joint ventures. The Net Debt measure is determined in accordance with the definition of net debt given in note 34 to the consolidated financial statements, adjusted to exclude:

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

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

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

The Committee separately assessed the extent to which each executive director achieved the personal objectives that were set for them in respect of the year ended 27 April 2019.

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

The Executive Directors' personal objectives for the year ended 27 April 2019 and the Committee's assessment of the extent that they were met are summarised in Tables 5 (for Chief Executive) and 6 (for Finance Director).

TABLE 5 – CHIEF EXECUTIVE'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 27 APRIL 2019			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Leadership on health and safety performance across all business units.	The Committee consulted with the Health, Safety and Environmental Committee ("HSEC") in assessing the extent to which the Chief Executive's health and safety objective had been achieved. The HSEC noted that the Chief Executive continued to take a lead on health and safety matters, including the promotion and achievement of continual improvement in health and safety performance across all business units and the promotion of an appropriate safety culture, and reported on it at each meeting. The Chief Executive has continued to take a lead on HSEC matters attending all meetings during the financial year and ensuring that the HSEC was provided with detailed action reports and presentations from each division. Based on its interaction with the Chief Executive and its monitoring of health and safety performance indicators during the year, the HSEC noted it was satisfied that the Chief Executive had done all that could be expected of him and considered the objective to be met and the Remuneration Committee concurred with this assessment.	6.0%	6.0%
Pursuing value opportunities from rail where the balance between risk and reward is considered appropriate by the Board.	The Committee noted that the Group was involved with three substantial and credible rail franchise bids during the year. The discussions and deliberations at the Board meetings were well considered, and there was strong consensus that the Group should not be submitting bids to accept major risk that we cannot manage or influence and which if materialised would endanger the financial viability of the operation of the rail franchise. As such, while we are disappointed at the Department for Transport's decisions to disqualify the three bids, our disciplined governance processes supported a consistent approach across all three bids, and that was supported by our bidding partners where applicable. As such, the Committee considered that the objective was met.	6.0%	6.0%

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

TABLE 5 – CHIEF EXECUTIVE'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 27 APRIL 2019 (continued)			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Maximising value from the sale of the Group's North America Division, or securing new, profitable contract work in North America to support the growth of that business to the satisfaction of the Board.	We achieved the sale of the North American business, which completed on 16 April 2019 at a price and conditions to the satisfaction of the Board. The Committee considered that the objective was met.	6.0%	6.0%
The development of leadership and talent.	The Chief Executive leads the Group's approach on people development, talent pool progression, engagement and training, and during the year successfully drove forward a number of initiatives to improve employee engagement, enhance staff training, and develop the Group's talent and succession arrangements, including: • Investing in our people strategy through the development of the People Directorate to take forward our people agenda and ensure we have the best talent, capability and culture which is aligned with the longer term strategic direction. • Successfully holding our first coordinated Group-wide annual employee survey 'Tell Me', listening to the views of our people with a higher response rate than any of our previous employee surveys (71%). The overall engagement score was 70%. • Enabling aspiring bus drivers all around the country to fulfil their goal through the UK's first-ever Institute of Apprenticeships accredited Bus Driver Apprenticeship programme. • Recognising and rewarding our UK Bus people for their outstanding performance and behaviours through our new Stagecoach Star of the Month recognition scheme. • Improving communication with our diverse and mobile workforce with the introduction of a new employee communications app, Blink, and our new magazine, Focus, encouraging our people to share their stories and understand the huge part they play in our success. • Developing a new senior organisational structure to support the delivery of the business strategy. • Attracting our future leaders through a refreshed graduate experience, with a more creative, modern and welcoming approach to recruitment and on boarding, and growing our applications from 200 in the previous year to around 2,000 in the current year. • Creating a new leadership development programme to better equip and support our senior leaders to face the challenges and opportunities ahead. Taking account of the above and other factors, the Committee considered that the objective was met.	6.0%	6.0%

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

TABLE 5 – CHIEF EXECUTIVE'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 27 APRIL 2019 (continued)

Objectives Relating to:	Committee's assessment of the extent objective was met	Potential bonus (% of basic salary)	Bonus entitlement (% of basic salary)
Positive measures to support the corporate reputation of the Group and its reputation as an effective and efficient operator.	The Chief Executive spearheaded initiatives to assess and improve the good reputation of the Group. During the year, the Group worked with corporate reputation consultancy, ComRes, to research and obtain independent assessments of the Group's reputation amongst the general public, MPs and key stakeholders in the UK. A programme of regional stakeholder engagement has been put in place to maintain and drive further improvement in our reputation. This includes direct Stagecoach activity and also events with other partners (e.g. British Chambers of Commerce, Urban Mobility Partnership). Feedback from events held so far has been positive. Work with ComRes included a comprehensive survey of a representative sample of 2000+ members of the public, a representative sample of 150 MPs weighted by party and region and around 140 other key stakeholders (government, local authorities, industry, business, passenger groups, media, etc). The outputs from the research show that: • Stagecoach had the highest stakeholder favourability rating when compared with our transport peer group and our favourability was higher than most of our peers in the public survey. Stagecoach is middle ranking in terms of favourability amongst MPs. • Performance is overall highly rated in most areas by the other key stakeholders, while the public and MPs have more mixed views. • Similarly to the experiences of service use, the performance of Stagecoach bus services is more likely to be highly rated than the performance of rail services. • The research shows that awareness of the termination of the Virgin Trains East Coast franchise is unlikely to impact favourability towards Stagecoach and perceptions about its performance. During the year, Stagecoach was also rated one of Britain's top three most admired transport companies, according to the longest-running annual survey of corporate reputation in the UK. The Group was ranked 82 in the full survey out of around 250 businesses across 25 sectors. Under the peer review (by the independent, Echo Research) in the 2018 survey, Stagecoach was rated: - third out of all 250 companies for its ability to attract, develop and retain top talent. - first in the transport sector on the same measure. - the top transport company for its capacity to innovate. - second in the transport sector for global competitiveness. - one of the top three transport companies for the quality of products and services, community and environmental responsibility, and corporate governance. The Committee was satisfied with the findings and the work during the year on assessing and further improving the reputation of the Group, and it considered that the objective was met.	6.0%	6.0%
Percentage of basic salary earned in respect of personal objectives		30.0%	30.0%

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

TABLE 6 – FINANCE DIRECTOR'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 27 APRIL 2019			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Maintaining an investment grade credit rating.	The Finance Director is responsible for managing the relationships with the ratings agencies and for the overall financial management of the Group. The Committee considered this objective to have been met, noting that the parent company had held investment grade credit ratings throughout the year and up until the date of this report.	6.0%	6.0%
Ensuring the Stagecoach Pension Scheme remains appropriately funded with the long-term in mind.	Against the backdrop of a regulatory regime for pension funding that is increasingly challenging and complex, the Finance Director has nevertheless ensured that the Group has maintained what we would consider to be appropriate funding for the Stagecoach Pension Scheme, reflecting the strength of the underlying businesses, our strong returns on the pension scheme assets over the long-term and our long-term outlook on funding for the Scheme. We also took action to mitigate increases in future pension costs. The Committee therefore considered that the objective was met.	6.0%	6.0%
Overseeing the negotiations of (a) a potential new Direct Award franchise at Virgin Trains East Coast and (b) a potential transition of Virgin Trains East Coast to the Operator of Last Resort so that any further financial risk to Stagecoach Group was minimal.	While we did not achieve our preferred outcome of a potential new Direct Award franchise at Virgin Trains East Coast, the Finance Director ensured that the Group remained focused throughout in ensuring its interests in the negotiations of both of (a) a potential new Direct Award franchise at Virgin Trains East Coast and (b) a potential transition of Virgin Trains East Coast to the Operator of Last Resort were achieved without incurring further loss and at minimal further risk to the Group. The Finance Director also helped ensure that the interests of other stakeholders, such as customers, employees and creditors, were taken account of and took steps to avoid an insolvent outcome for the train operating company. The Finance Director ensured that the investors, analysts and lenders were kept appropriately updated on progress with Virgin Trains East Coast. The Committee considered that the objective was met.	6.0%	6.0%
Overseeing the activities of the technology team and the delivery of the 2018/19 digital and technology plan.	Under the direction of the Finance Director, the technology team has made good progress through 2018/19 with a strengthened management team. Notable achievements have been: • Efficiency. The team has delivered technology operating expenditure and capital expenditure for 2018/19, both below the budget for the year. • Security. Our information security team is now better resourced and structured than ever before. The team has made good progress on information security across a range of areas. • Employee engagement. A number of new, innovative, solutions to facilitate digital employee engagement have been developed and released. For example, during the year, we have rolled out a new employee engagement app called Blink. Blink implementation is now complete for UK Bus - 17,596 users signed up, of which 95% are active users. • The technology team have been active in our work on Demand Responsive Transport, Data Analytics (e.g. the work with City Swifter) and Mobility as a Service (e.g. the pilot with Whim in Oxford). • Customer service. We completed the roll out of contactless card payment technology across our UK bus fleet. That is the second largest transit contactless scheme in Europe. The BETA version of the updated UK Bus App was delivered to plan in January, with a focus on a clearer display of bus times, visual bus tracking and an enhanced user experience. The Committee was satisfied that the objective was met.	6.0%	6.0%

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

TABLE 6 – FINANCE DIRECTOR'S PERSONAL OBJECTIVES FOR THE YEAR ENDED 27 APRIL 2019 (continued)			
Objectives Relating to:	**Committee's assessment of the extent objective was met**	**Potential bonus (% of basic salary)**	**Bonus entitlement (% of basic salary)**
Supporting progress on key financial components of the UK Bus (regional operations) strategy presented to the Board in April 2018, to cover cost control, capital allocation and active cash flow management.	The Finance Director has ensured strong disciplines on cost control and capital allocation have been applied. The UK Bus (regional operations) Division reported a 2018/19 operating profit ahead of its budget for the year, and in the context of capital allocation, capital expenditure in 2018/19 has been within the parameters agreed with the Board. Improvements have been made in cash flow forecasting and management. The Committee was satisfied that the objective was met.	6.0%	6.0%
Percentage of basic salary earned in respect of personal objectives		30.0%	30.0%

iv. LTIP

No amount is shown in Table 1 in respect of the LTIP vestings for the year ended 27 April 2019. The December 2015 award achieved a ranking of 206 out of the 224 companies in the comparator group throughout the performance period, and so did not pay out. Similarly, no amount is included for the June 2016 awards as it is considered unlikely they will pay out.

TABLE 7 – LTIP AWARDS treated as vested for inclusion in Table 1 **Grant date**	As at 28 April 2018 (Incentive Units)	Dividends in year (Incentive Units)	Lapsed during year (Incentive Units)	As at 27 April 2019 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Vesting Date
Martin Griffiths						
10 Dec 15	176,187	4,382	(180,569)	–	–	10 Dec 18
30 Jun 16	240,857	11,627	–	252,484	–	30 Jun 19
					–	
Ross Paterson						
10 Dec 15	117,456	2,921	(120,377)	–	–	10 Dec 18
30 Jun 16	160,595	7,752	–	168,347	–	30 Jun 19
					–	

LTIP awards vested in June 2018

In the 2018 Annual Report an estimate of nil value was included in respect of the June 2015 LTIP awards, and it is confirmed that this was in accordance with the actual vesting as no payment was made on vesting in June 2018.

v. Pension related benefits

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

vi. External Appointments

Martin Griffiths is a non-executive director of AG Barr plc, and was permitted to retain the £58,292 fees received from this position in the year ended 27 April 2019 (2018: £57,148). Ross Paterson is a non-executive director of The Unite Group plc and was permitted to retain the £57,047 fees received from this position in the year ended 27 April 2019 (period from 21 September 2017 to 28 April 2018: £30,755).

8.5.4 Pensions (audited)

Under the legacy terms of their service agreements, the Executive Directors accrued benefits under defined benefit pension arrangements.

Historic benefits previously accrued under an HMRC approved pension scheme and included in Table 8 below were revalued only for inflation. Other than adjustments for inflation, no further benefits accrued under the HMRC approved Group defined benefit pension scheme during the year. The directors only accrued benefits in the year ended 27 April 2019 under Group funded pension arrangements. Pension benefits are targeted with a normal retirement age of 60 and in accordance with HMRC rules, accrued defined benefits may not be drawn before age 55.

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

TABLE 8 – DIRECTORS' PENSION BENEFITS	Normal Retirement date	Contributions paid by the director for the year ended 27 April 2019 £000	Accrued cash entitlement at 28 April 2018 £000	Accrued annual pension entitlement at 28 April 2018 £000	Accrued cash entitlement at 27 April 2019 £000	Accrued annual pension entitlement at 27 April 2019 £000
Martin Griffiths	31 March 2026	**59**	174	176	**178**	**197**
Ross Paterson	29 July 2031	**39**	142	102	**145**	**116**

The totals above include pension benefits accrued for service prior to appointment as a director of the Company. Directors' contributions to pension schemes as shown in Table 8 above are made by way of salary sacrifice arrangements.

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

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

Tables 9 and 11 set out the awards to the Executive Directors under the Company's share schemes during the year ended 27 April 2019.

TABLE 9 – LTIP AWARDS IN YEAR	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Incentive Units)	Expected total value at time of grant £	Face value at time of grant £	Vesting Date	Performance period (approximate)
Martin Griffiths								
7 Dec 18	Incentive Units	1.6360	150%	597,799	669,146	977,999	7 Dec 21	1 Nov 2018 - 31 Oct 2021
Ross Paterson								
7 Dec 18	Incentive Units	1.6360	150%	398,563	446,130	652,049	7 Dec 21	1 Nov 2018 - 31 Oct 2021

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

For 2018/19, given periods of corporate activity relating to the sale of the North America business, the first opportunity to grant the LTIP awards was in December 2018. As such, a single tranche of awards was granted at that time covering the usual June and December cycle of awards.

The face values shown above ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. The actual number of Incentive Units (if any) which vest will depend on the performance conditions being achieved. The awards granted are subject to two performance conditions. One half of the award is based on TSR, where the TSR over the performance period must exceed the median of the comparator group, which is the list of FTSE 250 companies over the period. The amount of units awarded which are released will range from 25% to 100% depending on the actual ranking achieved. A top quartile ranking is required to achieve a 100% release of units in respect of the TSR performance conditions. No units will vest for below threshold performance. The other half of each award is based on targets set for a measure of EPS over a three-year performance period to 2 November 2021. The threshold and upper performance targets for the awards over the three year performance period are as follows:

TABLE 10 – EPS PERFORMANCE CRITERIA Award date	Threshold	Maximum
07 Dec 18	15.8p	17.7p

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

TABLE 11 – EPP AWARDS IN YEAR Award date	Type of interest awarded	Share price at time of award £	Basis of award	Awards granted in year (Deferred Shares)	Maximum and expected total value of award at time of grant £	Vesting Date	Performance period
Ross Paterson							
06 Dec 18	Deferred Shares	1.7700	100%	111,990	198,222	06 Dec 21	n/a

Each Deferred Share shown in Table 11 has a notional face value equal to one of the Company's ordinary shares. The maximum and total expected values ignore non-market vesting conditions and do not include any assumed share price appreciation or dividends paid. There are no specific performance conditions attaching to the release of these Deferred Shares because the annual bonus is already subject to performance conditions.

8.5.6 Payments to past directors (audited)

There have been no payments (2018: £Nil) in excess of the de minimis threshold to former directors during the year ended 27 April 2019 in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

8.5.7 Payments for loss of office (audited)

There have been no payments for loss of office to directors during the year ended 27 April 2019 (2018: £Nil).

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

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate an effective interest in shares in the Group with a value of at least 200% of basic salary. A target of 100% was first introduced in 2005 and was amended to 200% in June 2014 following feedback from shareholders. The Executive Directors are allowed five years from the date of appointment to accumulate the appropriate level of shares. Where there have been relevant increases in basic salary or significant fluctuations in the share price of the Company, the Committee may allow a further period of three years for directors to adjust their holdings within the shareholding guideline. For these purposes, EPP Deferred Shares will be counted on a post-tax basis only and all interests in shares will be counted at current value as at the relevant measurement date. LTIP Incentive Units are not included in this measurement. As at 27 April 2019, Martin Griffiths had an interest in shares equivalent to 141% (2018: 166%) of his basic salary and Ross Paterson an interest in shares equivalent to 139% (2018: 135%) of his basic salary. The Committee noted that both directors again increased their interest in the number of shares held outright during the year. There was no divestment in the year by either director and they are below the target because of the fall in the Company's share price. Each director has undertaken to further increase their holdings by retaining shares received from the vestings of the share incentive schemes. As such, the Committee remains satisfied that both directors retained significant interests in the shares of the Company and consistent with the guidelines explained above, it is satisfied that the directors are continuing to increase the level of the shareholdings year on year to achieve the shareholding guideline.

The effective interests of the Directors (including those of connected persons) as at 27 April 2019 were:

TABLE 12 – DIRECTORS' INTERESTS IN SHARES OF THE GROUP AS AT 27 APRIL 2019	Interests as at 27 April 2019				Scheme interests vested during year ended 27 April 2019	
	Shares held outright	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	LTIP Incentive Units (subject to performance conditions)	EPP Shares (not subject to performance conditions)
Executive directors						
Martin Griffiths	589,419	1,737,143	177,251	6,894	–	57,793
Ross Paterson	325,109	1,158,207	230,865	6,894	–	38,528
Non-executive directors						
Gregor Alexander	10,406	–	–	–	–	–
James Bilefield	–	–	–	–	–	–
Sir Ewan Brown	*see note below*					
Dame Jayne-Anne Gadhia	–	–	–	–	–	–
Dame Ann Gloag	62,501,721	–	–	–	–	–
Ray O'Toole	–	–	–	–	–	–
Sir Brian Souter	86,900,445	–	–	–	–	–
Karen Thomson	–	–	–	–	–	–
Will Whitehorn	72,888	–	–	–	–	–

Sir Ewan Brown previously held an indirect interest in the share capital of the Company through his 18% holding in Noble Grossart Holdings Limited, which in turn through its subsidiary, Noble Grossart Investments Limited, held 3,567,999 ordinary shares in the Company. In November 2018, he and his connected parties disposed of their interest in Noble Grossart Holdings Limited, as such, he no longer holds an indirect interest in the Company.

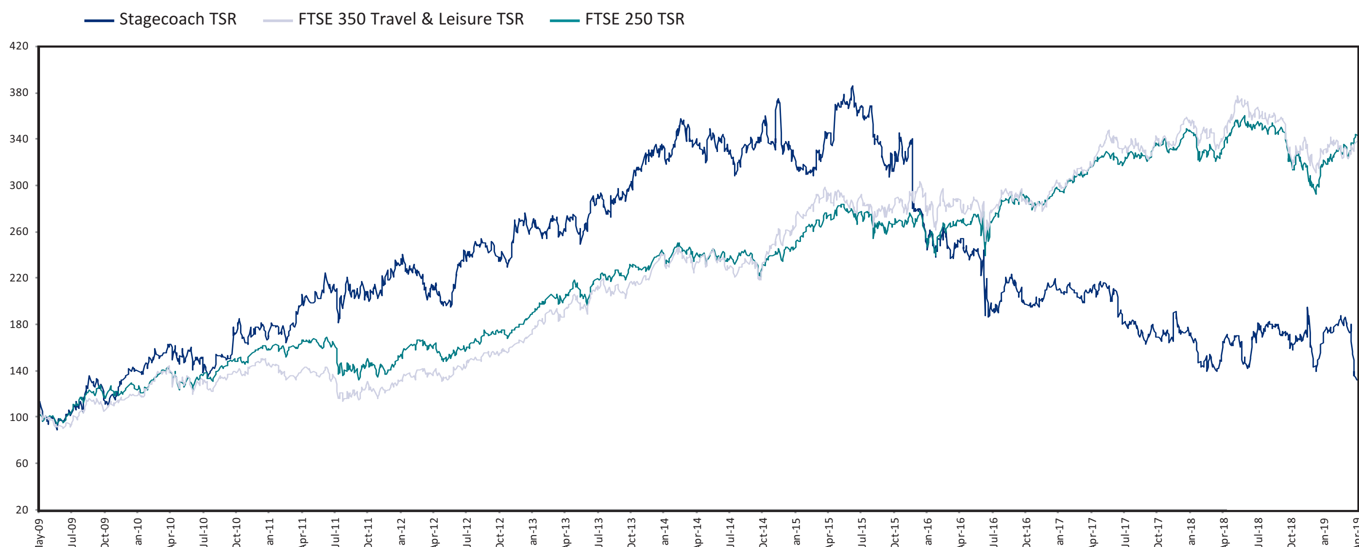
Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 13 below.

TABLE 13 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES	As at 28 April 2018	Granted in year	Dividends in year	Lapsed during year	Vested during year	As at 27 April 2019	Vesting Date
Long Term Investment Plan							
Martin Griffiths	132,691	–	–	(132,691)	–	–	25 Jun 18
	176,187	–	4,382	(180,569)	–	–	10 Dec 18
	240,857	–	11,627	–	–	252,484	30 Jun 19
	249,172	–	12,028	–	–	261,200	8 Dec 19
	301,672	–	14,563	–	–	316,235	25 Aug 20
	282,154	–	13,620	–	–	295,774	7 Dec 20
	–	597,799	13,651	–	–	611,450	7 Dec 21
	1,382,733	597,799	69,871	(313,260)	–	1,737,143	
Ross Paterson	88,459	–	–	(88,459)	–	–	25 Jun 18
	117,456	–	2,921	(120,377)	–	–	10 Dec 18
	160,595	–	7,752	–	–	168,347	30 Jun 19
	166,140	–	8,020	–	–	174,160	8 Dec 19
	201,130	–	9,709	–	–	210,839	25 Aug 20
	188,117	–	9,080	–	–	197,197	7 Dec 20
	–	398,563	9,101	–	–	407,664	7 Dec 21
	921,897	398,563	46,583	(208,836)	–	1,158,207	
Executive Participation Plan							
Martin Griffiths	56,386	–	1,407	–	(57,793)	–	25 Jun 18
	83,892	–	4,080	–	–	87,972	30 Jun 19
	85,139	–	4,140	–	–	89,279	29 Jun 20
	225,417	–	9,627	–	(57,793)	177,251	
Ross Paterson	37,590	–	938	–	(38,528)	–	25 Jun 18
	55,928	–	2,720	–	–	58,648	30 Jun 19
	54,967	–	2,673	–	–	57,640	29 Jun 20
	–	111,990	2,587	–	–	114,577	6 Dec 21
	148,485	111,990	8,918	–	(38,528)	230,865	
Buy as you Earn Scheme							
Martin Griffiths	5,295	1,307	292	–	–	6,894	n/a
Ross Paterson	5,295	1,307	292	–	–	6,894	n/a

8.5.9 Performance graph

The graph below charts the performance of the total shareholder return (''TSR'') (share value movement plus reinvested dividends) from the Company's ordinary shares over the ten years to April 2019 compared with that of the FTSE Travel and Leisure All-Share Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index currently used by the Company for the TSR based performance criterion for the LTIP Scheme, while the FTSE Travel and Leisure All-Share Index is shown as the Company and a number of its peers make up a significant element of that index.

Stagecoach 10-Year TSR Comparative Performance to April 2019:



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

TABLE 14 – PAY FOR THE ROLE OF CHIEF EXECUTIVE	Sir Brian Souter				Martin Griffiths					
Year ended April:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bonus (percentage of maximum)*	35%	46%	47%	64%	100%	65%	53%	47%	0%	100%
LTIP vesting rates against maximum opportunity	100%	0%	n/a	61%	56%	10%	0%	0%	0%	0%
Single figure of total remuneration (£000)	2,491	1,269	1,227	3,443	2,212	1,451	1,316	1,313	987	1,803

*Sir Brian Souter waived entitlement to part of his cash bonus, with the amounts waived being used to support funding of medical screening in the UK Bus Divisions. Therefore the bonus percentages shown in Table 14 above reflect the amounts awarded to Sir Brian net of the waivers. For information, the full bonus percentage entitlements based on performance and before the waivers are shown in Table 15 below.

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

The total remuneration figures in Table 14 are calculated on the same basis as the single total figure of remuneration for directors shown in Table 1 in section 8.5.3.

8.5.10 Chief Executive percentage change in remuneration (audited)

The change in the Chief Executive's remuneration from 2017/18 to 2018/19 in comparison to a comparator group of employees is shown in Table 16 below.

TABLE 16 – PERCENTAGE CHANGE IN REMUNERATION FOR THE ROLE OF CHIEF EXECUTIVE	Chief Executive % change	Comparator group % change
Salary	0.0%	4.1%
Benefits	(2.6)%	(2.2)%
Bonus*	n/a	47.5%

*The Chief Executive declined to accept a bonus award for 2017/18, so the % change for 2018/19 is not applicable.

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

8.5.11 Relative importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 27 April 2019 and the year ended 28 April 2018. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 17 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS	2019 £m	2018 £m	Percentage change
Profit distributed by way of dividends to shareholders	**44.1**	68.3	(35.4)%
Overall spend on pay for employees	**1,124.0**	1,284.2	(12.5)%

The fall in the overall spend on pay for employees reflects the expiry of the Group's Virgin Trains East Coast franchise in June 2018, the legal transfer of the employees of that business to the new operator and the sale of the North America Division in April 2019.

8.5.12 Shareholder voting at general meetings

The following table shows the results of the vote on the 2018 remuneration report at the 2018 Annual General Meeting, along with the last vote on the policy from the 2017 Annual General Meeting.

TABLE 18 – SHAREHOLDER VOTES	Directors' 2018 Remuneration Report		Directors' 2017 Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For+	412,785,612	91.01%	435,077,565	94.70%
Against	40,781,294	8.99%	24,354,070	5.30%
Total votes cast (excluding withheld votes)	453,566,906	100.00%	459,431,635	100.00%
Votes withheld*	1,810,965		215,151	
Total votes cast (including withheld votes)	455,377,871		459,646,786	

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

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

8.5.13 Implementation of remuneration policy in the financial year ending 2 May 2020

In the year ending 2 May 2020, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

8.5.13.1 Implementation of executive directors' remuneration policy

8.5.13.1.1 Fixed elements – basic salary

The Committee decided not to increase basic salaries for 2019/20, the second consecutive year of a pay freeze.

TABLE 19 – INCREASES IN BASIC SALARY	2019/20 salary £	2018/19 salary £	Percentage change
Martin Griffiths	652,000	652,000	0.0%
Ross Paterson	434,700	434,700	0.0%

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

8.5.13.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the Directors' remuneration policy. The maximum potential bonus award for the year to 2 May 2020 has been retained at 130% of basic salary, and the nominal value of LTIP awards will be retained at 150% of basic salary.

Short-term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the Directors' remuneration policy. Targets are approved by the Remuneration Committee around the beginning of the year. For 2019/20, each director has a maximum potential bonus of up to 130% of basic salary, with up to 100% being based on achieving demanding financial objectives and up to 30% based on achieving specified personal objectives. The on-target level of bonus award for financial targets has been set at 67.50% of basic pay, and 30% available for individual business related targets producing a total on-target level of bonus of 97.5% of basic pay. Payout at threshold level on the financial targets has been maintained at 35% for 2019/20, and payout for maximum performance on demanding financial targets limited to 100% of basic pay. The Committee has determined that the element of the potential bonus related to three key financial objectives for 2019/20 will be allocated as follows:

TABLE 20 – POTENTIAL 2019/20 BONUS PAYOUTS FOR FINANCIAL OBJECTIVES	Threshold performance (% of basic salary)	Target performance (% of basic salary)	Maximum Bonus (% of basic salary)
Consolidated profit before interest and taxation ("PBIT") from Group companies	11.7%	22.5%	33.4%
Consolidated adjusted earnings per share ("EPS")	11.7%	22.5%	33.3%
Consolidated net debt ("Net Debt")	11.6%	22.5%	33.3%
Element of bonus related to Group financial objectives	35.0%	67.5%	100.00%

The three measures listed in Table 20 will be defined consistently with 2018/19 (see note iii to Table 1).

In section 8.5.3 of this report, detailed information has been provided in relation to (a) the financial targets for annual bonus purposes for the year ended 27 April 2019 and (b) the Executive Directors' personal objectives for the year ended 27 April 2019 and the Committee's assessment of the extent that they were met.

We plan to continue to disclose annual targets and objectives for each financial year following the end of the relevant financial year. The Committee is of the view that the values of the 2019/20 performance targets for the financial measures under the annual bonus scheme are commercially sensitive for the time being and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. However, we are planning to disclose the targets and achievements in respect of the year ending 2 May 2020 in the 2020 Annual Report. Similarly, the Committee is of the view that the 2019/20 individual business related objectives are commercially sensitive as they relate to internal management projects, strategic objectives and personal goals and it is not intended that these will be disclosed in advance. Again, however, we are planning to disclose a summary of these objectives in the 2020 Annual Report. 50% of any actual bonus earned in the year would ordinarily be deferred as shares under the EPP.

Long-term incentives – LTIP awards

LTIP awards vest after three years subject to performance conditions. A summary of the intended awards during the year ending 2 May 2020 and the nature of the performance conditions are provided in Table 21 below.

TABLE 21 – INTENDED LTIP AWARDS	Award Type	Performance metric	Face value of award at maximum vesting (% of 2019/20 salary)	Percentage of award vesting for threshold achievement	Length of Performance period
Martin Griffiths	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	Profitability targets	75%	25%	3 years
Ross Paterson	Incentive Units	TSR relative against FTSE 250	75%	25%	3 years
	Incentive Units	Profitability targets	75%	25%	3 years

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

Awards are generally made twice a year following the announcement of the annual results in June, and in December following the issue of the results for the half-year. The maximum level of awards granted for an individual in relation to any financial year is limited to Incentive Units with an aggregate face value at the time of award not exceeding 150% of basic salary. LTIP awards from June 2019 will be subject to an additional two-year holding period following the completion of the performance period, extending the total time horizon of an award to a period of five years.

The 2019/20 awards will be split one half based on TSR performance against a comparator group of the FTSE 250 companies, and the other half based on a measure of profitability. For any TSR based awards to vest, the TSR must exceed the median of the comparator group and the amount of Incentive Units awarded which are released will range from 25% to 100% of the available Incentive Units depending on the actual ranking. A top quartile ranking is required to achieve 100% release of units. Demanding profitability targets will be set for the other half of the awards based on relevant market factors and expectations for the Group as at the date of award. A sliding scale of vesting on a straight-line basis would be applied between the lower and upper vesting levels.

8.5.13.2 Implementation of non-executive directors' remuneration policy

Annual fees for 2019/20

The implementation of policy in relation to the Non-Executive Directors is in line with the Directors' remuneration policy. Each non-executive director's fee is set by the Board taking account of the views of each director, the specific responsibilities of each director and the fees for equivalent roles in similar companies. As was the case for 2018/19, once again there are no changes to the fees for non-executive directors for the 2019/20 financial year. The fees per annum for the Non- Executive Directors for 2018/19 and the amount set for 2019/20 are set out in Table 22 below.

TABLE 22 – NON-EXECUTIVE DIRECTOR FEES	2019/20 fees £	2018/19 fees £
Chairman	217,400	217,400
Deputy chairman	153,000	153,000
Other non-executive directors (range)	52,500 - 60,900	52,500-60,900

9. Responsibility statement

The Directors confirm that to the best of their knowledge:

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

- The Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on 26 June 2019 on behalf of the Board by:

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

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

Opinion

In our opinion:

- Stagecoach Group plc's Consolidated financial statements (the "consolidated financial statements") and separate financial statements of the parent (the "Company financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 April 2019 and of the Group's profit for the year then ended;
- The consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- The consolidated and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated income statement	Company balance sheet
Consolidated statement of comprehensive income	Company statement of changes in equity
Consolidated balance sheet (statement of financial position)	Related notes 1 to 15 to the Company financial statements
Consolidated statement of changes in equity	
Consolidated statement of cash flows	
Related notes 1 to 34 to the consolidated financial statements.	

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

Basis for Opinion

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

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

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

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

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

Overview of Our Audit Approach

Key audit matters	• Valuation of provision for insurance claims • Valuation of pension liabilities • Accounting for the disposal of the North America Division • Revenue recognition arising from management override of controls • Accounting for rail contractual positions • Liability for uncertain tax positions
Audit scope	• We performed an audit of the complete financial information of 13 components and audit procedures on specific balances for a further 16 components. • The components where we performed full or specific audit procedures accounted for 96% of adjusted profit before tax, 98% of revenue and 96% of total assets.
Materiality	• Overall Group materiality of £6.6m represents 5.0% of adjusted profit before tax ("PBT") from continuing operations before exceptional items.

Key Audit Matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of provision for insurance claims Refer to the Audit Committee report (section 5.4.1) and notes 1 and 23 to the consolidated financial statements. As at 27 April 2019 the Group recognised total insurance provisions for amounts payable on individual claims amounting to £97.0m (2018: £153.8m). The Group protects against the cost of claims in respect of traffic accidents and employee incidents through third party insurance policies. The Group has exposure primarily relating to an "excess" it is responsible for paying per claim and this is provided for on a discounted basis. The estimate is based on an assessment of the expected settlement of known claims and claims not yet reported but related to incidents prior to the balance sheet date. The provisions are based on an independent actuarial computation, with adjustment by management to reflect its view of volatility in actuarial estimates from year to year. The significant risk arises due to the inherent uncertainty in actuarial assessments and the level of management judgement exercised in determining the appropriate level of volatility adjustment.	We gained an understanding of the key controls and processes in place to assess insurance claims and related provisions. We evaluated the competence and objectivity of management's external actuarial specialists. We obtained and read the insurance policy documents to ensure all relevant terms have been appropriately considered in the provision calculation. We evaluated the appropriateness of the processes, methodologies and assumptions used by management through performance of our process walkthrough. Through the involvement of our insurance actuarial specialists, we evaluated the appropriateness of the methodologies and assumptions used by the external actuarial specialists against standard actuarial practices. We challenged management's assumptions and methodology in relation to the volatility in the actuarial estimates adjustment by comparing management's adjustment to benchmarking analysis prepared by our insurance actuarial specialists. We also considered a number of other client specific risk factors (e.g. claims experience and claims development trends) in assessing the appropriateness of the amount of the insurance provisions recorded. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of insurance actuarial specialists.	We conclude that the valuation of the insurance provision is materially correct. We are satisfied with the adequacy of disclosure within the financial statements.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of pension liabilities *Refer to the Audit Committee report (section 5.4.1) and notes 1, 7 and 24 to the consolidated financial statements.* At 27 April 2019 the Group recognised a net pension deficit of £197.7m (2018: £142.2m). The Group makes provision for the net pension liabilities of its defined benefit pension schemes. The significant risk relates to the potential misstatement of the gross pension liabilities of £2,439.9m (2018: £3,054.2m) due to the significant judgements being exercised by management in determining the appropriate underlying actuarial assumptions. There is also a risk surrounding the correct accounting treatment to recognise GMP equalisation (£25.3m).	We understood and walked through management's process and methodology for calculating the pension liability for each of the SPS, RPS and LGPS pension schemes. We evaluated the competence, and objectivity of management's external actuarial specialists. Through the involvement of our pension actuarial specialists, we corroborated key assumptions (including the discount rate, life expectancies of scheme members and inflation rates) using external third party data and independently assessed the assumptions to allow us to determine whether the Group's assumptions are within an appropriate range. We have tested a sample of the membership data used by the actuaries to the Group's records. We assessed, with the assistance of our actuarial specialists, the methodology applied by management's external actuarial experts in determining the past service cost in respect of the equalisation of guaranteed minimum pension (GMP) benefits. We assessed the adequacy of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of our actuarial specialists.	We conclude that the valuation of the pension liability is materially correct and that management's judgements in relation to the underlying actuarial assumptions are appropriate. We conclude that the increase in the GMP equalisation liability recorded by management in the income statement is materially correct. We are satisfied with the adequacy of disclosure within the financial statements.
Accounting for the disposal of the North America Division *Refer to the Audit Committee report (section 5.4.1) and notes 5 and 25 of the consolidated financial statements.* On 16 April 2019, the Group completed its disposal of the North America Division for a total cash consideration of US$133.7m (£102.0m) and non-cash consideration of US$65.0m (£49.6m) by way of a deferred payment instrument from the purchaser. A loss on disposal of £23.8m has been recognised upon disposal. The significant risk arises because of the level of judgement required by management in determining the fair value of the non-cash consideration receivable at the date of disposal and resulting calculation of the loss on disposal. There is a significant level of estimation uncertainty regarding this estimate. The Group has recorded a receivable of US$29.2m (£22.3m).	We read the Stock Purchase Agreement entered into by Stagecoach Group plc in relation to the disposal of Coach USA Administration Inc. We agreed the cash consideration received to the Stock Purchase Agreement and funds transfer/cash. Through the involvement of our valuation specialists, we assessed the appropriateness of the methodologies used by management to derive the fair value of the non-cash consideration (deferred payment instrument) from the purchaser. We used our valuation specialists to assist us in considering the fair value of the non-cash consideration (US$29.2m) and in assessing key assumptions. In doing so, we performed an assessment of cash flow forecasts and discount rate taking into consideration possible risks of default. We obtained corroborative evidence for the explanations provided by management by comparing key assumptions to market data. We assessed the adequacy of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our valuation specialists.	We conclude that the fair value of the non-cash consideration has been valued using an appropriate valuation methodology and appropriate judgements. We are satisfied that the accounting for the disposal is materially correct and that adequate disclosure is included in the financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition arising from management override of controls *Refer to notes 1 and 2 to the consolidated financial statements.* For the year ended 27 April 2019, the Group recognised revenue from continuing operations of £1,878.9m (2018: £2,818.0m). Revenue recognition is a particular area of focus for our audit in considering possible areas of management bias and fraud, arising from management override of controls. Revenue arrangements for customer travel are generally routine. However, in some instances, manual adjustments are required to properly reflect the timing and valuation of revenue recognised, for example cash received for the sale of season tickets or travelcards. In UK Rail, revenue is attributed to train operating companies by the Railway Settlement Plan (“RSP”). Whilst the revenue attributed is determined by a third party, the recording of the revenues and subsequent amendments are recorded by way of manual journals. The accuracy of recording any such material adjustments to revenue related transactions may represent a fraud risk of material misstatement to revenue. This includes material manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.	We obtained an understanding of the key controls and processes in place over revenue recognition and the recording of manual journal entries. At full and specific scope locations we employed data analytic techniques to correlate sales through to cash. We tested non-correlating entries to third party evidence to ensure that revenue had been appropriately recognised. At full and specific scope locations, we used risk-based filters to test material manual journal entries made to revenue through to supporting evidence to confirm that the revenue recognised was appropriate, had an appropriate business rationale and was and in line with the Group’s accounting policy. On rail entities we tested material passenger revenue to third party evidence. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	We conclude that revenue recognised in the year is materially correct on the basis of procedures performed.
Accounting for rail contractual positions *Refer to the Audit Committee report (section 5.4.1) and note 1 to the consolidated financial statements.* The UK Rail industry is subject to complex contractual relationships with, amongst others, the UK Department for Transport, Network Rail and rolling stock lessors. The nature of these contracts is such that there is a high level of management judgement over amounts receivable or payable by the Group in accordance with the contracts.	We obtained an understanding of the Group’s process for identifying and monitoring compliance with the requirements of each of its rail franchise agreements. We met with the compliance team at each of the train operating companies to understand and evaluate the processes and controls in place to ensure compliance with rail franchise agreements. We assessed the impact of any breaches we were made aware of, or changes in rail franchise agreements, that occurred during the year and re-assessed matters brought forward, considering the impact on the consolidated financial statements of new or revised franchise terms. We performed detailed testing over a sample of franchise assets, dilapidations, end of franchise provisions, accruals and associated revenue or costs recognised to assess whether these were appropriately recorded. We checked the outturn of prior period estimates in relation to Schedule 4 and 8 claims (refer to definition in note 3 to the consolidated financial statements) and other material balances to assess management’s estimation accuracy and that the changes were due to changes in facts and circumstances during the year. These are amounts receivable or payable under the franchise agreement under specified circumstances. We performed a comparative review of the material judgemental franchise assets, provisions and accruals held across each of the train operating companies of the Group in order to conclude on the completeness of the balances recognised.	We conclude that the material rail franchise receivable and payable balances are materially correct and appropriately disclosed.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	We assessed whether there were any indicators that the assets or liabilities held should no longer be recognised due to the passage of time, changes in contractual commitments, or legal requirements. We assessed the adequacy of disclosures within the financial statements, particularly as they relate to contingent liabilities. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	
Liability for uncertain tax positions *Refer to the Audit Committee report (section 5.4.1) and notes 1, 8 and 22 to the consolidated financial statements* Management applies judgement in assessing potential tax consequences in relation to tax uncertainties that will only be resolved when agreed with the relevant tax authorities.This includes uncertainty around the timing of tax that is payable relating to the legacy financing of, and transactions with, overseas operations. Management's assessment is based on past experience and the current status of judgemental issues. Given this judgement, there is a risk that tax liabilities are misstated.	We gained an understanding of the Group's process for determining liabilities for tax and calculating the tax charge for the Group through our process walkthrough. We agreed underlying tax balances to supporting documentation, including correspondence with tax authorities. We challenged the basis for continued recognition of liabilities for uncertain tax positions to ensure they are supportable. We assessed the adequacy of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with assistance from our specialist tax team.	We conclude that management's judgements in relation to the liabilities for uncertain tax positions are appropriate, supportable and materially correct. We are satisfied with the adequacy of disclosure within the financial statements.

In the prior year, our auditor's report included key audit matters in relation to the termination of the Virgin Trains East Coast franchise and the carrying value of North America goodwill. Taking each matter in order:

- Termination of the Virgin Trains East Coast franchise: following the completion of the termination of the franchise in June 2018 we do not consider the risk of material misstatement to be significant in this area therefore it is no longer a Key Audit Matter.
- Carrying value of North America goodwill: following the impairment of the carrying value of the goodwill and disposal of the North America business on 16 April 2019 there is no remaining carrying value and therefore there is no longer a risk of material misstatement in the financial statements. Accordingly, the carrying value of North America goodwill is not a key audit matter in the current year.

In addition, our auditor's report in the prior year included a key audit matter in relation to the valuation of pension liabilities and pension assets. Following the extended approach to the audit of pension assets executed in the previous year and the consistent approach applied in the current year, we no longer consider the audit of pension assets to be a matter which has the greatest effect on directing the efforts of the engagement team. Accordingly, the valuation of pension assets is not a key audit matter in the current year.

An overview of the Scope of Our Audit

Tailoring the scope

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

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

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

The reporting components where we performed audit procedures were:

	Components	Percentage of adjusted profit before tax	Percentage of revenue	Percentage of total assets
Full Scope	13	41%	67%	74%
Specific Scope	16	15%	31%	44%
	29	56%	98%	118%
Parent and consolidation adjustments		40%	0%	(22)%
Overall coverage		96%	98%	96%

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

Changes from the Prior Year

There have been no changes in scope from the prior year.

Involvement with Component Teams

The audit work on all in scope reporting units, with the exception of Virgin Rail Group, was performed directly by the Group engagement team. We communicated with a firm outside of the EY network of firms with respect to the audit of the complete financial information of the Virgin Rail Group joint venture. The Group engagement team held meetings and calls with the Virgin Rail Group auditors to clarify and discuss their audit approach, materiality and our reporting requirements. In addition, we had meetings and calls with them as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work. We also observed the Virgin Rail Group Audit Committee meeting in May 2019, at which Virgin Rail Group's external auditors presented.

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

Our Application of Materiality

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

Materiality

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

We determined materiality for the Group to be £6.6m (2018: £6.8m), which is 5.0% of adjusted profit before tax, being reported profit before tax from continuing operations adjusted to exclude net exceptional losses (see note 4 to the financial statements). We believe that adjusted profit before tax provides us with a consistent measure of underlying year-on-year performance as it excludes the impact of non-recurring items.

We determined materiality for the Company to be £6.6m (2018: £6.8m), in line with group materiality. This is based on the parent entity's share of net assets which has been allocated 100% of Group materiality.

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £4.95m (2018: £5.1m). We have set performance materiality at this percentage due to various considerations including the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the internal control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The range of performance materiality allocated to components was £1.0m to £2.7m (2018: £1.1m to £2.5m).

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

Reporting Threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2018: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other Information

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

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

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

We have nothing to report in this regard.

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

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

Opinions on Other Matters Prescribed by the Companies Act 2006

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

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

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

Matters on which we are Required to Report by Exception

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

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

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

Responsibilities of Directors

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Our approach was as follows:

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

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

Other matters we are required to address

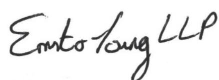
Following the recommendation of the Audit Committee, we were appointed as auditors and signed an engagement letter on 29 November 2017. We were appointed by the Company at the Annual General Meeting in 2016 to audit the financial statements for the year ended 29 April 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ended 29 April 2017 to 27 April 2019.

The non-audit services prohibited by the Financial Reporting Council's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.

The audit opinion is consistent with the additional Report to the Audit Committee.

Use of Our Report

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



Mark Harvey

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

26 June 2019

Notes:

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

11. Consolidated financial statements

Consolidated income statement

For the year ended 27 April 2019

	Notes	2019			2018 (restated)		
		Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
		£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	2(a)	**1,878.9**	**–**	**1,878.9**	2,818.0	–	2,818.0
Operating costs and other operating income	3	**(1,740.9)**	**(25.6)**	**(1,766.5)**	(2,685.4)	(49.0)	(2,734.4)
Operating profit of Group companies	2(b)	**138.0**	**(25.6)**	**112.4**	132.6	(49.0)	83.6
Share of profit of joint ventures after finance costs, finance income and taxation	2(c)	**23.3**	**–**	**23.3**	27.1	–	27.1
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	2(b)	**161.3**	**(25.6)**	**135.7**	159.7	(49.0)	110.7
Non-operating exceptional items	4	**–**	**–**	**–**	–	(1.7)	(1.7)
Profit before interest and taxation		**161.3**	**(25.6)**	**135.7**	159.7	(50.7)	109.0
Finance income	6	**1.5**	**–**	**1.5**	1.2	–	1.2
Finance costs	6	**(29.9)**	**(6.1)**	**(36.0)**	(32.6)	–	(32.6)
Profit before taxation		**132.9**	**(31.7)**	**101.2**	128.3	(50.7)	77.6
Taxation	8	**(22.0)**	**22.5**	**0.5**	(16.1)	(13.4)	(29.5)
Profit from continuing operations		**110.9**	**(9.2)**	**101.7**	112.2	(64.1)	48.1
DISCONTINUED OPERATIONS							
Profit/(loss) after tax for the year from discontinued operations	5	**15.5**	**(93.6)**	**(78.1)**	14.7	1.0	15.7
TOTAL OPERATIONS							
Total profit for the year		**126.4**	**(102.8)**	**23.6**	126.9	(63.1)	63.8
Attributable to:							
Equity holders of the parent		**126.4**	**(104.8)**	**21.6**	128.0	(57.5)	70.5
Non-controlling interests		**–**	**2.0**	**2.0**	(1.1)	(5.6)	(6.7)
		126.4	**(102.8)**	**23.6**	126.9	(63.1)	63.8
Earnings per share							
Continuing operations							
Adjusted basic / Basic	10	**19.3p**		**17.4p**	19.8p		9.6p
Adjusted diluted / Diluted	10	**19.2p**		**17.3p**	19.7p		9.5p
Discontinued operations							
Adjusted basic / Basic	10	**2.7p**		**(13.6)p**	2.6p		2.7p
Adjusted diluted / Diluted	10	**2.7p**		**(13.5)p**	2.6p		2.7p
Total operations							
Adjusted basic / Basic	10	**22.1p**		**3.8p**	22.3p		12.3p
Adjusted diluted / Diluted	10	**21.9p**		**3.7p**	22.2p		12.2p

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

Consolidated statement of comprehensive income

For the year ended 27 April 2019

	2019	2018 (restated)
	£m	£m
Profit for the year	**23.6**	63.8
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value gains on cash flow hedges	**16.6**	42.8
– Reclassified and reported in profit for the year	**(27.3)**	(0.8)
– Share of other comprehensive (expense)/income on joint ventures' cash flow hedges	**(0.4)**	0.2
– Tax effect of cash flow hedges	**2.1**	(8.0)
Discontinued operations		
Cash flow hedges:		
– Net fair value (losses)/gains on cash flow hedges	**(0.1)**	7.5
– Reclassified and reported in profit for the year	**(3.2)**	(1.2)
– Tax effect of cash flow hedges	**0.6**	(1.2)
Foreign exchange differences on translation of foreign operations (net of hedging)		
– Foreign exchange differences arising in year	**5.7**	(7.0)
– Tax effect of foreign exchange differences arising in year	**–**	(0.3)
– Reclassified and reported in profit for the year	**(8.6)**	–
Total items that may be reclassified to profit or loss	**(14.6)**	32.0
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on Group defined benefit pension schemes	**(36.0)**	106.8
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes	**6.2**	(20.6)
Share of actuarial losses on joint ventures' defined benefit pension schemes, net of tax	**(2.8)**	(0.6)
Net loss on equity instruments designated at fair value through other comprehensive income	**(2.7)**	–
Discontinued operations		
Actuarial losses on Group defined benefit pension schemes	**(0.2)**	(0.1)
Total items that will not be reclassified to profit or loss	**(35.5)**	85.5
Other comprehensive (expense)/income for the year	**(50.1)**	117.5
Total comprehensive (expense)/income for the year	**(26.5)**	181.3
Equity holders of the parent	**(28.5)**	190.7
Non-controlling interest	**2.0**	(9.4)
	(26.5)	181.3

Consolidated balance sheet

As at 27 April 2019

	Notes	2019 £m	2018 £m
ASSETS			
Non-current assets			
Goodwill	11	**51.2**	142.1
Other intangible assets	12	**9.7**	44.4
Property, plant and equipment	13	**834.0**	1,137.1
Interest in joint ventures	14	**19.9**	25.2
Investments in equity instruments		**–**	2.7
Derivative instruments at fair value	25(g)	**14.2**	30.0
Retirement benefit asset	24	**1.8**	4.6
Other receivables	17	**34.6**	3.8
		965.4	1,389.9
Current assets			
Inventories	16	**14.3**	22.9
Trade and other receivables	17	**133.3**	235.3
Derivative instruments at fair value	25(g)	**13.5**	11.4
Cash and cash equivalents	19	**170.4**	238.2
		331.5	507.8
Total assets	2(d)	**1,296.9**	1,897.7
LIABILITIES			
Current liabilities			
Trade and other payables	20	**392.6**	614.6
Current tax liabilities		**19.0**	41.2
Foreign tax liabilities		**–**	0.6
Borrowings	21	**21.8**	36.9
Derivative instruments at fair value	25(g)	**0.2**	0.4
Deferred tax liabilities	22	**0.2**	–
Provisions	23	**36.8**	117.7
		470.6	811.4
Non-current liabilities			
Other payables	20	**4.5**	20.4
Borrowings	21	**411.2**	606.9
Derivative instruments at fair value	25(g)	**1.8**	0.1
Deferred tax liabilities	22	**13.7**	25.2
Provisions	23	**67.2**	105.2
Retirement benefit obligations	24	**199.5**	146.8
		697.9	904.6
Total liabilities	2(d)	**1,168.5**	1,716.0
Net assets	2(d)	**128.4**	181.7
EQUITY			
Ordinary share capital	26	**3.2**	3.2
Share premium account	28	**8.4**	8.4
Retained earnings	28	**(285.4)**	(228.6)
Capital redemption reserve	28	**422.8**	422.8
Own shares	28	**(39.4)**	(38.0)
Translation reserve	28	**–**	2.9
Cash flow hedging reserve	28	**18.8**	30.1
Total equity attributable to the parent		**128.4**	200.8
Non-controlling interest		**–**	(19.1)
Total equity		**128.4**	181.7

These financial statements have been approved for issue by the Board of Directors on 26 June 2019. The accompanying notes form an integral part of this consolidated balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Consolidated statement of changes in equity

	Notes	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	**Total equity attributable to the parent**	Non-controlling interest	**Total equity**
		£m	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 29 April 2017		3.2	8.4	(320.4)	422.8	(37.0)	10.2	(9.0)	**78.2**	(9.7)	**68.5**
Profit for the year		–	–	70.5	–	–	–	–	**70.5**	(6.7)	**63.8**
Other comprehensive income / (expense) net of tax		–	–	88.4	–	–	(7.3)	39.1	**120.2**	(2.7)	**117.5**
Total comprehensive income / (expense)		–	–	158.9	–	–	(7.3)	39.1	**190.7**	(9.4)	**181.3**
Own ordinary shares purchased		–	–	–	–	(1.0)	–	–	**(1.0)**	–	**(1.0)**
Credit in relation to equity-settled share based payments		–	–	1.2	–	–	–	–	**1.2**	–	**1.2**
Dividends paid on ordinary shares	9	–	–	(68.3)	–	–	–	–	**(68.3)**	–	**(68.3)**
As at 28 April 2018		**3.2**	**8.4**	**(228.6)**	**422.8**	**(38.0)**	**2.9**	**30.1**	**200.8**	**(19.1)**	**181.7**
Profit for the year		–	–	21.6	–	–	–	–	**21.6**	2.0	**23.6**
Other comprehensive expense net of tax		–	–	(35.9)	–	–	(2.9)	(11.3)	**(50.1)**	–	**(50.1)**
Total comprehensive (expense) / income		**–**	**–**	**(14.3)**	**–**	**–**	**(2.9)**	**(11.3)**	**(28.5)**	**2.0**	**(26.5)**
Own ordinary shares purchased		–	–	–	–	(1.4)	–	–	**(1.4)**	–	**(1.4)**
Shareholder transactions with non-controlling interest		–	–	–	–	–	–	–	**–**	17.1	**17.1**
Cash paid to settle share based payments originally intended to be equity-settled		–	–	(0.3)	–	–	–	–	**(0.3)**	–	**(0.3)**
Credit in relation to equity-settled share based payments		–	–	1.9	–	–	–	–	**1.9**	–	**1.9**
Dividends paid on ordinary shares	9	–	–	(44.1)	–	–	–	–	**(44.1)**	–	**(44.1)**
As at 27 April 2019		**3.2**	**8.4**	**(285.4)**	**422.8**	**(39.4)**	**–**	**18.8**	**128.4**	**–**	**128.4**

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

Consolidated statement of cash flows

For the year ended 27 April 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated by operations	29	**127.1**	207.9
Interest paid		**(31.3)**	(30.8)
Interest received		**3.5**	4.5
Dividends received from joint ventures		**25.4**	27.2
Net cash flows from operating activities before tax		**124.7**	208.8
Tax paid		**(17.8)**	(16.3)
Net cash from operating activities after tax		**106.9**	192.5
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed of		**73.8**	–
Purchase of property, plant and equipment		**(102.4)**	(111.7)
Disposal of property, plant and equipment		**50.2**	38.5
Purchase of intangible assets and other investments		**(4.4)**	(18.7)
Disposal of intangible assets		**28.1**	3.1
Net cash inflow/(outflow) from investing activities		**45.3**	(88.8)
Cash flows from financing activities			
Purchase of treasury shares		**(1.4)**	(1.0)
Repayments of hire purchase and lease finance		**(20.7)**	(26.0)
Redemption of US Dollar 4.36% Notes – principal		**(116.1)**	–
Drawdown of other borrowings		**114.0**	160.0
Repayment of other borrowings		**(154.2)**	(242.0)
Dividends paid on ordinary shares	9	**(44.1)**	(68.3)
Sale of tokens		**–**	0.1
Redemption of tokens		**(0.2)**	(0.4)
Net cash used in financing activities		**(222.7)**	(177.6)
Net decrease in cash and cash equivalents		**(70.5)**	(73.9)
Cash and cash equivalents at the beginning of the year		**238.2**	313.3
Exchange rate effects		**2.7**	(1.2)
Cash and cash equivalents at the end of year	19	**170.4**	238.2

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

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

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

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently applied to all the years presented, except for the new accounting standards set out separately below.

- **Basis of preparation**

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

(i) assets classified as fair value through other comprehensive income ("FVOCI"); and

(ii) financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVTPL").

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 29 April 2018 to 27 April 2019.

The Group disposed of its North America segment on 16 April 2019. The segment is therefore presented as discontinued operations. Previously reported figures have been re-presented and restated to show the North America segment as if it had been discontinued with effect from 30 April 2017, the start of the prior year.

Note 5 sets out the details and impact of discontinued operations.

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

(a) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15, *Revenue from Contracts with Customers*, from 30 April 2017, applying the full retrospective approach. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. In both our rail and bus divisions, performance obligations are generally clear and transaction prices are even over the period to which they relate and are time apportioned.

There have been no judgements taken in the implementation of IFRS 15 which significantly affect the amount or timing of the recognition of revenue.

Implementing IFRS 15 has not had a material impact on the consolidated financial statements, with the exception of the reclassification of certain customer compensation amounts which were previously treated as operating costs and the reclassification to revenue of a number of specific income items previously reported as miscellaneous revenue within other operating income.

Under IFRS 15, customer compensation is treated as a reduction in revenue, and for the year ended 28 April 2018, retrospectively applying IFRS 15 has resulted in a decrease in revenue of £15.8m, offset by an equivalent reduction in operating costs. For the year ended 27 April 2019, customer compensation of £4.0m has been treated as a reduction in revenue, with an equivalent reduction in operating costs.

The Group has other miscellaneous sources of income comprising of income incidental to the Group's principal activities. They include amounts receivable from Network Rail under performance regimes, commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income. Under IFRS 15, commissions receivable, maintenance income and fuel sales fall under the definition of revenue. For the year ended 28 April 2018, reclassifying those items of income as part of retrospectively applying IFRS 15 has resulted in an increase in revenue of £77.9m.

These two reclassifications as explained above result in a net increase of £62.1m in the previously reported revenue for the year ended 28 April 2018.

As there is no net impact on the income statement from implementing IFRS 15, there is no adjustment to prior year opening retained earnings.

There is no impact on any of the other primary statements that had previously been reported. No consolidated balance sheet has been restated as at 29 April 2017 because there are no material restatements or reclassifications in the balance sheet resulting from the implementation of IFRS 15. The following table shows the impact of IFRS 15 on the previously reported results along with the impact of the discontinued operations (note 5) to arrive at the comparative figures appearing in the consolidated income statement.

IFRS 15 restatement and impact of discontinued operations	As previously reported	IFRS 15 Impact	**Restated**	Impact of discontinued operations (note 5)	**As restated and appearing in consolidated income statement**
Year ended 28 April 2018	£m	£m	**£m**	£m	**£m**
Revenue	3,226.8	62.1	**3,288.9**	(470.9)	**2,818.0**
Operating costs and other operating income	(3,121.8)	(62.1)	**(3,183.9)**	449.5	**(2,734.4)**
Operating profit of Group companies	105.0	–	**105.0**	(21.4)	**83.6**

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

Note 2(a) sets out a disaggregation of revenue in accordance with the disclosure requirements of the new standard, with an explanation of the types of revenue included in the note set out below:

The Group has a number of revenue streams, as set out below. In general, revenue presented in the income statement is recognised at the fair value of the consideration received or receivable. Where appropriate, amounts are shown net of discounts, rebates, VAT and other sales taxes. The revenue is recognised as performance obligations are satisfied as described below for each significant revenue stream. The Group recognises that some revenue streams may be bundled, such as the provision of food and beverages on train services. The Group meets the performance obligations of these bundled services and goods at approximately the same time and as a result, has not allocated a separate transaction price to each of the obligations.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **New accounting standards adopted during the year (continued)**

(a) IFRS 15 Revenue from Contracts with Customers (continued)

No detailed information is provided about remaining performance obligations as at the balance sheet dates presented, as permitted by IFRS 15, as the contract liabilities are expected to be satisfied within one year. This is the only practical expedient that the Group has elected to adopt on the adoption of IFRS 15. The Group has not adopted any of the transitional expedients available on the adoption of IFRS 15.

Under the previous policy, revenue presented in the income statement represented gross revenue and excludes payments received on account. Revenue was recognised at the fair value of the consideration received or receivable and where appropriate, shown net of discounts, rebates, VAT and other sales taxes.

Passenger revenues

Passenger revenues primarily relate to ticket sales through UK Bus (regional operations), UK Rail and North America. Passenger revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travelcard income is recorded on a straight-line basis over the applicable period.

Under the previous policy, revenue receivable from individuals or groups of individuals to travel on the Group's transport services was accounted for with the objective that the revenue was recognised in the income statement in the period in which the related travel occurs with the recognition of season ticket and travelcard income generally recorded on a straight-line basis over the applicable period.

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

Amounts that are receivable from government bodies in respect of travel by individuals on the Group's transport services is recognised in the income statement in the period in which the related travel occurs. Such amounts are included in revenue because they represent payments for transport services provided. This can involve some estimation – for example, revenue receivable in respect of UK concessionary travel schemes can involve some negotiation with relevant public authorities on the amount of revenue due and/or be subject to adjustment based on the levels of concessionary travel across a number of operators. Revenue is recognised based on the Group's best estimates of the amounts receivable in respect of travel prior to the balance sheet date and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Under the previous policy, amounts receivable from government bodies in respect of travel by individuals on the Group's transport services were recognised in the income statement in the period in which the related travel occurs.

In UK Rail, travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, the Group's UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage. Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of the Group's UK bus and tram businesses participate. Procedures exist to allow operators to challenge the appropriateness of revenue allocation. Where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which the Group is made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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

Contract revenues

Contract revenues mainly relate to UK Bus (London) contracts with Transport for London and contracts with customers in North America. Revenue receivable from government bodies and others to the Group for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The adoption of IFRS 15 has not resulted in a change to the revenue recognition or measurement of contract revenues.

Other Revenues

Revenue that is incidental to the Group's principal activity of providing transport services is reported as other revenue. Such revenue is recognised as the service is provided, the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. This may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling fuel to other transport operators.

This is a change from the previous policy under which all of the above items of income were reported as other operating income and not within revenue.

Income from other sources continue to be reported as other operating income. These other sources include:

- selling advertising space on vehicles and premises that the Group operates;
- access income for others to use railway stations and depots that the Group operates;
- property rental; and
- Network Rail in respect of UK railway operating performance regimes.

Finance income

Finance income is recognised under the effective interest method as interest accrues and is shown separately in the consolidated income statement.

Note 1 IFRS accounting policies (continued)

- **New accounting standards adopted during the year (continued)**

(a) IFRS 15 Revenue from Contracts with Customers (continued)

Contract liabilities

A contract liability is the obligation to provide services for a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides the services, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Customers include individuals, corporations and public bodies who pay the Group for transport services. Contract liabilities include amounts in respect of unexpired season tickets and other tickets giving the holder a right to travel on the Group's services after the balance sheet date.

Contract assets

Contract assets include trade receivables, representing amounts that have been invoiced prior to the balance sheet date and which remain outstanding at the balance sheet date.

Rail franchise payments and subsidies

Franchise payments payable to or receivable from the UK Department for Transport under rail franchise agreements are recognised as operating costs or other operating income in the income statement.

Under the contractual terms of its franchise agreements to operate rail services, the Group has revenue sharing arrangements with the Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

(b) IFRS 9 Financial Instruments

The Group has adopted IFRS 9, *Financial Instruments*, prospectively from 29 April 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. IFRS 9 sets requirements for accounting for financial instruments, including in respect of recognition and measurement, impairment, derecognition and general hedge accounting. There have been changes to the Group's categorisation of financial assets and liabilities. These changes are detailed below. No changes were required to the hedge accounting applied as a result of IFRS 9.

IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. For trade receivables, accrued income and other receivables, the Group has applied the simplified approach under the standard and determined expected credit losses for significant portfolios of receivables. The transitional increase in the impairment allowance as a result of adopting this policy is immaterial. As a result, there has been no adjustment made to the retained earnings figures at 28 April 2018 as previously reported.

Under IFRS 9, the Group has elected to recognise its equity investments, previously classified as available for sale, as Fair Value through Other Comprehensive Income ("FVOCI") when they meet the definition of equity under IAS 32 'Financial Instruments: Presentation' and are not held for trading. At 27 April 2019, the carrying value of those investments was £Nil (28 April 2018: £2.7m). Changes in the value of equity investments classified as FVOCI are recorded directly in equity and are not recycled to the income statement. Equity instruments classified as FVOCI are not subject to impairment assessment.

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, FVOCI, or fair value through profit or loss ("FVTPL"). Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest on the principal outstanding are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the income statement as interest income.

The Group recognises a provision for expected credit losses for all financial instruments measured at amortised cost. Where there has not been a significant increase in credit risk since initial recognition, provision is made for defaults that are possible within the next 12 months.

Where there has been a significant increase in credit risk since initial recognition, provision is made for credit losses expected over the remaining life of the asset.

The Group's financial assets that are categorised as FVTPL include a Deferred Payment Instrument in respect of the sale of the North America Division in April 2019 and certain financial derivatives.

Trade receivables

Trade receivables are recorded at their original amount less provision for expected credit losses. The Group has elected to apply the simplified version of the expected credit loss model permitted by IFRS 9 in respect of trade receivables. The lifetime expected credit losses are assessed for all balances. The Group has established a provision matrix that is based on its historical credit loss experience by division and is adjusted for specific forward-looking factors. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within operating costs and other income. When a previously provided trade receivable is uncollectable, it is written off against the provision. Balances which are more than 180 days past due are considered to be in default and are written off the ledgers but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances. At each reporting date, the Group assesses whether trade receivables are credit-impaired. This includes a review of whether the customer is in significant financial difficulty, the probability that the customer will enter bankruptcy or financial reorganisation, and any default or delinquency in payments.

The following table summarises the changes in the classifications of financial instruments as at 28 April 2018 resulting from the adoption of IFRS 9:

	IAS 39		IFRS 9 measurement category	
Balance sheet item	**Measurement category**	**Carrying value at 28 April 2018**	**Amortised cost**	**FVOCI**
		£m	**£m**	**£m**
Accrued income	Loans and receivables	45.4	45.4	–
Trade receivables	Loans and receivables	105.2	105.2	–
Other receivables	Loans and receivables	12.2	12.2	–
Non-listed equity investments	Available for sale	2.7	–	2.7

There has been no other impact on the accounting for financial instruments resulting from the adoption of IFRS 9. The accounting policy for those items is detailed later in this note under the heading of Financial instruments.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **New accounting standards adopted during the year (continued)**

(c) Other new standards

Other new standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 29 April 2018, do not have any significant effect on the consolidated financial statements of the Group and are listed below.

International Accounting Standards and Interpretations	*Effective for annual periods beginning on or after*
IFRS 2 Classifications and Measurement of Share-based Payment Transactions	1 January 2018
Various Annual Improvements to IFRSs – 2014–2016 cycle	1 January 2018
Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018

- **New accounting standards not yet applied**

(a) IFRS 16 Leases

Adoption of new accounting standard for leases

The Group will adopt IFRS 16, *Leases*, with effect from 28 April 2019. The consolidated financial statements for the year ended 27 April 2019 are prepared in accordance with International Accounting Standard 17 ("IAS 17"), *Leases*, and so do not reflect all of the requirements of IFRS 16. IFRS 16 replaces IAS 17, and establishes new principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases by lessees as either operating leases or finance leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Depreciation of lease assets is recognised separately from interest.

On adopting IFRS 16, the Group expects to recognise substantial new assets and new liabilities in respect of certain of those leases currently classified as operating leases. The Group intends to apply the modified retrospective approach to transition utilising the practical expedients outlined in the standard.

Practical expedients

The Group has elected to adopt the following practical expedients on transition to IFRS 16:

- Leases which expire before 27 April 2020, which includes all of the Group's existing leases of railway rolling stock, will not be capitalised.
- Low-value leases (those with a capital value of less than £4,500) will not be capitalised.
- The requirements of IFRS 16 will not be applied to intangible assets.
- Contracts will not be reassessed to determine if they contain a lease where an assessment was previously made under IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*.
- Where an onerous lease provision is in existence, this provision will be utilised to rely on its previous assessment under IAS 37, *Provisions, Contingent Liabilities and Contingent Asset*s, and to reduce the right-of-use asset at the date of initial application of IFRS 16 rather than undertaking an impairment review.

Accounting judgements

Reflecting the scale and complexity of the lease accounting issues affecting the rail industry, the UK rail sector worked collaboratively under the auspices of the Rail Delivery Group to consider railway specific arrangements and the issues arising from them in the context of implementing IFRS 16. The Group was represented on the working group, as it sought to develop industry-wide agreement on the interpretation of IFRS 16 for private rail operators for use in rail franchises.

UK rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). It has been concluded that these contracts do not meet the definition of a lease under IFRS 16, reflecting the fact that Network Rail, rather than the franchise train operator, directs how and for what purposes the assets are used.

Due to the short remaining duration of the Group's current rail franchises, all of its rail related leases are due to expire before 27 April 2020. The Group therefore does not expect to recognise incremental lease liabilities and associated right-of-use assets in relation to those leases. In the event that the Group won another long-term UK rail franchise, the Group would expect to capitalise those leases that relate to rolling stock assets.

Impact of adoption

At 27 April 2019, the Group's operating lease commitments of £110.2m include £14.8m in respect of short-term leases which will be recognised on a straight-line basis as an expense in the income statement. For the remaining lease commitments, and after taking account of discounting to present value, the Group expects to recognise incremental lease liabilities and associated right-of-use assets of around £85m. The right-of-use assets primarily relate to properties and vehicles.

Under IFRS 16, the Group will see a different pattern of expense within the income statement, as the IAS 17 operating lease expense for certain leases is replaced by depreciation and interest charges. The Group does not expect a material earnings impact to arise as a result of applying IFRS 16 with 2019/20 profit before tax likely to be around £1m lower than under IAS 17. All future cash flows in respect of lease payments will be treated as financing. The Group expects operating cash flows under IFRS 16 to be approximately £21m higher in the year ending 2 May 2020 than they would have been under the current accounting applied to leases. There is no overall cash flow impact from the adoption of IFRS 16.

Note 1 IFRS accounting policies (continued)

- **New standards and interpretations not applied (continued)**

(b) Other new standards

In addition to IFRS 16 explained above, the International Accounting Standards Board ("IASB") and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

International Accounting Standards and Interpretations		*Effective for annual periods beginning on or after*
Annual Improvements to IFRSs 2015 - 2017 Cycle		1 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28	Long-term interests in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019

The following standards have not yet been endorsed for use in the European Union:

International Accounting Standards and Interpretations		*Effective for annual periods beginning on or after*
Amendments to references to conceptual framework in IFRS		1 January 2020
IFRS 3 Business Combinations	Amendments	1 January 2020
IAS 1 and IAS 8 (amendment)	Definition of material	1 January 2020
IFRS 17	Insurance contracts	1 January 2021

These new standards and interpretations are not expected to have a material effect on the Group's reported financial performance or position.

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

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

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

(a) Judgements

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

Accounting for participation in RPS

As disclosed in note 24, the Group applies a "franchise adjustment" to the amounts recorded in the balance sheet for the RPS. This represents the remaining element of the franchisee's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Group is required to fund (or surplus it is entitled to recover) over the remaining franchise period. In accordance with an industry-wide accounting treatment for the RPS that was agreed for adoption of IFRS in 2005, the estimate of the deficit (or surplus) expected to be transferred for no consideration at the end of the franchise period is deducted from the liability or asset recognised in the balance sheet, because this deficit (or surplus) will be settled (or recovered) by future operators of the franchise. Under IAS 19 (as revised in 2013), the financial effect of contributions by third parties (in this case by future operators of the franchise) either reduce service cost in the income statement (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) in other comprehensive income (if they are not linked to service). On the basis that these additional contributions will be made by future rail franchisee operators the Directors have determined that the related effects should be recognised in other comprehensive income.

In addition, this adjustment can give rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the franchise. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the franchise, and therefore upon the expiry of each of the Group's rail franchises, there will be no pension asset (or liability) remaining. This judgement is consistent with the industry-wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005. An alternative assessment of the RPS may conclude that such a net pension asset does not give rise to any economic benefits under IAS 19, on the basis that no refund is available from the RPS and there will not be any reduction in future contributions to the RPS. Adopting this alternative assessment would result in such an asset being restricted to £Nil under the asset ceiling under IFRIC 14. This would have an impact on the amounts recognised in the Group's consolidated balance sheet, with £1.8m relating to net RPS assets (2018: £4.2m) out of total net pension liabilities of £197.7m (2018: £142.2m) based on the Group's application of its existing accounting treatment.

(b) Key sources of estimation uncertainty

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

The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

Pensions

As in previous years, the determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. The Directors' assumptions are based on actual historical experience and external data. Whilst the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Critical accounting judgements and key sources of estimation uncertainty (continued)**

(b) Key sources of estimation uncertainty (continued)

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

Note 24(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

Rail contractual positions

The Group's current and former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. Consistent with the sector, these contractual arrangements can be often complex and be open to legal interpretation. These include arrangements with the Department for Transport, Network Rail, Transport for London and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements.

The Directors estimate that the carrying value of the net payables in respect of rail contractual positions as at 27 April 2019 could require adjustment by up to £10.0m in the year ending 2 May 2020 (2018: £15.0m in the year ending 27 April 2019).

Uncertain tax positions

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

The Group reported pre-tax losses in previous years in relation to its subsidiary, East Coast Main Line Company Limited ("ECML", which traded as Virgin Trains East Coast) and the franchised rail services that ECML operated until June 2018. Since then, progress has been made with unwinding ECML's affairs, settling its liabilities and realising its assets. As part of that process, the company's tax affairs have progressed and a tax credit of £17.1m has been recognised in the consolidated financial statements for the year ended 27 April 2019 in relation to the pre-tax losses reported in previous years.

As at 27 April 2019, potential net tax assets of £8.4m in respect of the losses associated with Virgin Trains East Coast remain uncertain and have not been recognised due to significant doubt over the Group's ability to realise these.

The tax amounts recognised by the Group as at 27 April 2019 continue to involve a degree of estimation uncertainty. Liabilities of £13.3m are held as at 27 April 2019 (2018: £16.3m) in respect of uncertain tax positions relating to the financing of, and transactions with, overseas operations. The liabilities held in respect of tax reflect the Directors' best estimates of the amounts payable taking account of correspondence with the tax authorities and advice on the application of applicable regulatory authorities.

The Group continues to monitor developments on an ongoing basis. The liabilities include amounts in respect of the legacy financing of overseas operations, whereby the Group has benefitted from the Finance Company Exemption contained in UK Controlled Foreign Company legislation. Whilst the Group has complied with all the requirements of UK tax law, the European Commission has confirmed its view that the UK exemptions are partly contrary to EU State Aid rules. On 13 June 2019, HMRC applied to annul the decision of the European Commission, and there remains uncertainty regarding how matters will progress over the coming months. The Group has provided for what it considers to be the most likely outcome, being that all the benefit obtained from the UK Finance Company Exemption is foregone.

The Directors consider those to represent the most significant estimation uncertainties in respect of uncertain tax positions.

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

Insurance provisions

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

Provision is made for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date. The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The eventual settlements on such claims may differ from the amounts provided for at the balance sheet date.

Given the varying factors that ultimately determine the cost of a claim, it is difficult to provide precise sensitivity analysis on the amount of the insurance provision. However, based on analysis undertaken by independent actuaries and an analysis of the historic volatility of estimates of claims costs, the Group considers it unlikely that the estimated insurance provision as at 27 April 2019 will require adjustment in the year ending 2 May 2020 by more than £10.0m.

Deferred Payment Instrument

The consideration receivable by the Group for the sale of its North American business in April 2019 included a US$65m interest-bearing deferred payment instrument. The amount of cash which the Group will receive under that deferred payment instrument will be affected by the financial performance of the business sold and the creditworthiness of the purchaser. The contractual value of the investment is US$65m and the range of values that the Group could recover varies from US$Nil to US$65m plus interest.

As at 27 April 2019, the Group has recognised the deferred payment instrument as an asset at a carrying value of US$29.2m (£22.3m). The carrying value has been determined by discounting forecast cash flows to November 2024. The valuation of the asset takes account of the expected future performance of the business sold and the creditworthiness of the purchaser, and involves significant estimation uncertainty. The carrying value will be re-assessed at each balance sheet date and any movement in the carrying value will be recognised in the consolidated income statement.

The key sensitivities within the valuation relate to the projected ongoing cashflows of the business sold and the discount rate applied to these cashflows (10%). Adjusting the cashflows by +/-US$2m (£1.5m) per annum over the forecast period would result in an adjustment to the loan value of +/-US$4.1m (£3.2m). Adjusting the discount rate by +/- 100bp would result in an adjustment to the loan value of -/+ US$0.7m (£0.5m).

The initial recognition of the deferred payment instrument has been reflected in the consolidated income statement for the year ended 27 April 2019 as part of the overall reported loss on sale of the North America business.

(c) Others

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

Note 1 IFRS accounting policies (continued)

- **Basis of consolidation**

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

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

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

- **Subsidiaries and joint ventures**

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where a business is acquired, the purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of the subsidiaries and other businesses. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. The excess of the cost of acquisition over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement. The non-controlling interest in respect of Virgin Trains East Coast is shown in the consolidated balance sheet at 10% of the carrying value of the related assets and liabilities, and was initially recognised at 10% of the acquisition-date fair values of the assets acquired and liabilities assumed. Intercompany transactions, balances, income and expenses are eliminated on consolidation.

(ii) Joint ventures

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

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

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

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

- **Presentation of income statement and exceptional item**s

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

Exceptional items are defined in note 34.

- **Revenue**

The policy for revenue is set out above under the heading of new accounting standards adopted for the year.

- **Performance incentive payments**

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

- **Government grants**

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

Amounts are held as deferred grant income within trade and other payables.

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

- **Share based payments**

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

Equity-settled transactions

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

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

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Share based payments (continued)**

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

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

Choice of settlement

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

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it generally expects to settle such awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price.

The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

Employment taxes

Liabilities are recognised for employment taxes (principally, employers' national insurance liabilities) payable by the Group on share based payments. The liability for employment taxes is calculated at the balance sheet date with reference to the fair value of the related share based payments at that date. In the case of cash-settled share based payments, the fair value is the pre-tax amount recorded in the balance sheet.

Movements in the liabilities for employment taxes on share based payments are charged or credited to the income statement.

- **Operating profit**

Consolidated operating profit is stated inclusive of restructuring costs and the share of after-tax results of joint ventures but before finance income, finance costs, non-operating exceptional items and taxation.

- **Taxation**

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

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

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

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

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

Where a change in accounting policy requires adjustment of prior year amounts, the taxation effects of the change of accounting policy are treated as part of the prior year adjustment.

- **Segment reporting**

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

- **Foreign currency translation**

The financial statements of foreign operations are maintained in the functional currencies in which the entities transact business. The trading results of foreign operations are translated into sterling using average rates of exchange. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling using rates of exchange at the relevant balance sheet date. Exchange differences arising on the translation of the opening net assets and results of foreign operations, together with exchange differences arising on net foreign currency borrowings to the extent they hedge the Group's investment in foreign operations, are recognised as a separate component of equity being the translation reserve. Further information on the Group's accounting policy on hedges of net investments in a foreign entity is provided on page 94.

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

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

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

	2019	2018
US Dollar:		
Year-end rate	**1.2935**	1.3797
Average rate	**1.3047**	1.3380
Canadian Dollar:		
Year-end rate	**1.7423**	1.7745
Average rate	**1.7182**	1.7072

Note 1 IFRS accounting policies (continued)

• **Business combinations and goodwill**

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets (other than goodwill) and acquired customer contract provisions on the acquisition of a business are amortised to the income statement.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

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

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

Where goodwill 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.

• **Discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the asset or disposal group, excluding any finance costs and related income tax expense.

Assets and disposal groups are only transferred to the held for sale classification once the criteria for the classification is regarded as met. The criteria are:

- Management is committed to the plan to sell the asset;
- An active programme to find a buyer has been initiated by management;
- The sale is highly probable, with the asset or disposal group being actively marketed for sale at a reasonable price compared to its current fair value and that the asset or disposal group are available for immediate sale in its present condition;
- It is unlikely that significant changes will be made to the sale nor is it likely that the decision to sell will be withdrawn;
- The sale is expected to be completed within one year from the date of the classification; and
- No significant changes to the plan are likely.

Property, plant, equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet.

A disposal group qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major division of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major division of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated income statement. The comparative income statement has been restated to show the discontinued operations separately from the continuing operations.

• **Impairment of non-current assets**

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

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

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **Intangible assets**

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

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

Customer contracts	Over the life of the contract (1 to 5 years for current contracts)
Right to operate rail franchises	Right to operate rail franchises over the expected life of the franchise • 3 years and 5 months from October 2015 to 2 March 2019 for East Midlands Trains franchise, • 5 months from 3 March 2019 to 18 August 2019 for the East Midlands Trains franchise which was agreed as a short-term franchise with the Department for Transport; and • 8 years and 1 month from March 2015 to March 2023 for Virgin Trains East Coast franchise until fully impaired as at 29 April 2017
Software costs	2 to 7 years

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

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

- **Property, plant and equipment**

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

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

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

Freehold land is not depreciated.

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

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

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

- **Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out 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.

Note 1 IFRS accounting policies (continued)

- **Contract provisions**

A provision is recognised in the consolidated balance sheet for any contract that is "onerous" or when acquired as part of a business combination. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision (that is the lower of the costs of fulfilling or terminating the contract) may involve forecasting future financial performance.

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

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

- **Hire purchase and lease obligations**

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

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

Rentals under operating leases are generally charged on a straight-line basis over the lease term. However, contingent rentals, principally being rental adjustments related to inflation indices, are accounted for in the period they are incurred.

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

- **Restructuring provisions**

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

- **Insurance**

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

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

- **Retirement benefit obligations**

The Group contributes to a number of pension schemes. In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme.

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

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

The liability or asset recognised for the relevant sections of the Railways Pension Scheme ("RPS") 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. The RPS is a shared cost arrangement. All costs, and any deficit or surplus, are shared 60% by the employer and 40% by the members. In addition, the Group has no rights or obligations in respect of the relevant sections of the RPS following expiry of the related rail franchises. Any remaining deficit (or surplus) is expected to be settled (or recovered) by future operators of the franchise. Contributions due from employees reduce the annual service cost in the income statement, as they are linked to service. The financial effect of movements in expected contributions by future operators of the franchise is recognised in other comprehensive income, since these future contributions have been determined not to be linked to service. Where the award of a new rail franchise to the Group results in it assuming a net pension liability, a corresponding asset is recognised within intangible assets, reflecting a cost in obtaining the right to operate the franchise. When a pension asset is assumed, a corresponding deferred income balance is recognised. The intangible asset or deferred income balance is amortised to the income statement on a straight-line basis over the expected life of the related franchise.

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies (continued)

- **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' for. The policy for financial instruments applied from 29 April 2018 is set out above under the heading of New accounting standards adopted for the year.

Financials assets

Policy prior to 29 April 2018

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments or as available for sale. They include available for sale investments, cash and cash equivalents, accrued income, trade receivables, other receivables and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

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

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either at fair value through profit or loss or available for sale.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables: Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Where the time value of money is material, receivables are discounted to the present value at the point they are first recognised and are subsequently amortised to the invoice amount by the payment due date. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered in evaluating whether a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

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

Other financial Instruments policies applicable to both years

The following policies apply to the years ended 28 April 2018 and 27 April 2019 and remain unchanged following the prospective adoption of IFRS 9 on 29 April 2018.

The accounting policies for financial liabilities, fair values, derivative financial instruments, cash and cash equivalents, interest bearing loans and borrowings, and trade and other payables remain unchanged following the adoption of IFRS 9.

Financial liabilities

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

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

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.

Note 1 IFRS accounting policies (continued)

• Financial instruments (continued)

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 remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception.

This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities at the balance sheet date of twelve months or less that are available for meeting short-term cash commitments and subject to no significant penalty for early withdrawal.

Cash in transit largely comprises amounts receivable on credit and debit cards where the on-bus transaction has been authorised but the funds have yet to clear the bank. These balances are considered highly liquid with minimal risk of default, with funds typically received in less than 3 days.

Interest bearing loans and borrowings

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

Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

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

Trade and other payables

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

• Share capital and dividends

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its own ordinary shares, the consideration paid, including any attributable incremental external costs net of income taxes, is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

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

Notes to the consolidated financial statements

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 disposed of its North America segment, which operates coach and bus operations in the United States and Canada, on 16 April 2019. That segment is therefore presented as discontinued operations. Previously reported figures have been re-presented and restated to show the North America segment as if it had been discontinued with effect from 30 April 2017, the start of the prior year.

The Group is now managed, and reports internally, on a basis consistent with its three continuing operating segments and the segmental information set out in this note is on the basis of those segments as follows:

Segment name	*Service operated*	*Country of operation*
UK Bus (regional operations)	Coach and bus operations	United Kingdom
UK Bus (London)	Bus operations	United Kingdom
UK Rail	Rail operations	United Kingdom

The Group has interests in two material joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). The results of these joint ventures are shown separately in notes 2(c) and 2(g).

The Group's accounting policies are applied consistently, where appropriate, to each segment.

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (the United Kingdom) is the same in all cases. As the Group predominantly 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.

The vast majority of the UK Bus (London) revenue is from Transport for London.

Revenue from continuing operations, split by class and segment, was as follows:

Year ended 27 April 2019	**Passenger revenue £m**	**Contract revenue £m**	**Other £m**	**Total £m**
UK Bus (regional operations)	**1,002.0**	**40.0**	**1.3**	**1,043.3**
UK Bus (London)	**0.3**	**252.5**	**–**	**252.8**
Total bus operations	**1,002.3**	**292.5**	**1.3**	**1,296.1**
UK Rail	**546.2**	**–**	**43.3**	**589.5**
Total Group revenue	**1,548.5**	**292.5**	**44.6**	**1,885.6**
Intra-Group revenue – UK Bus (regional operations)	**–**	**(6.7)**	**–**	**(6.7)**
Reported Group revenue	**1,548.5**	**285.8**	**44.6**	**1,878.9**

Year ended 28 April 2018 (restated)	Passenger revenue £m	Contract revenue £m	Other £m	Total £m
UK Bus (regional operations)	976.7	35.8	1.3	1,013.8
UK Bus (London)	0.1	251.7	–	251.8
Total bus operations	976.8	287.5	1.3	1,256.6
UK Rail	1,479.4	–	76.6	1,556.0
Total Group revenue	2,456.2	287.5	77.9	2,821.6
Intra-Group revenue – UK Bus (regional operations)	–	(3.6)	–	(3.6)
Reported Group revenue	2,456.2	283.9	77.9	2,818.0

(b) Operating profit

Operating profit from continuing operations, split by segment, was as follows:

	2019			2018 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	**117.0**	**(19.0)**	**98.0**	112.9	–	112.9
UK Bus (London)	**10.7**	**(5.0)**	**5.7**	13.3	–	13.3
Total bus operations	**127.7**	**(24.0)**	**103.7**	126.2	–	126.2
UK Rail	**26.4**	**(0.7)**	**25.7**	24.9	(49.0)	(24.1)
	154.1	**(24.7)**	**129.4**	151.1	(49.0)	102.1
Group overheads	**(13.6)**	**(0.9)**	**(14.5)**	(15.3)	–	(15.3)
Restructuring costs	**(2.5)**	**–**	**(2.5)**	(3.2)	–	(3.2)
Total operating profit of continuing Group companies	**138.0**	**(25.6)**	**112.4**	132.6	(49.0)	83.6
Share of joint ventures' profit after finance costs, finance income and taxation	**23.3**	**–**	**23.3**	27.1	–	27.1
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**161.3**	**(25.6)**	**135.7**	159.7	(49.0)	110.7

Note 2 Segmental information (continued)

(c) Joint ventures

The share of profit from joint ventures was further split as follows:

	2019	2018
	£m	£m
Virgin Rail Group (UK Rail)		
Operating profit	**25.7**	30.0
Finance income (net)	**0.8**	0.4
Taxation	**(5.2)**	(4.5)
	21.3	25.9
Citylink (UK Bus, regional operations)		
Operating profit	**2.5**	1.5
Taxation	**(0.5)**	(0.3)
	2.0	1.2
Share of profit of joint ventures after finance costs, finance income and taxation	**23.3**	27.1

(d) Gross assets and liabilities

Assets and liabilities, split by segment, were as follows:

	Non-current assets		2019			2018		
	2019	2018	Gross assets	Gross liabilities	Net assets/ (liabilities)	Gross assets	Gross liabilities	Net assets/ (liabilities)
	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	**851.1**	880.9	**931.8**	**(321.6)**	**610.2**	945.2	(271.4)	673.8
UK Bus (London)	**65.9**	59.1	**74.0**	**(144.7)**	**(70.7)**	68.5	(117.3)	(48.8)
UK Rail	**2.4**	58.2	**50.3**	**(207.3)**	**(157.0)**	192.8	(427.4)	(234.6)
	919.4	998.2	**1,056.1**	**(673.6)**	**382.5**	1,206.5	(816.1)	390.4
Central functions	**26.0**	2.9	**50.5**	**(29.0)**	**21.5**	22.9	(45.2)	(22.3)
Joint ventures	**20.0**	25.2	**19.9**	**–**	**19.9**	25.2	–	25.2
Borrowings and cash	**–**	–	**170.4**	**(433.0)**	**(262.6)**	238.2	(643.8)	(405.6)
Taxation	**–**	–	**–**	**(32.9)**	**(32.9)**	–	(67.0)	(67.0)
Continuing operations	**965.4**	1,026.3	**1,296.9**	**(1,168.5)**	**128.4**	1,492.8	(1,572.1)	(79.3)
Discontinued operations – North America	**–**	363.6	**–**	**–**	**–**	404.9	(143.9)	261.0
Total (including discontinued)	**965.4**	1,389.9	**1,296.9**	**(1,168.5)**	**128.4**	1,897.7	(1,716.0)	181.7

Central assets and liabilities include interest payable and receivable and other net assets of the holding company and other head office companies. Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra-Group balances, cash, borrowings, taxation, interest payable and interest receivable.

(e) Capital expenditure on property, plant and equipment

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

	2019	2018 (restated)
	£m	£m
UK Bus (regional operations)	**63.7**	81.1
UK Bus (London)	**13.6**	3.7
UK Rail	**27.5**	11.8
	104.8	96.6

Notes to the consolidated financial statements

Note 2 Segmental information (continued)

(f) Capital expenditure on intangible assets

The capital expenditure on intangible assets (including goodwill), by continuing operations, is shown below:

	2019	2018 (restated)
	£m	£m
UK Bus (regional operations)	**2.7**	5.0
UK Rail	**2.0**	8.2
	4.7	13.2

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

The results of each continuing segment are further analysed below:

	Year ended 27 April 2019									
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation and impairment expense	Software amortisation and impairment expense	Operating profit pre intangibles (exc software) and exceptional items	Intangible asset (exc software) amortisation	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	202.1	–	202.1	(79.2)	(5.9)	117.0	(0.3)	(18.7)	(0.2)	97.8
UK Bus (London)	16.5	–	16.5	(5.8)	–	10.7	–	(5.0)	(0.3)	5.4
UK Rail – subsidiaries	34.5	–	34.5	(5.4)	(2.7)	26.4	–	(0.7)	(1.7)	24.0
UK Rail – joint venture										
Virgin Rail Group	25.7	(4.4)	21.3	–	–	21.3	–	–	–	21.3
UK Bus – joint venture										
Citylink	2.5	(0.5)	2.0	–	–	2.0	–	–	–	2.0
Group overheads	(13.6)	–	(13.6)	–	–	(13.6)	–	(0.9)	(0.3)	(14.8)
Restructuring costs	(2.5)	–	(2.5)	–	–	(2.5)	–	–	2.5	–
	265.2	**(4.9)**	**260.3**	**(90.4)**	**(8.6)**	**161.3**	**(0.3)**	**(25.3)**	**–**	**135.7**

The table below for the year to 28 April 2018 has been restated to remove discontinued operations.

	Year ended 28 April 2018 (restated)								
	EBITDA pre-exceptional items	Joint venture interest and tax	EBITDA including joint venture interest and tax	Depreciation and impairment expense	Software amortisation and impairment expense	Operating profit pre intangibles (exc software) and exceptional items	Exceptional items	Allocation of restructuring costs	Operating profit
	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	197.3	–	197.3	(78.3)	(6.1)	112.9	–	(0.7)	112.2
UK Bus (London)	20.0	–	20.0	(6.7)	–	13.3	–	–	13.3
UK Rail – subsidiaries	40.5	–	40.5	(9.1)	(6.5)	24.9	(49.0)	(2.2)	(26.3)
UK Rail – joint venture									
Virgin Rail Group	30.0	(4.1)	25.9	–	–	25.9	–	–	25.9
UK Bus – joint venture									
Citylink	1.5	(0.3)	1.2	–	–	1.2	–	–	1.2
Group overheads	(15.3)	–	(15.3)	–	–	(15.3)	–	(0.3)	(15.6)
Restructuring costs	(3.2)	–	(3.2)	–	–	(3.2)	–	3.2	–
	270.8	(4.4)	266.4	(94.1)	(12.6)	159.7	(49.0)	–	110.7

Note 3 Operating costs and other operating income

Operating costs and other operating income of continuing operations were as follows:

	2019	2018 (restated)
	£m	£m
Miscellaneous revenue (see explanation below)	**78.9**	124.6
Rail franchise premia (see explanation below)	**(73.6)**	(606.4)
Rail revenue support (see explanation below)	**(5.8)**	105.0
Materials and consumables	**(243.4)**	(289.0)
Staff costs (note 7)	**(928.7)**	(1,084.0)
Depreciation on property, plant and equipment	**(89.9)**	(90.4)
Expenditure on property plant and equipment	**(32.4)**	(30.6)
Gain on disposal of property, plant and equipment	**0.3**	3.7
Impairment of intangible fixed assets	**–**	(0.8)
Impairment of property, plant and equipment	**(0.5)**	(3.7)
Amortisation of intangible assets	**(8.9)**	(11.8)
Impairment of inventories	**(0.3)**	(0.4)
Network Rail charges including electricity for traction	**(105.1)**	(171.9)
Operating lease rentals payable	**(81.4)**	(202.9)
Other external charges	**(273.2)**	(472.6)
Restructuring costs	**(2.5)**	(3.2)
Total operating costs	**(1,766.5)**	(2,734.4)

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

Under the Schedules 4 and 8 possessions and performance regimes, amounts may be payable or receivable by the Group's UK Rail Division to or from Network Rail. Schedule 4 compensates train operators for the impact of planned service disruption and Schedule 8 compensates rail industry participants for the impact of unplanned service disruption. The amounts payable or receivable reflect the Group's operational performance as well as Network Rail's and other train operators'. The amounts are intended to cover the wider effects of disruption on the Group's and others' revenue and costs, such as those associated with the impact on customer demand for train services and the costs of managing disruption. Any compensation received from Network Rail is not therefore intended to correspond to the refunds that might be payable to train passengers. £44.1m (2018: £50.5m) is included in respect of these possessions and performance regimes in the overall miscellaneous revenue of £78.9m (2018: £124.6m) shown above.

Rail franchise premia is the amount of financial premia and profit share payable to the UK's Department for Transport in respect of the operation of UK passenger rail franchises.

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

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

	2019	2018 (restated)
	£m	£m
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	**0.4**	0.4
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.5
Total audit fees	**1.0**	0.9
Other assurance services	**0.4**	0.1
Non-audit fees	**0.4**	0.1
Total fees payable by the Group to its auditors	**1.4**	1.0

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

Notes to the consolidated financial statements

Note 4 Exceptional items and intangible asset amortisation

The Group highlights amounts before non-software intangible asset amortisation and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are defined in note 34.

The items shown in the columns headed "Intangibles (exc software) and exceptional items" on the face of the consolidated income statement for the year ended 27 April 2019 and for the prior year comparatives are further analysed in the table below. The figures for the year to 28 April 2018 have been restated to remove the effect of the discontinued operations.

	2019			2018 (restated)		
	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items
Operating costs and other operating income	£m	£m	£m	£m	£m	£m
Non-software intangible assets amortisation	**–**	**(0.3)**	**(0.3)**	–	–	–
Equalisation of guaranteed minimum pension benefits	**(25.3)**	**–**	**(25.3)**	–	–	–
Onerous contract provision and adjustment to asset and liability carrying values regarding Virgin Trains East Coast	**–**	**–**	**–**	(49.0)	–	(49.0)
	(25.3)	**(0.3)**	**(25.6)**	(49.0)	–	(49.0)
Non-operating exceptional items						
UK Bus (regional operations) business closure	**–**	**–**	**–**	(1.7)	–	(1.7)
Finance costs						
Finance costs in relation to early redemption of debt	**(6.1)**	**–**	**(6.1)**	–	–	–
Intangible asset amortisation (exc software) and exceptional items before taxation	**(31.4)**	**(0.3)**	**(31.7)**	(50.7)	–	(50.7)
Tax effect	**22.5**	**–**	**22.5**	(13.4)	–	(13.4)
Intangible asset amortisation (exc software) and exceptional items after taxation	**(8.9)**	**(0.3)**	**(9.2)**	(64.1)	–	(64.1)

Guaranteed minimum pension equalisation

On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The judgement has implications for many defined benefit schemes, including those in which the Stagecoach Group participates.

The Group has worked with its actuarial advisors to understand the implications of the High Court judgement for the schemes in which the Group participates and has recorded a £25.3m pre-tax exceptional expense to reflect the Group's best estimate of the effect on the reported pension liabilities.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. It is expected that there will be follow-on court hearings to further clarify the application of GMP equalisation in practice. It is not yet known whether Lloyds Banking Group will appeal the High Court judgement. Whilst the financial statements reflect the best estimate of the impact on pension liabilities, that estimate reflects a number of assumptions. As the outcome of future court hearings cannot be reliably predicted, it is not practical to quantify the extent of the estimation uncertainty but the best estimate reflects the information currently available. The Directors will continue to monitor any further clarifications or court hearings arising from the Lloyds case and consider the impact on pension liabilities accordingly.

The Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost that should be reflected through the consolidated income statement and that any subsequent change in the estimate of that should be recognised in other comprehensive income. The judgement is based on the fact that the reported pension liabilities for the Stagecoach Group Pension Scheme as at 28 April 2018 did not include any amount in respect of GMP equalisation.

Early redemption of debt

On 18 October 2012, the Group issued US$150m of 4.36% Notes as a private placement. The Notes were due to be redeemed at their principal amount on 18 October 2022.

Following the sale of the Group's North America business on 16 April 2019, the Group decided to repay the Notes early. Accordingly, the Group repaid all of the outstanding US$150m Notes on 25 April 2019. Consistent with the terms of the Notes, in repaying the Notes earlier than their scheduled redemption date, the Group paid a "make whole" premium of US$7.6m (£6.1m) in excess of the US$150m principal amount. That "make whole" premium has been reported as an exceptional item in the year ended 27 April 2019.

Exceptional items to 28 April 2018

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

- An exceptional pre-tax expense of £81.9m in respect of the Virgin Trains East Coast franchise. Of the total expenses, £49.0m was recognised in the consolidated income statement, with the remaining £32.9m recognised in the consolidated statement of comprehensive income, as it represented the actuarial loss arising on the pension asset previously recognised.
- A pre-tax exceptional loss of £1.7m was recognised in respect of the closure of the Norfolk Green business within the UK Bus (regional operations) Division. Due to the non-recurring nature of business disposals, any such gains or losses are presented as exceptional items to allow a proper understanding of the Group's financial performance.

Note 5 Discontinued operations

On 20 December 2018, the Group announced that an agreement had been reached to sell the North American business, which consists of a number of previously wholly owned subsidiaries. On 16 April 2019, the sale of the North American business was completed. The North American business was classified as discontinued operations from 20 December 2018.

The results of the North American business from the start of the year to the date of its disposal are as follows:

	2019			2018		
	Performance pre intangibles and exceptional items	Intangibles (exc software) and exceptional items	Results for the year	Performance pre intangibles and exceptional items	Intangibles (exc software) and exceptional items	Results for the year
	£m	£m	£m	£m	£m	£m
Discontinued operations						
Revenue	**456.6**	**–**	**456.6**	470.9	–	470.9
Operating costs and other operating income	**(436.8)**	**(69.8)**	**(506.6)**	(449.9)	1.2	(448.7)
Operating profit/(loss) before restructuring costs	**19.8**	**(69.8)**	**(50.0)**	21.0	1.2	22.2
Restructuring costs	**(0.2)**	**–**	**(0.2)**	(0.8)	–	(0.8)
Profit/(loss) before interest and taxation	**19.6**	**(69.8)**	**(50.2)**	20.2	1.2	21.4
Finance costs	**(3.8)**	**–**	**(3.8)**	(4.0)	–	(4.0)
Finance income	**0.1**	**–**	**0.1**	0.3	–	0.3
Profit/(loss) before taxation	**15.9**	**(69.8)**	**(53.9)**	16.5	1.2	17.7
Taxation	**(0.4)**	**–**	**(0.4)**	(1.8)	(0.2)	(2.0)
	15.5	**(69.8)**	**(54.3)**	14.7	1.0	15.7
Loss on disposal of North American business	**–**	**(23.8)**	**(23.8)**	–	–	–
Taxation on disposal of North American business	**–**	**–**	**–**	–	–	–
Profit/(loss) after tax from discontinued operations	**15.5**	**(93.6)**	**(78.1)**	14.7	1.0	15.7

The sale of the North America business was concluded prior to 27 April 2019. As a result, there are no assets classified as held for sale as at 27 April 2019.

The tax charge on discontinued operations is lower than the standard rate of corporate income tax in North America (of approximately 26%) applied to the profit before tax, due to the utilisation of previously unrecognised tax losses in the US.

The major classes of assets and liabilities disposed, along with the loss on disposal, were as follows:

	2019
	£m
Property, plant and equipment (note 13)	268.2
Goodwill (note 11)	10.1
Other intangible assets (note 12)	1.5
Trade and other receivables	46.6
Current tax assets	0.2
Cash	26.6
Trade and other payables	(79.3)
Borrowings	(54.4)
Provisions	(68.8)
Total net assets disposed of	150.7
Cash consideration received	102.0
Deferred payment instrument received	22.3
Recycled gains from foreign currency translation reserve	8.6
Costs of disposal	
– paid in year ended 27 April 2019	(1.6)
– included as payable as at 27 April 2019	(4.4)
Process, less costs, on disposal	126.9
Loss on disposal of business	(23.8)

The net cash flows of the North America business were as follows:

Cash flows from discontinued operations	**2019**	2018
	£m	£m
Net cash from operating activities	**47.3**	67.2
Net cash from investing activities	**(1.7)**	(11.3)
Net cash from financing activities	**(47.1)**	(46.1)
Net cash flows for the year	**(1.5)**	9.8

The consideration for the sale of the North American business includes a Deferred Payment Instrument of US$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 November 2024 or (b) in part, after distributions of US$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable.

Notes to the consolidated financial statements

Note 5 Discontinued operations (continued)

Impairment of North America goodwill

The estimated value in use of the North America cash generating unit reported in the Group's consolidated financial statements as at 28 April 2018 was £499.4m (US$689.0m). That estimate was revised to £289.5m (US$371.1m) as at 27 October 2018 to take account of financial performance in the intervening period and changes in forecast financial performance. This change in estimate has resulted in an £86.2m impairment of goodwill being reported in the year ended 27 April 2019.

The non-current assets of cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the carrying value of such assets may be impaired. If the recoverable amount of the non-current assets is less than their carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. Any impairment of goodwill is recognised immediately in the income statement.

The carrying values of the non-current assets of cash generating units to which goodwill has been allocated as at 28 April 2018 were reviewed for impairment in accordance with the Group's accounting policy and as set out in the Group's consolidated financial statements for the year then ended.

Since those reviews, the Group saw indications of potential impairment of assets at the North America cash generating unit. Year-to-date profit at the North America Division was below its internal budget and like-for-like revenue declined in the six months to 27 October 2018. Like-for-like revenue fell 3.0% in the half-year ended 27 October 2018, when compared to the equivalent prior year period. Trading was adversely affected by a number of factors, including increased competition in certain of the markets in which the Division operates. Accordingly, a further review for impairment of the carrying values of that cash generating unit's assets was carried out based on the assets' carrying values as at 27 October 2018.

The North America business operates a variety of different types of transportation services over a wide area of North America. Its financial performance is influenced by various different factors, many of which are specific to the individual markets and locations in which it operates. Among the factors that can affect financial performance are changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions, cost pressures including the availability of sufficient suitable staff, and regulatory change. Any forecast of financial performance is therefore subjective.

Taking account of available updated information, including year-to-date performance, expected continuation of the increased competition and a recent fall in fuel prices, the forecast for the North America Division for the year ending 27 April 2019 was revised resulting in a reduction in forecast profit relative to the forecast forming part of the review of asset carrying values as at 28 April 2018. The under-performance versus budget led the Directors to review the forecast revenue growth rates and profit margins over the medium-term, and these were revised down relative to the assumptions applied to the review of asset carrying values as at 28 April 2018. The long-term growth rate used to extrapolate forecast cash flows beyond the period of the management plan was also reviewed in light of the under-performance and was revised down from 3.9% per annum to 2.2% per annum. The discount rate was reviewed and increased from the pre-tax discount rate of 9.4% applied in the previous impairment review to 10.4%.

As a result of the revised forecasts and assumptions explained above, an £85.4m impairment of North America goodwill was reflected in the results for the half-year ended 27 October 2018 and retranslated to £86.2m in the year ended 27 April 2019. That impairment was calculated to reduce the carrying value of the relevant assets to the estimated value in use of the cash generating unit, noting that the Directors did consider fair value less costs to sell of the assets to be greater than the estimate of value in use. After this impairment, the carrying value of North America non-current assets at 27 October 2018 was £289.5m (US$371.1m), of which £10.1m (US$13.1m) related to goodwill.

As explained above, the Board made a decision to dispose of the North American business on 20 December 2018 and this sale was completed on 16 April 2019.

Note 6 Finance costs and income

Net finance costs and items of income, expense, gains and losses in respect of financial instruments (excluding commodity hedges, trade and other payables, and trade and other receivables) of continuing operations have been recognised in the income statement as set out in the following table. The figures for the year to 28 April 2018 have been restated to remove discontinued operations.

	2019	2018 (restated)
	£m	£m
Interest expense on financial liabilities not at fair value through profit or loss		
– Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**(2.1)**	(3.4)
– Interest payable on hire purchase and finance leases	**(0.2)**	(0.3)
– Interest payable and other finance costs on bonds	**(21.8)**	(21.8)
– Exceptional finance costs (note 4)	**(6.1)**	–
Other finance costs		
– Unwinding of discounts on provisions	**(1.2)**	(1.3)
– Interest charge on defined benefit pension schemes	**(4.6)**	(5.8)
Finance costs	**(36.0)**	(32.6)
Interest income on financial assets not at fair value through profit or loss		
– Interest receivable on cash	**1.2**	0.4
Interest income on fair value hedges		
– Interest receivable on interest rate swaps qualifying as fair value hedges	**0.3**	0.8
Finance income	**1.5**	1.2
Net finance costs	**(34.5)**	(31.4)

Note 7 Staff costs

Total staff costs were as follows:

	2019	2018
	£m	£m
Staff costs		
Wages and salaries	**943.4**	1,094.8
Social security costs	**85.9**	101.5
Pension costs excluding interest on net liability (note 24)		
– Defined benefit pension costs excluding past service cost	**19.7**	49.9
– Past service cost (note 4)	**25.3**	–
– Defined contribution costs	**45.7**	33.4
– Administration costs for pension schemes	**0.9**	1.3
Share based payment costs (excluding social security costs)		
– Equity-settled	**1.9**	1.2
– Cash-settled	**1.2**	2.1
	1,124.0	1,284.2
Less: discontinued staff costs	**(195.3)**	(200.2)
Continuing operations staff costs	**928.7**	1,084.0

The total amount shown for staff costs above includes an amount of £0.3m (2018: £0.3m) in respect of share based payment costs for the Directors.

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

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

Average monthly staff numbers	2019	2018
	number	number
UK operations	**23,628**	27,712
UK administration and supervisory	**3,403**	3,791
Continuing operations	**27,031**	31,503
Discontinued operations – North America	**4,165**	4,484
Total	**31,196**	35,987

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

	2019	2018
	number	number
UK Bus (regional operations)	**19,706**	19,836
UK Bus (London)	**3,932**	4,004
UK Rail	**3,315**	7,533
Central	**78**	130
Continuing operations	**27,031**	31,503
Discontinued operations – North America	**4,165**	4,484

Notes to the consolidated financial statements

Note 8 Taxation

(a) Analysis of charge in the year

The figures shown below for the year to 28 April 2018 have been restated to remove discontinued operations.

	2019			2018 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Current tax:						
UK Corporation tax at 19.0% (2018: 19.0%)	**21.7**	**(2.0)**	**19.7**	28.0	(1.1)	26.9
Prior year under/(over) provision for corporation tax	**(1.9)**	**(16.2)**	**(18.1)**	(7.0)	–	(7.0)
Total current tax	**19.8**	**(18.2)**	**1.6**	21.0	(1.1)	19.9
Deferred tax:						
Origination and reversal of temporary differences	**2.8**	**(4.3)**	**(1.5)**	(7.0)	–	(7.0)
Adjustments in respect of prior years	**(0.6)**	**–**	**(0.6)**	2.1	14.5	16.6
Total deferred tax	**2.2**	**(4.3)**	**(2.1)**	(4.9)	14.5	9.6
Total tax on profit on continuing operations	**22.0**	**(22.5)**	**(0.5)**	16.1	13.4	29.5

(b) Factors affecting tax charge for the year

	2019	2018 (restated)
	£m	£m
Profit before taxation – on continuing operations	**101.2**	77.6
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.0% (2018: 19.0%)	**19.2**	14.7
Effects of:		
Impact of initial recognition exemption on property, plant and equipment	**1.0**	0.8
Impact of initial recognition exemption on defined benefit pension schemes	**1.0**	2.0
Non-deductible/non-taxable exceptional loss – Virgin Trains East Coast	**–**	9.3
Non-deductible element of share based payment expense	**0.3**	0.2
Other non-deductible expenditure	**2.0**	0.2
Other non-taxable income	**(0.5)**	(2.1)
Benefit in respect of Virgin Trains East Coast losses	**(0.9)**	–
Tax effect of share of results of joint ventures	**(4.4)**	(5.2)
Adjustments to tax charge in respect of prior years		
– prior year adjustments	**(2.5)**	(4.9)
– exceptional write off of tax balances in respect of Virgin Trains East Coast	**–**	14.5
– exceptional credit arising from Virgin Trains East Coast losses	**(16.2)**	–
Change in UK corporation tax rate		
– temporary difference expected to reverse at a lower rate of tax	**0.5**	–
Total tax on profit (note 8a)	**(0.5)**	29.5

(c) Factors that may affect future tax charges

There are no temporary differences associated with investments in foreign subsidiaries due to the disposal of the North America business by the year end.

Gross deductible temporary differences of £52.1m (2018: £596.9m) have not been recognised due to restrictions in the availability of their use.

This includes £44.3m (2018: £178.0m) of accumulated tax losses associated with the Virgin Trains East Coast franchise which have not been recognised as an asset in the consolidated financial statements due to significant doubt over the Group's ability to access and utilise these losses. Following the sale of the North American business in April 2019, the potential unrecognised accumulated tax losses of £410.6m as at 28 April 2018 in respect of overseas businesses are no longer available.

The areas where the Group sees greatest uncertainty around the amount of tax that is payable are explained in note 1.

Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to the expected corporation tax rates or laws in the UK, the Group expects its future effective tax rate (excluding exceptional items) to be between 17% and 20% (2018: 17% and 20%).

(d) Tax on other comprehensive income

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

Notes to the consolidated financial statements

Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2019 pence per share	2018 pence per share	**2019** £m	2018 £m
Amounts recognised as distributions in the year				
Dividends on ordinary shares				
Final dividend in respect of the previous year	**3.9**	8.1	**22.4**	46.5
Interim dividend in respect of the current year	**3.8**	3.8	**21.7**	21.8
Amounts recognised as distributions to equity holders in the year	**7.7**	11.9	**44.1**	68.3
Dividends proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares				
Final dividend in respect of the current year	**3.9**	3.9	**22.3**	22.4

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 5 December 2018 and paid on 6 March 2019. The Board has proposed a final dividend of 3.9p per ordinary share payable on 2 October 2019 to shareholders on the register at 23 August 2019.

The total amount of £22.3m shown above as being the final dividend in respect of the year to 27 April 2019 has been calculated by multiplying the proposed final dividend of 3.9p per ordinary share by the number of ordinary shares in issue (excluding shares held in treasury) as at 27 April 2019. Since 27 April 2019, the Company has, and may continue to, repurchase some of its own ordinary shares. The actual total amount of the final dividend will be based on the number of ordinary shares in issue (excluding shares held in treasury) as at 23 August 2019 and is expected to be less than the £22.3m shown above.

Note 10 Earnings per share

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

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to executive share plans and long-term incentive plans.

	2019 no. of shares million	2018 no. of shares million
Basic weighted average number of ordinary shares, excluding treasury shares	**573.2**	573.4
Dilutive ordinary shares		
– Executive Participation Plan	**2.7**	2.7
– Long Term Incentive Plan	**0.7**	–
Diluted weighted average number of ordinary shares	**576.6**	576.1

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

	Continuing operations	**Discontinued operations**	**Total of all operations**	Continuing operations	Discontinued operations	Total of all operations
	2019	**2019**	**2019**	2018	2018	2018
	£m	**£m**	**£m**	£m	£m	£m
Profit attributable to equity holders of the parent for basic EPS calculation	**99.7**	**(78.1)**	**21.6**	54.8	15.7	70.5
Non-software intangible asset amortisation (note 4)	**0.3**	**–**	**0.3**	–	–	–
Exceptional items before tax (notes 4 and 5)	**31.4**	**93.6**	**125.0**	50.7	(1.2)	49.5
Tax effect of intangible asset amortisation and exceptional items (note 4)	**(22.5)**	**–**	**(22.5)**	13.4	0.2	13.6
Non-controlling interest in exceptional items	**2.0**	**–**	**2.0**	(5.6)	–	(5.6)
Profit for adjusted EPS calculation	**110.9**	**15.5**	**126.4**	113.3	14.7	128.0

Notes to the consolidated financial statements

Note 11 Goodwill

The movements in goodwill were as follows:

	2019	2018
	£m	£m
Cost		
At beginning of year	**142.1**	148.2
Acquired through business combinations	**0.3**	–
Disposal of subsidiaries	**(95.9)**	–
Foreign exchange movements	**4.7**	(6.1)
At end of year	**51.2**	142.1
Accumulated amortisation		
Impairment charged to income statement (note 5)	**(86.2)**	–
Disposal of subsidiaries	**85.8**	–
Foreign exchange movements	**0.4**	–
At end of year	**–**	–
Net book value at beginning of year	**142.1**	148.2
Net book value at end of year	**51.2**	142.1

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to three individual cash generating units ("CGUs") on the basis of the Group's operations. Each cash generating unit is an operational division. The UK Bus (regional operations) and UK Bus (London) cash generating units operate coach and bus services in the United Kingdom. The North America cash generating unit, which was disposed of on 16 April 2019, operated coach and bus services in the US and Canada. No goodwill has been allocated to the Group's UK rail operations.

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)		North America	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Carrying amount of goodwill	**47.6**	47.3	**3.6**	3.6	**N/a**	91.2
Basis on which recoverable amount has been determined	**Value in use**	Value in use	**Value in use**	Value in use	**N/a**	Value in use
Period covered by approved management plans used in value in use calculation	**5 years**	5 years	**5 years**	5 years	**N/a**	4 years
Pre-tax discount rate applied to cash flow projections	**8.7%**	8.7%	**8.7%**	8.7%	**N/a**	9.4%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.2%**	2.4%	**2.2%**	2.4%	**N/a**	3.9%
Difference between above growth rate and long-term average growth rate for market in which unit operates	**Nil**	Nil	**Nil**	Nil	**N/a**	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and in the case of UK Bus (London), the number of new contracts won and the commercial terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties facing the Group are set out in section 1.4.5 of the Strategic report.

The cost base of the UK Bus (regional operations) can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. Risks to the cash flow forecasts remain, however, and are described in section 1.4.5. The cost base of UK Bus (London) is not completely flexible because the business is contractually committed to operate the majority of its services.

The discount rates have been determined with reference to the estimated post-tax Weighted Average Cost of Capital ("WACC") of the Group. The WACC has been estimated as at 27 April 2019 at 7.1% (2018: 7.1%).

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 as at 27 April 2019.

Note 12 Other intangible assets

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

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

Year ended 27 April 2019	Customer contracts	Rail franchises	Software costs	Total
	£m	£m	£m	£m
Cost				
At beginning of year	**2.1**	**61.4**	**73.1**	**136.6**
Additions	**1.3**	**–**	**3.1**	**4.4**
Disposal of subsidiaries	**–**	**–**	**(9.0)**	**(9.0)**
Disposals	**(1.7)**	**(61.4)**	**(35.1)**	**(98.2)**
Foreign exchange movements	**–**	**–**	**0.5**	**0.5**
At end of year	**1.7**	**–**	**32.6**	**34.3**
Accumulated amortisation				
At beginning of year	**(2.1)**	**(61.4)**	**(28.7)**	**(92.2)**
Amortisation charged to income statement	**(0.3)**	**–**	**(9.3)**	**(9.6)**
Disposal of subsidiaries	**–**	**–**	**7.5**	**7.5**
Disposals	**1.7**	**61.4**	**7.0**	**70.1**
Foreign exchange movements	**–**	**–**	**(0.4)**	**(0.4)**
At end of year	**(0.7)**	**–**	**(23.9)**	**(24.6)**
Net book value at beginning of year	**–**	**–**	**44.4**	**44.4**
Net book value at end of year	**1.0**	**–**	**8.7**	**9.7**

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

Notes to the consolidated financial statements

Note 13 Property, plant and equipment

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

Year ended 27 April 2019	Land and buildings	Passenger service vehicles	Other plant and equipment	Total
	£m	£m	£m	£m
Cost				
At beginning of year	**347.3**	**1,585.0**	**211.2**	**2,143.5**
Additions	**5.8**	**79.9**	**31.5**	**117.2**
Disposal of subsidiaries	**(52.5)**	**(531.9)**	**(6.7)**	**(591.1)**
Disposals	**(5.3)**	**(31.1)**	**(82.9)**	**(119.3)**
Foreign exchange movements	**2.9**	**25.2**	**0.2**	**28.3**
At end of year	**298.2**	**1,127.1**	**153.3**	**1,578.6**
Depreciation				
At beginning of year	**(77.9)**	**(779.7)**	**(148.8)**	**(1,006.4)**
Depreciation charged to income statement				
– Pre-exceptional charge	**(9.5)**	**(108.9)**	**(13.0)**	**(131.4)**
– Exceptional "saving"	**0.8**	**14.5**	**1.1**	**16.4**
Impairment charged to income statement	**–**	**(0.5)**	**–**	**(0.5)**
Disposal of subsidiaries	**17.1**	**304.0**	**1.8**	**322.9**
Disposals	**1.7**	**30.1**	**37.4**	**69.2**
Foreign exchange movements	**(1.1)**	**(13.7)**	**–**	**(14.8)**
At end of year	**(68.9)**	**(554.2)**	**(121.5)**	**(744.6)**
Net book value at beginning of year	**269.4**	**805.3**	**62.4**	**1,137.1**
Net book value at end of year	**229.3**	**572.9**	**31.8**	**834.0**
Included in the above net book value at the end of the year are:				
Assets on hire purchase	**–**	**18.8**	**–**	**18.8**
Assets on finance leases	**–**	**0.1**	**–**	**0.1**
Long leasehold land and buildings	**39.8**	**–**	**–**	**39.8**

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

Note 14 Interests in joint ventures

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

(a) Virgin Rail Group Holdings Limited

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

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

Virgin Rail Group's principal subsidiary is West Coast Trains Limited. Under the terms of its rail franchise agreement, West Coast Trains Limited may only pay dividends and/or repay loans from other related companies to the extent it remains compliant with certain financial ratios specified in the franchise agreement. This could restrict West Coast Trains Limited from making distributions or repaying loans that would be otherwise permitted by company law. West Coast Trains Limited is also prohibited from loaning money to related companies without the prior consent of the UK Department for Transport. Such restrictions on distributions and loans generally apply to all entities operating train services under UK rail franchise agreements. In addition, under arrangements pursuant to which a performance bond has been issued by an insurance company in connection with the West Coast rail franchise, Virgin Rail Group is required to maintain consolidated net assets (applying its own accounting policies) of no less than £22.5m (2018: £22.5m). This could restrict Virgin Rail Group's ability to make distributions to the Stagecoach Group.

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

(b) Scottish Citylink Coaches Limited

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

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

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

(c) Movements in carrying values

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

	Virgin Rail Group	**Citylink**	**Total 2019**	Total 2018
	£m	£m	£m	£m
Net book value				
At beginning of year	**21.2**	**4.0**	**25.2**	25.7
Share of recognised profit	**21.3**	**2.0**	**23.3**	27.1
Share of actuarial losses on defined benefit pension schemes, net of tax	**(2.8)**	**–**	**(2.8)**	(0.6)
Share of net fair value (losses)/gains on joint ventures' cash flow hedges	**(0.4)**	**–**	**(0.4)**	0.2
Dividends received in cash	**(24.3)**	**(1.1)**	**(25.4)**	(27.2)
At end of year	**15.0**	**4.9**	**19.9**	25.2

A loan payable to joint venture, Citylink, of £1.7m (2018: £1.7m) is included within current liabilities under the caption "Trade and other payables".

Note 14 Interests in joint ventures (continued)

(d) Summarised financial information of joint ventures

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

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

Joint venture	Virgin Rail Group	Citylink
Latest statutory financial year end closest to 27 April 2019	31 March 2019	31 December 2018
Balance sheet date of management accounts	27 April 2019	30 April 2019

(e) Summarised financial information of joint ventures

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

As at 27 April 2019	**Virgin Rail Group**	**Citylink**	**Total 2019**
	£m	£m	£m
Non-current assets	–	0.3	
Cash and cash equivalents	129.4	1.2	
Other current assets	90.7	9.8	
Current liabilities	(189.2)	(4.6)	
Net assets	**30.9**	**6.7**	
Non-controlling interest	(0.2)	–	
Shareholders' funds	**30.7**	**6.7**	
Group share	49%	35%	
Group share of net assets	15.0	2.3	17.3
Goodwill	–	2.6	2.6
Group interest in joint ventures	**15.0**	**4.9**	**19.9**

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

Note 14 Interests in joint ventures (continued)

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

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

	2019	2018
	£m	£m
Virgin Rail Group		
Current assets – derivative instruments at fair value	**0.2**	0.9
Citylink		
Current assets – loan to Stagecoach Group	**1.7**	1.7

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

Years ended 27 April 2019 and 28 April 2018	**2019**		2018	
	Virgin Rail Group	Citylink	Virgin Rail Group	Citylink
	£m	£m	£m	£m
Revenue	**1,243.9**	**41.1**	1,171.4	38.1
Operating expenses	**(1,191.5)**	**(33.9)**	(1,110.2)	(33.7)
Operating profit	**52.4**	**7.2**	61.2	4.4
Finance income	**1.6**	**–**	0.8	–
Taxation	**(10.7)**	**(1.4)**	(9.1)	(0.8)
Profit after tax	**43.3**	**5.8**	52.9	3.6
Other comprehensive expense	(6.5)	–	(1.0)	–
Total comprehensive income	**36.8**	**5.8**	51.9	3.6

Note 15 Subsidiary and related undertakings

(a) Inter City Railways Limited

Inter City Railways Limited is the one subsidiary in which a third party has a material non-controlling interest. The Group holds 90% of the equity and voting rights in Inter City Railways Limited, which in turn holds 100% of the equity and voting rights in East Coast Main Line Company Limited, which traded as Virgin Trains East Coast. Both Inter City Railways Limited and East Coast Main Line Company Limited are incorporated in the UK. The Virgin Group of companies holds the other 10% of the equity and voting rights of Inter City Railways Limited and previously received a royalty fee from East Coast Main Line Company Limited that varied depending on the revenue and profit of that company. The Group has contractual arrangements with the Virgin Group in respect of the business. However, the Group may appoint a majority of the directors of Inter City Railways Limited and appoint the executive management of East Coast Main Line Company Limited. Also, the Group is responsible for the day-to-day management of the company, and has the power to direct its activities. The Group therefore accounts for Inter City Railways Limited and East Coast Main Line Company Limited as subsidiaries.

The profit for the year ended 27 April 2019 allocated to the non-controlling interest is shown on the consolidated income statement. The accumulated non-controlling interest is shown on the consolidated balance sheet and the movement in that interest in the year is shown in the consolidated statement of changes in equity.

At least 75% of the distributable profit of Inter City Railways Limited should be distributed to its shareholders within four months of each financial year end subject to retaining sufficient cash to meet any obligations under rail franchise agreements. Both shareholders in Inter City Railways Limited need to agree to any changes to or deviations from that dividend policy. No dividends or other distributions were paid or declared by Inter City Railways Limited in the year ended 27 April 2019 (2018: £Nil).

The consolidated balance sheet of Inter City Railways Limited as at 27 April 2019 and its financial performance for the year ended 27 April 2019 are summarised on the next page.

The amounts shown on the next page are determined in accordance with the Group's accounting policies before inter-company eliminations.

Notes to the consolidated financial statements

Note 15 Subsidiary and related undertakings (continued)

(a) Inter City Railways Limited (continued)

	2019	2018
	£m	£m
Non-current assets	–	44.4
Current assets	**41.8**	172.3
Current liabilities	**(41.8)**	(386.6)
Net liabilities	–	(169.9)
Revenue	**139.7**	777.0
Expenses	**(139.9)**	(776.0)
Operating (loss)/profit	**(0.2)**	1.0
Management recharge	–	(0.2)
Provision for onerous contract	–	(24.0)
Restructuring costs	–	(1.6)
Finance income/(costs), (net)	**0.2**	(2.7)
Taxation	–	(21.9)
Loss after tax	–	(49.4)
Other comprehensive expense	–	(30.4)
Total comprehensive expense	–	(79.8)

(b) Termination of Virgin Trains East Coast franchise

On 16 May 2018, the Secretary of State for Transport announced his decision to transfer responsibility for operating the InterCity East Coast train services from Virgin Trains East Coast to a publically owned company, noting that he considered Virgin Trains East Coast to be in default of its rail franchise agreement. The Virgin Trains East Coast rail franchise agreement was terminated on 24 June 2018 and its business, together with certain assets and liabilities, were transferred to a public sector company.

An onerous contract provision in respect of Virgin Trains East Coast was first recognised in the consolidated balance sheet as at 29 April 2017, when the Group determined that losses at Virgin Trains East Coast would not be fully recovered over the original franchise term unless new commercial terms were agreed with the Department for Transport. The provision of £84.1m at 29 April 2017 was determined based on the Group's forecast of the extent to which the unavoidable costs under the franchise would exceed the future economic benefits to be derived from the franchise. While the Group expected to conclude new commercial terms with the Department, the existing franchise was considered to be onerous as defined in International Accounting Standard 37 ("IAS 37"), *Provisions, Contingent Liabilities and Contingent Assets*. The onerous contract provision as at 29 April 2017 was estimated on the assumption that Stagecoach Group plc, the parent company, would fund its entire £165.0m loan commitment to Virgin Trains East Coast and that no amount of that loan would be recovered.

The estimate of the onerous contract provision was updated as at 28 April 2018 to take account of actual losses arising since 29 April 2017 and forecast to arise after 28 April 2018. The £59.1m onerous contract provision as at 28 April 2018 was determined based on the amount by which the forecast unavoidable costs from 29 April 2018 of meeting the obligations under the contracts (i.e. the Virgin Trains East Coast franchise agreement and related contracts) exceeded the expected economic benefits to be received. This resulted in an additional expense included in the exceptional items shown in note 4 for the year ended 28 April 2018.

The onerous contract provision has been utilised in the year to 27 April 2019.

The Department for Transport notified Virgin Trains East Coast prior to 28 April 2018 that it was in default of its franchise agreement. Accordingly, the onerous contract provision of £59.1m as at 28 April 2018 included an amount of £21.0m that the Group expected to pay in respect of the Virgin Trains East Coast performance bond. This has been paid in the year to 27 April 2019.

As explained in notes 31(b) and 31(c), lease commitments and Network Rail commitments of Virgin Trains East Coast were assumed by the new operator with effect from 24 June 2018 and Virgin Trains East Coast had no further such commitments from that date.

Note 16 Inventories

Inventories were as follows:	2019	2018
	£m	£m
Parts and consumables	**14.3**	22.9

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

	2019	2018
	£m	£m
At beginning of year	**(3.3)**	(3.7)
Charged to income statement	**(0.5)**	(0.4)
Amount utilised	**2.2**	0.8
At end of year	**(1.6)**	(3.3)

Note 17 Trade and other receivables

Trade and other receivables were as follows:	2019	2018
	£m	£m
Non-current:		
Prepayments	**–**	3.6
Other receivables	**34.6**	0.2
	34.6	3.8
Current:		
Trade receivables	**38.6**	108.3
Less: provision for impairment	**(2.0)**	(3.1)
Trade receivables – net	**36.6**	105.2
Other receivables	**5.6**	12.0
Prepayments	**25.3**	44.0
Accrued income	**32.9**	45.4
VAT and other government receivables	**32.9**	28.7
	133.3	235.3

Included within non-current other receivables is the carrying value of £22.3m (2018: £Nil) of the Deferred Payment Instrument, which formed part of the consideration for the sale of the North America business in April 2019. Further information about the Deferred Payment Instrument is included in note 25.

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

	2019	2018
	£m	£m
At beginning of year	**(3.1)**	(2.5)
Impairment losses in year charged to income statement	**(0.8)**	(1.7)
Reversal of impairment losses credited to income	**1.1**	0.4
Amount included in disposal of subsidiaries	**0.4**	–
Amounts utilised	**0.4**	0.7
At end of year	**(2.0)**	(3.1)

Of the above impairment losses, £2.0m (2018: £3.1m) relate to receivables arising from contracts with customers. Further information on credit risk is provided in note 25.

Notes to the consolidated financial statements

Note 18 Contract balances

	2019	2018
	£m	£m
Trade receivables (note 17)	**36.6**	105.2
Contract liabilities (note 20)	**30.4**	76.1

Trade receivables are non-interest bearing and are on terms of 30 to 90 days.

Contract liabilities represents amounts advanced by customers which the Group has not yet met the performance obligation to allow the recognition of the balance as revenue. These mainly relate to the season tickets held by passengers which cross over the year end date.

The contract liabilities as at 27 April 2019 are expected to be recognised as revenue in the year to 2 May 2020. The contract liabilities at the previous balance sheet date was recognised within revenue in the subsequent year.

Changes in the contract liabilities relating to customer contracts at each year end reflects changes in the volume of season tickets purchased in advance of the respective year-end dates. The main reason for the drop in the balance from 28 April 2018 to 27 April 2019 is the removal of contract liabilities in relation to the Virgin Trains East Coast franchise following the termination of the franchise.

Note 19 Cash and cash equivalents

	2019	2018
	£m	£m
Cash	**168.7**	237.4
Cash in transit	**1.7**	0.8
Cash at bank and in hand	**170.4**	238.2

The cash amounts shown above include £17.0m on 12 month deposit maturing by December 2019, £5.0m on 3 month deposit maturing by June 2019 and £15.0m on 2 week deposit maturing by May 2019. (2018: £17.0m on 12 month deposit maturing by December 2018 and £5.0m on 2 month deposit maturing by June 2018). The remaining amounts are accessible to the Group within one day (2018: one day). The deposits can be accessed prior to the end of the deposit period without incurring material break costs.

The Group has a bank offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. The cash at bank and in hand of £170.4m (2018: £238.2m) above included the net balance on these offset accounts of £4.6m (2018: £8.5m), which comprised £225.1m (2018: £191.1m) of positive bank balances less £220.5m (2018: £182.6m) of bank overdrafts.

Cash in transit represents outstanding cash receipts in respect of on-bus debit card and credit card payments made by customers. These are normally received into the Group's bank accounts within three days of the payment being made by the customer.

Note 20 Trade and other payables

Trade and other payables were as follows:	2019	2018
	£m	£m
Current		
Trade payables	**59.8**	129.7
Accruals	**266.4**	340.8
Contract liabilities	**30.4**	76.1
Other deferred income	**16.5**	25.0
Cash-settled share based payment liability	**0.2**	0.1
Deferred grant income	**1.3**	2.2
Loan from joint venture	**1.7**	1.7
Loan from non-controlling interest	**–**	16.5
PAYE and NIC payable	**15.8**	22.1
VAT and other government payables	**0.5**	0.4
	392.6	614.6
Non-current		
Deferred grant income	**3.0**	19.2
Cash-settled share based payment liability	**0.9**	0.7
PAYE and NIC payable	**0.4**	0.3
Deferred income	**0.2**	0.2
	4.5	20.4

The Group agreed to accept delivery prior to 27 April 2019 of certain vehicles that the Group would normally have purchased for the financial year to 2 May 2020. The supplier, Alexander Dennis Limited (see note 32(iii)), put in place supplier financing arrangements for these vehicles and the due date for payment by the Group fell after 27 April 2019. As at 27 April 2019 £11.6m (2018: £3.6m) is included in accruals for such vehicles.

Note 21 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:	**2019**	2018
	£m	£m
On demand or within 1 year		
Loan notes	**18.2**	18.4
Hire purchase and lease obligations	**3.6**	18.5
	21.8	36.9
Within 1-2 years		
Hire purchase and lease obligations	**3.6**	16.0
Within 2-5 years		
Bank loans	**–**	40.0
Hire purchase and lease obligations	**2.1**	37.2
US Dollar 4.36% Notes	**–**	108.7
	2.1	185.9
Over 5 years		
Sterling 4.00% Notes	**405.5**	405.0
Total borrowings	**433.0**	643.8
Less current maturities	**(21.8)**	(36.9)
Non-current portion of borrowings	**411.2**	606.9

Interest terms on UK hire purchase and lease obligations are at annual rates between 0.40% and 0.89% (2018: 0.40% and 1.50%) over bank base rate or equivalent LIBOR rates, subject to certain minimum rates. All overseas lease obligations transferred with the sale of the North American business during the year. Interest terms on overseas lease obligations were at fixed rates, which at 28 April 2018 averaged 1.9% per annum. Interest terms on bank loans are at LIBOR plus margin ranging from 0.40% to 1.10% (2018: 0.40% to 1.10%).

Interest on loan notes are at three months LIBOR. Loan notes amounting to £18.2m (2018: £18.4m) 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.

The Sterling 4.00% Notes are unsecured, as were the bank loans and the US Dollar 4.36% Notes.

The minimum lease payments under hire purchase and lease obligations fall due as follows:	**2019**	2018
	£m	£m
Not later than one year	**3.7**	19.7
Between one to five years	**5.8**	54.7
	9.5	74.4
Future finance costs	**(0.2)**	(2.7)
Carrying value of hire purchase and lease liabilities	**9.3**	71.7

For variable-rate hire purchase arrangements, the future finance costs included in the above table are based on the interest rates applying at the balance sheet date.

The Group in its ordinary course of business enters into hire purchase and finance lease agreements to fund or refinance the purchase of vehicles. All of the hire purchase and lease obligations shown above are in respect of vehicles. The lease agreements are typically for periods of 5 to 10 years and do not have contingent rent or escalation clauses.

The agreements have industry standard terms and do not contain any restrictions on dividends, additional debt or further leasing.

(b) Sterling 4.00% Notes

On 29 September 2015, the Group issued £400m of 4.00% Notes. Interest is paid annually in arrears and the Notes are due to be redeemed at their principal amount on 29 September 2025.

The Notes were issued at 98.979% of their principal amount. The consolidated carrying value of the Notes at 27 April 2019 was £405.5m (2018: £405.0m) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

(c) US Dollar 4.36% Notes

On 18 October 2012, the Group issued US$150m of 4.36% Notes as a private placement. Interest on the Notes was paid semi-annually in arrears and all remaining Notes were due to be redeemed at their principal amount on 18 October 2022.

Following the sale of the Group's North America business on 16 April 2019, the Group decided to repay the Notes early. Further details of the disposal are set out in note 5.

Notes to the consolidated financial statements

Note 22 Deferred tax

The Group movement in deferred tax during the year was as follows:	**2019**	2018
	£m	£m
At beginning of year	**(25.2)**	14.4
Credited/(charged) to income statement – continuing operations	**2.1**	(9.6)
Credited/(charged) to income statement – discontinuing operations	**0.4**	(0.3)
Disposal of subsidiaries	**(0.3)**	–
Credited/(charged) to equity	**9.1**	(29.7)
At end of year	**(13.9)**	(25.2)
Current	**(0.2)**	–
Non-current	**(13.7)**	(25.2)
At end of year	**(13.9)**	(25.2)

Deferred taxation is analysed as follows:

	2019			2018		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	**–**	**(50.3)**	**(50.3)**	–	(89.3)	(89.3)
Pension temporary difference	**33.9**	**–**	**33.9**	24.9	–	24.9
Other temporary differences:						
– Employee remuneration and share based payments	**4.6**	**–**	**4.6**	3.5	–	3.5
– Accrued expenses deductible when paid	**0.2**	**–**	**0.2**	24.5	–	24.5
– Fuel derivatives	**2.5**	**–**	**2.5**	5.1	–	5.1
– Cash flow hedge reserve	**–**	**(4.3)**	**(4.3)**	–	(7.0)	(7.0)
– US losses	**–**	**–**	**–**	9.5	–	9.5
– Other timing differences	**–**	**(0.5)**	**(0.5)**	4.6	(1.0)	3.6
	41.2	**(55.1)**	**(13.9)**	72.1	(97.3)	(25.2)

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2019	2018
	£m	£m
Accelerated capital allowances	**38.1**	16.4
Pension temporary differences	**3.1**	1.0
Other temporary differences	**(38.7)**	(27.3)
	2.5	(9.9)

Information on uncertain tax positions is provided in notes 1 and 8(c).

Note 23 Provisions

The movements in provisions were as follows:	Token redemption provision	Insurance provisions	Environmental provisions	Dilapidations provision	Redundancy provision	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m	£m
At beginning of year	2.2	153.8	3.3	–	2.4	61.2	222.9
Provided during year (after discounting)	–	58.9	1.1	2.7	0.1	0.7	63.5
Unused amounts credited to income statement	(2.0)	(7.6)	(1.3)	–	–	–	(10.9)
Unwinding of discount	–	3.4	–	–	–	–	3.4
Utilised in the year	–	(49.0)	(0.1)	–	(0.2)	(60.2)	(109.5)
Disposal of subsidiaries	–	(66.0)	(1.2)	–	(0.8)	(0.8)	(68.8)
Redemption of tokens	(0.2)	–	–	–	–	–	(0.2)
Foreign exchange movements	–	3.5	–	–	–	0.1	3.6
At end of year	**–**	**97.0**	**1.8**	**2.7**	**1.5**	**1.0**	**104.0**
As at 27 April 2019							
Current	**–**	**30.0**	**1.8**	**2.7**	**1.5**	**0.8**	**36.8**
Non-current	**–**	**67.0**	**–**	**–**	**–**	**0.2**	**67.2**
	–	**97.0**	**1.8**	**2.7**	**1.5**	**1.0**	**104.0**
As at 28 April 2018							
Current	2.2	51.3	2.2	–	2.4	59.6	117.7
Non-current	–	102.5	1.1	–	–	1.6	105.2
	2.2	153.8	3.3	–	2.4	61.2	222.9

Note 23 Provisions (continued)

The token redemption provision relates to tokens issued to third parties to be redeemed as payment for transportation services. The Group's token redemption business has been wound up and as at 27 April 2019 the value of anticipated future token redemption value (and hence the value of the token redemption provision) is immaterial.

The insurance provisions relate to insurance reserves on incurred accidents up to the year-end in each year where claims have not been settled. These are based on actuarial reviews and prior claims history. Claims are typically settled within five years of origination. Information on estimation uncertainty regarding insurance provisions is included in note 1.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required, and is expected to be utilised over the next five years.

The dilapidations provision is based on the future expected repair costs to restore certain of the Group's leased assets to their contractually required condition at the end of their respective lease terms. The provision is the Group's best estimate on a lease by lease basis of the likely committed cash flow.

The redundancy provision relates to planned redundancies and is expected to be utilised within one year.

Provisions for onerous contracts relate to contracts where the anticipated costs of fulfilling the contract outweigh the economic benefits to be received, which includes contracts that have been acquired through business combinations that have been identified as being on unfavourable terms at the relevant acquisition date. Of the onerous contracts provision as at 27 April 2019, £Nil (2018: £59.1m) relates to the subsidiary, East Coast Main Line Company Limited, which traded as Virgin Trains East Coast. Further details on this are provided in note 15.

Note 24 Retirement benefits

(a) Description of retirement benefit arrangements

United Kingdom funded schemes

The Group participates in a number of pension schemes. The principal defined benefit schemes are as follows:

	Date as at which last scheme valuation was prepared
• The Stagecoach Group Pension Scheme ("SPS");	30 April 2017
• The East Midlands Trains section of the Railways Pension Scheme ("RPS");	31 December 2013
• The East Coast Main Line section of the Railways Pension Scheme ("RPS") (until June 2018); and	31 December 2013
• A number of UK Local Government Pension Schemes ("LGPS").	31 March 2016

The Stagecoach Group Pension Scheme is comprised of two sections, the main section and a separate East London and Selkent section. The Stagecoach Group Pension Scheme and the Local Government Pension Schemes are closed to new members from the Group. The main section of the Stagecoach Group Pension Scheme closed to future accrual in April 2017. The East London and Selkent section is closed to new entrants but is open to future accrual for the existing remaining members. All relevant sections of the Railways Pension Schemes are open to new members.

For the defined benefit schemes, benefits are related to length of service and pensionable salary. Pensionable salary for the Stagecoach Group Pension Scheme is subject to capped increases. The weighted average duration as at 27 April 2019 of the expected benefit payments across all UK defined benefit schemes is estimated at 16 years (2018: 16 years).

The Directors believe that separate consideration should be given to the RPS as the Group has no rights or obligations in respect of the relevant sections of the scheme following expiry of the related rail franchises. Any deficit or surplus in the relevant section of the scheme at the end of a franchise passes to the subsequent franchisee with no payments made by or to the outgoing operator. 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) in the balance sheet and contributions due from employees reduce the annual service cost in the income statement, as they are linked to service. Therefore, the liability (or asset) recognised for the relevant sections of the RPS reflects that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The adjusting entry, referred to as the "franchise adjustment", represents that proportion of the deficit (or surplus) that is expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover). This deficit (or surplus) will be settled (or recovered) by future operators of the franchise. The financial effect of movements in expected contributions by future operators of the franchise is recognised in other comprehensive income, since these future contributions have been determined not to be linked to service. The directors consider that the accounting policy for the Group's participation in the RPS involves significant accounting judgements as explained in note 1.

The Group is a participant in the Omnibus section of the RPS and this section is not open to new members. The Group's obligations to the Omnibus section are not time limited in the way explained above for other sections of the RPS. In the tables in this note 24, the Omnibus section is included within the figures for "Other" schemes.

Notes to the consolidated financial statements

Note 24 Retirement benefits (continued)

(a) Description of retirement benefit arrangements (continued)

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 2.4% (2018: 1.3%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 12.9% (2018: 10.4%) of the gross present value of pension obligations as at 27 April 2019 shown in the consolidated balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time. There is no right for the Group to receive any surplus in the schemes, although there is an obligation on the Group to fully fund the benefits. To reflect this, the Group would only recognise existing surpluses relating to these schemes, to the extent that these surpluses could be recouped through the reduction of future contributions. The contributions schedules for the LGPS include deficit contributions and the present value of these contributions are reflected in the net deficit shown on the balance sheet for the Group's participation in the LGPS.

The Group also operates a number of defined contribution schemes covering UK employees, for which the Group has no further payment obligation once the contributions are paid other than lump sum death in service benefits that are provided for certain UK employees.

North America funded schemes

Until the sale of the North America business on 16 April 2019, the Group participated in one small funded defined benefit scheme in North America which was closed to new members. The Group also operated defined contribution schemes which were open to eligible North America employees. The Group has no further payment obligation in relation to these schemes.

Unfunded schemes

The Group provides benefits under an unapproved employer financed retirement benefit scheme (“EFRBS”) in the UK. Until the sale of the North America business, it also provided benefits under a non-qualifying defined contribution scheme (“NQDC”) in the US. In each case, the liabilities of these schemes are unfunded, as no contributions are made to any scheme, but the Group has set aside assets to meet its obligations under the schemes. In the case of the EFRBS, the scheme holds a guarantee over assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 27 April 2019 was £8.7m (2018: £7.2m).

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

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 27 April 2019 and 28 April 2018 are shown below:

	2019	2018
Discount rate	**2.5%**	2.8%
Retail Prices inflation assumption	**3.3%**	3.2%
Consumer Prices inflation assumption	**2.2%**	2.0%
Rate of increase in pensionable salaries		
SPS	**0.5%***	0.5%*
Others	**2.7%**	2.5%
Rate of increase of pensions in payment		
SPS	**3.2%**	3.1%
Others	**2.2%**	2.0%
Life expectancies in years		
Current pensioners at 65 – male	**19.2**	20.6
Current pensioners at 65 – female	**22.1**	22.8
Future pensioners at 65 aged 45 now – male	**20.6**	22.0
Future pensioners at 65 aged 45 now – female	**23.7**	24.4

* Future accrual is limited to participation in the East London and Selkent section of SPS, where annual increases in pensionable salaries have been capped at 0.5% in any year until 5 April 2019. Whilst the cap will be retained for past service, basic pay at 6 April each year wil be used to define pensionable pay for all future service.

The Directors consider pension assumptions, such as those summarised above, to be a key source of estimation uncertainty as explained in note 1.

The assumptions shown above are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not be borne out in practice. The discount rate assumption is not determined using a cash-weighted method and is based on market yields on high quality corporate bonds at the year end, adjusted to reflect the duration of the schemes’ liabilities. The post-retirement life expectancy assumptions have been chosen with regard to the latest available published tables adjusted to reflect the experience of the Group and its sector and allow for expected increases in life expectations.

Note 24 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £1.8m (2018: £4.6m) and retirement benefit obligations of £199.5m (2018: £146.8m), resulting in the net liability of £197.7m (2018: £142.2m) analysed below.

The amounts recognised in the balance sheet were as follows:

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
As at 27 April 2019	£m	£m	£m	£m	£m	£m
Equities – quoted	957.5	191.0	222.4	13.1	–	1,384.0
Bonds – quoted	269.4	40.6	30.3	2.5	–	342.8
Total quoted investments	1,226.9	231.6	252.7	15.6	–	1,726.8
Private Equity – unquoted	32.0	80.1	26.0	–	–	138.1
Bonds – unquoted	–	–	34.2	–	–	34.2
Cash – unquoted	71.1	30.7	19.5	0.4	–	121.7
Infrastructure – unquoted	–	4.3	–	–	–	4.3
Property – unquoted	81.4	37.8	29.7	0.1	–	149.0
Total unquoted investments	184.5	152.9	109.4	0.5	–	447.3
Fair value of scheme assets	1,411.4	384.5	362.1	16.1	–	2,174.1
Present value of obligations	(1,599.1)	(504.7)	(315.5)	(16.4)	(4.2)	(2,439.9)
– adjustment for members' share of RPS deficit (40%)	–	48.1	–	(0.3)	–	47.8
– franchise adjustment	–	73.9	–	–	–	73.9
(Deficit)/surplus in the scheme	(187.7)	1.8	46.6	(0.6)	(4.2)	(144.1)
Asset ceiling	–	–	(53.2)	(0.4)	–	(53.6)
Net (liability)/asset before tax	(187.7)	1.8	(6.6)	(1.0)	(4.2)	(197.7)
Pension asset before tax	–	1.8	–	–	–	1.8
Pension liability before tax	(187.7)	–	(6.6)	(1.0)	(4.2)	(199.5)
Net (liability)/asset before tax	(187.7)	1.8	(6.6)	(1.0)	(4.2)	(197.7)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
As at 28 April 2018	£m	£m	£m	£m	£m	£m
Equities – quoted	957.0	457.4	239.0	9.5	–	1,662.9
Bonds – quoted	221.0	113.2	30.7	4.3	–	369.2
Total quoted investments	1,178.0	570.6	269.7	13.8	–	2,032.1
Private Equity – unquoted	43.2	141.2	24.6	–	–	209.0
Bonds – unquoted	–	–	21.6	–	–	21.6
Cash – unquoted	84.3	90.7	20.3	1.1	–	196.4
Infrastructure – unquoted	–	14.2	–	–	–	14.2
Property – unquoted	88.9	86.8	25.2	0.1	–	201.0
Total unquoted investments	216.4	332.9	91.7	1.2	–	642.2
Fair value of scheme assets	1,394.4	903.5	361.4	15.0	–	2,674.3
Present value of obligations	(1,520.0)	(1,193.7)	(317.6)	(18.9)	(4.0)	(3,054.2)
– adjustment for members' share of RPS deficit (40%)	–	116.0	–	(0.3)	–	115.7
– franchise adjustment	–	178.4	–	–	–	178.4
(Deficit)/surplus in the scheme	(125.6)	4.2	43.8	(4.2)	(4.0)	(85.8)
Asset ceiling	–	–	(55.8)	(0.6)	–	(56.4)
Net (liability)/asset before tax	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)
Pension asset before tax	–	4.2	0.4	–	–	4.6
Pension (liability)/asset before tax	(125.6)	–	(12.4)	(4.8)	(4.0)	(146.8)
Net (liability)/asset before tax	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)

At 27 April 2019, 85% (2018: 83%) of scheme assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The LGPS assets are not sectionalised and so assets are effectively comingled with other participating employers. Therefore, the Company's asset value is a notional value based on a share of fund calculation which is undertaken by the LGPS Fund Actuary.

The vast majority of assets held by the LGPS arrangements are invested in pooled funds with a quoted market price. We have therefore allocated our holdings between the various asset categories in proportion to that of the overall LGPS funds in which we participate.

Note 24 Retirement benefits (continued)

(d) Funding arrangements and schemes

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

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

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

The regulatory framework in the UK requires the Trustees of the Stagecoach Group Pension Scheme and the Group to agree upon the assumptions underlying the funding target, and then to agree upon the contributions necessary to fund the benefits, including any deficit recovery amounts, over a reasonable period of time. A Pensions Oversight Committee has been established comprising the Finance Director, a Non-executive Director and other senior executives, to oversee the Group's overall pensions strategy. The Board participates in major decisions on the funding and design of pension schemes.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to fund deficits.

The defined benefit pension schemes typically expose the Group to actuarial funding risks such as investment risk, interest rate risk, and life expectancy risk.

There are particular funding risks with the Local Government Pension Schemes to which the Group contributes. The Group has limited ability to influence the funding strategy of these schemes. Furthermore, the contributions that the Group is required to make to the schemes are determined by the schemes, which tend to take a cautious approach in setting contribution rates for non-government employers. This can result in the Group being required to make higher levels of contributions than it believes is necessary or desirable. Known future contribution levels are taken account of in determining the reported deficit or surplus in each scheme in these consolidated financial statements.

As explained in section 1.6.8.3 of this Annual Report, the Directors are focused on maintaining an investment grade credit rating and the credit rating agencies continue to assign investment grade credit ratings to the Group. Each of the credit rating agencies consider pensions funding risks as part of their wider risk assessment.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The actuarial valuation for the two section of the Stagecoach Group Pension Scheme were completed in 2018 as at 30 April 2017, and while overall the scheme was 99% funded on the Trustees' technical provisions basis, there was a funding deficit on the East London and Selkent Pension section (being 84% funded) and a surplus on the larger main section (being 104% funded). Actuarial valuations were completed for the Local Government Pension Schemes, showing that the schemes were underfunded on the technical provisions basis as at 31 March 2016 with deficit contributions payable. The Group forecasts to contribute £17.4m (forecast at 28 April 2018 for year ended 27 April 2019: £18.9m) to its defined benefit schemes in the financial year ending 2 May 2020.

(e) Changes in net retirement benefit obligations

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
Year ended 27 April 2019	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)
Rail franchise changes	–	2.5	–	–	–	2.5
Disposal of subsidiaries	–	–	–	1.7	–	1.7
Expense charged to consolidated income statement	(32.7)	(13.4)	(2.3)	(2.1)	(0.1)	(50.6)
Recognised in the consolidated statement of comprehensive income	(36.5)	0.5	0.1	0.1	(0.4)	(36.2)
Employers' contributions and settlements	7.1	8.0	7.6	4.1	0.3	27.1
At end of year – (liability)/asset	(187.7)	1.8	(6.6)	(1.0)	(4.2)	(197.7)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded schemes	Total
Year ended 28 April 2018	£m	£m	£m	£m	£m	£m
At beginning of year – (liability)/asset	(251.8)	45.1	(17.5)	(4.0)	(4.3)	(232.5)
Expense charged to consolidated income statement	(12.0)	(41.7)	(1.2)	(2.2)	(0.1)	(57.2)
Recognised in the consolidated statement of comprehensive income	134.7	(27.8)	(0.9)	0.5	0.2	106.7
Employers' contributions and settlements	3.5	28.6	7.6	0.9	0.2	40.8
At end of year – (liability)/asset	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)

Note 24 Retirement benefits (continued)

(f) Sensitivity of retirement benefit obligations to changes in assumptions

The measurement of the defined benefit obligations is particularly sensitive to changes in key assumptions as summarised below:

Year ended 27 April 2019	Change in assumption	Impact on overall net pensions liabilities
Discount rate	Increase by 10 basis points / Decrease by 10 basis points	Decrease by £23.0m / Increase by £23.5m.
Rate of inflation	Increase by 10 basis points / Decrease by 10 basis points	Increase by £25.0m / Decrease by £24.6m.
Rate of increase in pensionable salaries	Increase by 10 basis points / Decrease by 10 basis points	Increase by £1.3m / Decrease by £1.1m.
Rate of increase in pension payments	Increase by 10 basis points / Decrease by 10 basis points	Increase by £14.5m / Decrease by £14.2m.
Life expectancy	Increase by 1 year / Decrease by 1 year	Increase by £65.1m / Decrease by £65.0m.
Year ended 28 April 2018		
Discount rate	Increase by 10 basis points / Decrease by 10 basis points	Decrease by £20.2m / Increase by £19.4m.
Rate of inflation	Increase by 10 basis points / Decrease by 10 basis points	Increase by £21.5m / Decrease by £21.3m.
Rate of increase in pensionable salaries	Increase by 10 basis points / Decrease by 10 basis points	Increase by £1.0m / Decrease by £1.0m.
Rate of increase in pension payments	Increase by 10 basis points / Decrease by 10 basis points	Increase by £12.0m / Decrease by £12.0m.
Life expectancy	Increase by 1 year / Decrease by 1 year	Increase by £52.4m / Decrease by £52.4m.

These sensitivities have been calculated to show the movement in the net liability in isolation, and assuming no other changes in market conditions at the balance sheet date. In practice, a change in discount rate is unlikely to occur without any movement in the value of the invested assets held by the schemes.

(g) Pension amounts recognised in income statement

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 27 April 2019	£m	£m	£m	£m	£m	£m
Current service cost	(4.0)	(12.8)	(1.0)	(1.9)	–	(19.7)
Past service cost	(24.1)	(0.2)	(1.0)	–	–	(25.3)
Administration expenses	(0.8)	(0.1)	–	–	–	(0.9)
Defined contribution costs	–	–	–	–	(45.7)	(45.7)
Included in operating profit	(28.9)	(13.1)	(2.0)	(1.9)	(45.7)	(91.6)
Net interest (expense)/income	(3.8)	(1.9)	1.3	(0.2)	(0.1)	(4.7)
Interest expense on asset ceiling	–	–	(1.6)	–	–	(1.6)
Unwinding of franchise adjustment	–	1.6	–	–	–	1.6
	(32.7)	(13.4)	(2.3)	(2.1)	(45.8)	(96.3)

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 28 April 2018	£m	£m	£m	£m	£m	£m
Current service cost	(4.5)	(42.4)	(1.1)	(1.9)	–	(49.9)
Administration expenses	(0.9)	(0.4)	–	–	–	(1.3)
Defined contribution costs	–	–	–	–	(33.4)	(33.4)
Included in operating profit	(5.4)	(42.8)	(1.1)	(1.9)	(33.4)	(84.6)
Net interest (expense)/income	(6.6)	(7.2)	1.0	(0.3)	(0.1)	(13.2)
Interest expense on asset ceiling	–	–	(1.1)	–	–	(1.1)
Unwinding of franchise adjustment	–	8.3	–	–	–	8.3
	(12.0)	(41.7)	(1.2)	(2.2)	(33.5)	(90.6)

Current service costs and administration costs are recognised in operating costs and net interest (expense)/income, interest on asset ceiling and unwinding of franchise adjustment are recognised in net finance costs.

(h) Pension amounts recognised in statement of comprehensive income

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

	Funded schemes					
	SPS	RPS	LGPS	Other	Unfunded Schemes	Total
Year ended 27 April 2019	£m	£m	£m	£m	£m	£m
Actual return on scheme assets higher than the discount rate	33.2	28.0	(0.3)	1.1	–	62.0
Changes in financial assumptions	(113.6)	(41.1)	(23.3)	(1.8)	(0.4)	(180.2)
Changes in demographic assumptions	36.7	16.4	17.4	0.4	–	70.9
Experience on benefit obligations	7.2	(14.5)	2.1	0.2	–	(5.0)
Changes in asset ceiling (net of interest)	–	–	4.2	0.2	–	4.4
Change in franchise adjustment	–	11.7	–	–	–	11.7
	(36.5)	0.5	0.1	0.1	(0.4)	(36.2)

Notes to the consolidated financial statements

Note 24 Retirement benefits (continued)

(h) Pension amounts recognised in statement of comprehensive income (continued)

Year ended 28 April 2018	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded Schemes £m	Total £m
Actual return on scheme assets higher than the discount rate	16.4	63.2	11.7	6.4	–	97.7
Changes in financial assumptions	20.0	23.2	5.1	0.3	0.2	48.8
Experience on benefit obligations	98.3	(34.2)	(4.1)	(5.6)	–	54.4
Changes in asset ceiling (net of interest)	–	–	(13.6)	(0.6)	–	(14.2)
Change in franchise adjustment	–	(80.0)	–	–	–	(80.0)
	134.7	(27.8)	(0.9)	0.5	0.2	106.7

(i) Benefit obligations

Changes in the present value of the defined benefit obligations (net of franchise adjustments and members' share of RPS deficit) are analysed as follows:

Year ended 27 April 2019	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded Schemes £m	Total £m
At beginning of year	1,520.0	899.3	317.6	19.2	4.0	2,760.1
Rail franchise changes	–	(551.3)	–	–	–	(551.3)
Disposal of subsidiaries	–	–	–	(6.1)	–	(6.1)
Current service cost	4.0	12.8	1.0	1.9	–	19.7
Past service cost	24.1	0.2	1.0	–	–	25.3
Interest on benefit obligations	42.0	7.7	8.7	0.6	0.1	59.1
Unwinding of franchise adjustment	–	(1.6)	–	–	–	(1.6)
Benefits paid	(61.1)	(13.2)	(16.8)	(0.1)	(0.3)	(91.5)
Contributions by employees	0.4	1.3	0.2	0.1	–	2.0
Actuarial (gains)/losses due to:						
– Changes in demographic assumptions	(36.7)	(16.4)	(17.4)	(0.4)	–	(70.9)
– Changes in financial assumptions	113.6	41.1	23.3	1.8	0.4	180.2
– Experience on benefit obligations	(7.2)	14.5	(2.1)	(0.2)	–	5.0
– Change in franchise adjustment	–	(11.7)	–	–	–	(11.7)
Foreign exchange movements	–	–	–	(0.1)	–	(0.1)
At end of year	1,599.1	382.7	315.5	16.7	4.2	2,318.2

Year ended 28 April 2018	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded Schemes £m	Total £m
At beginning of year	1,649.6	1,609.1	325.1	11.6	4.3	3,599.7
Rail franchise changes	–	(827.6)	–	–	–	(827.6)
Current service cost	4.5	42.4	1.1	1.9	–	49.9
Interest on benefit obligations	45.4	26.0	8.9	0.7	0.1	81.1
Unwinding of franchise adjustment	–	(8.3)	–	–	–	(8.3)
Benefits paid	(61.7)	(36.7)	(16.7)	(0.2)	(0.2)	(115.5)
Contributions by employees	0.5	3.4	0.2	0.1	–	4.2
Actuarial (gains)/losses due to:						
– Changes in financial assumptions	(20.0)	(23.2)	(5.1)	(0.3)	(0.2)	(48.8)
– Experience on benefit obligations	(98.3)	34.2	4.1	5.6	–	(54.4)
– Change in franchise adjustment	–	80.0	–	–	–	80.0
Foreign exchange movements	–	–	–	(0.2)	–	(0.2)
At end of year	1,520.0	899.3	317.6	19.2	4.0	2,760.1

Note 24 Retirement benefits (continued)

(j) Scheme assets

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

Year ended 27 April 2019	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
At beginning of year	1,394.4	903.5	361.4	15.0	–	2,674.3
Rail franchise changes	–	(548.8)	–	–	–	(548.8)
Disposal of subsidiaries	–	–	–	(4.4)	–	(4.4)
Administration costs	(0.8)	(0.1)	–	–	–	(0.9)
Interest income	38.2	5.8	10.0	0.4	–	54.4
Employer contributions	7.1	8.0	7.6	4.1	0.3	27.1
Contributions by employees	0.4	1.3	0.2	0.1	–	2.0
Benefits paid	(61.1)	(13.2)	(16.8)	(0.1)	(0.3)	(91.5)
Remeasurements						
– Return on assets excluding amounts included in net interest	33.2	28.0	(0.3)	1.1	–	62.0
Foreign exchange movements	–	–	–	(0.1)	–	(0.1)
At end of year	1,411.4	384.5	362.1	16.1	–	2,174.1

Year ended 28 April 2018	Funded schemes				Unfunded Schemes	Total
	SPS	RPS	LGPS	Other		
	£m	£m	£m	£m	£m	£m
At beginning of year	1,397.8	1,654.2	348.7	7.6	–	3,408.3
Rail franchise changes	–	(827.6)	–	–	–	(827.6)
Administration costs	(0.9)	(0.4)	–	–	–	(1.3)
Interest income	38.8	18.8	9.9	0.4	–	67.9
Employer contributions	3.5	28.6	7.6	0.9	0.2	40.8
Contributions by employees	0.5	3.4	0.2	0.1	–	4.2
Benefits paid	(61.7)	(36.7)	(16.7)	(0.2)	(0.2)	(115.5)
Remeasurements						
– Return on assets excluding amounts included in net interest	16.4	63.2	11.7	6.4	–	97.7
Foreign exchange movements	–	–	–	(0.2)	–	(0.2)
At end of year	1,394.4	903.5	361.4	15.0	–	2,674.3

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2019	2018
	£m	£m
At beginning of year	**(56.4)**	(41.1)
Interest expense	**(1.6)**	(1.1)
Remeasurements	**4.4**	(14.2)
At end of year	**(53.6)**	(56.4)

(l) Franchise adjustment

The movement in the franchise adjustment is shown below:

	2019	2018
	£m	£m
At beginning of year	**178.4**	412.9
Rail franchise changes	**(117.8)**	(162.8)
Amounts recognised in income statement:		
– Unwinding of franchise adjustment	**1.6**	8.3
Remeasurements:		
– Change in franchise adjustment	**11.7**	(80.0)
At end of year	**73.9**	178.4

Note 25 Financial instruments

(a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries and joint ventures accounted for in accordance with International Financial Reporting Standard 10 ("IFRS 10"), *Consolidated Financial Statements* and International Financial Reporting Standard 11 ("IFRS 11"), *Joint Arrangements.*
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

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

Notes to the consolidated financial statements

Note 25 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:

	Note	Carrying value		Fair value	
		2019	2018	**2019**	2018
	Note	£m	£m	£m	£m
Financial assets					
Financial assets measured at fair value through other comprehensive income					
– Investments in equity instruments		**–**	2.7	**–**	2.7
Financial assets measured at fair value through profit or loss					
– Non-current assets					
– Other receivables – Deferred Payment Instrument	17	**22.3**	–	**22.3**	–
Financial assets measured at amortised cost					
– Non-current assets					
– Other receivables	17	**12.3**	0.2	**12.3**	0.2
– Current assets					
– Accrued income	17	**32.9**	45.4	**32.9**	45.4
– Trade receivables, net of impairment	17	**36.6**	105.2	**36.6**	105.2
– Other receivables	17	**5.6**	12.0	**5.6**	12.0
– Cash and cash equivalents	19	**170.4**	238.2	**170.4**	238.2
Total financial assets		**280.1**	403.7	**280.1**	403.7
Financial liabilities					
Financial liabilities at fair value through profit or loss					
– Current liabilities					
– Accruals	20	**(0.7)**	–	**(0.7)**	–
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Borrowings	21	**(411.2)**	(606.9)	**(428.1)**	(636.6)
– Current liabilities					
– Trade payables	20	**(59.8)**	(129.7)	**(59.8)**	(129.7)
– Accruals	20	**(265.7)**	(340.8)	**(265.7)**	(340.3)
– Loan from joint venture	20	**(1.7)**	(1.7)	**(1.7)**	(1.7)
– Loan from non-controlling interest	20	**–**	(16.5)	**–**	–
– Borrowings	21	**(21.8)**	(36.9)	**(21.8)**	(36.9)
Total financial liabilities		**(760.9)**	(1,132.5)	**(777.8)**	(1,145.2)
Net financial liabilities		**(480.8)**	(728.8)	**(497.7)**	(741.5)

Financial derivatives with bank counterparties are not shown in the above table. Information on the carrying value of such derivatives is provided in note 25(g).

The fair values of financial assets and financial liabilities shown above are determined as follows:

- The £2.7m carrying value as at 28 April 2018 of equity investments was measured at cost, which based on then recent transactions was considered to be a reasonable approximation of fair value.
- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables (excluding the Deferred Payment Instrument) 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.
- A Deferred Payment Instrument was received as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of November 2024 and, due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its fair value. The Group's exposure to the purchaser of the North American business is unsecured and ranks behind all of their secured lenders. As a result, the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £22.3m as at 27 April 2019.
- The carrying value of trade payables, accruals and loan from joint venture is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- Contractual arrangements in place regarding the £16.5m loan from a non-controlling interest and related accrued interest of £0.5m mean that the Directors considered as at 28 April 2018 that it was very unlikely that the counterparty would be able to recover any portion of the loan or that the Group would be required to repay that loan. In the year ended 27 April 2019, any loan amounts owed by the Group to the non-controlling interest have been released as described in note 32(vi).
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.

Note 25 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities (continued)

Financial liabilities (continued)

- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate finance lease liabilities (included in borrowings as at 28 April 2018) 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.

The Deferred Payment Instrument from disposal of subsidiaries formed part of the proceeds on the disposal of the North America business in April 2019 and has a term of 66 months to 16 November 2024, during which time the Group may receive payments of interest and/or principal from the purchaser of the business. The North America business continues to operate a variety of different types of transportation services over a wide area of North America. The Group has very limited control and influence over the North America business following its disposal on 16 April 2019.

The financial performance of the North America business is influenced by various different factors, many of which are specific to the individual markets and locations in which it operates. Factors that can affect financial performance include changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions, cost pressures including the availability of sufficient staff, and regulatory change. The performance of the North America business has a direct impact on the purchaser's ability to settle the instrument. The contractual value of the instrument is for US$65m and the range of values that the Group could recover over the 66 months of its term varies from US$Nil up to US$65m plus interest. After considering the various factors at the balance sheet date, the Group has valued the instrument at US$29.2m (£22.3m) using a discounted cashflow method on financial forecasts through to November 2024.

The key sensitivities within the valuation relate to the projected ongoing cashflows of the business sold and the discount rate applied to these cashflows (10%). Adjusting the cashflows by +/-US$2m (£1.5m) per annum over the forecast period would result in an adjustment to the loan value of +/-US$4.1m (£3.2m). Adjusting the discount rate by +/- 100bp would result in an adjustment to the loan value of -/+ US$0.7m (£0.5m).

We do not consider that the fair value of other financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. Excluding the element hedged in a fair value hedge, we estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed rate notes liability by around £13.9m (2018: £21.6m).

Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 27 April 2019.

	Note	**Level 2 £m**	**Level 3 £m**	**Total**
Assets				
Deferred Payment Instrument from disposal of subsidiaries		**–**	**22.3**	**22.3**
Financial derivatives	25(g)	**27.7**	**–**	**27.7**
Total assets		**27.7**	**22.3**	**50.0**
Liabilities				
Financial derivatives	25(g)	**(2.0)**	**–**	**(2.0)**
Accruals – embedded derivative		**(0.7)**	**–**	**(0.7)**
Total liabilities		**(2.7)**	**–**	**(2.7)**

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 28 April 2018.

	Note	**Level 2 £m**	**Level 3 £m**	**Total**
Assets				
Financial derivatives	25(g)	41.4	–	41.4
Available for sale financial assets				
Equity securities		–	2.7	2.7
Total assets		41.4	2.7	44.1
Liabilities				
Financial derivatives	25(g)	(0.5)	–	(0.5)

(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 27 April 2019. This note (c) also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in section 1.6.8.3 of the Strategic report which forms part of these financial statements.

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

Note 25 Financial instruments (continued)

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

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

(i) Market risk

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

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

Foreign currency translation risk

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

The Group had material foreign investments in Canada and the USA throughout the year to 28 April 2018 and through to the disposal of the North America business on 16 April 2019. To reduce balance sheet translation exposure, the Group partially hedges the sterling carrying value of foreign operations through borrowings denominated in their functional currency or, where appropriate, through the use of derivative financial instruments. Gains and losses arising from hedging instruments that provide a hedge against foreign net investments are recognised in the statement of comprehensive income. US$150.0m of notes issued in October 2012 (and repaid in April 2019) has been accounted for as a hedge of the Group's foreign net investments.

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

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

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

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

	2019	2018
	£m	£m
US dollars		
– Net investments in foreign operations (excluding intra-Group balances, cash and borrowings)	**–**	217.5
– Cash	**0.2**	25.8
– Borrowings	**–**	(165.8)
– Deferred Payment Instrument from disposal of subsidiaries	**22.3**	–
Canadian dollars		
– Net investments in foreign operations (excluding intra-Group balances, cash and borrowings)	**–**	18.6
– Cash	**–**	2.4
Net exposure	**22.5**	98.5

The amounts shown above are the carrying values of all US and Canadian dollar items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that derivatives that are cash flow hedges are excluded.

The sensitivity of the amounts shown above in the Group's consolidated balance sheet to US and Canadian dollar translation exposures is illustrated below:

	2019	2018
US dollar		
US dollar balance sheet foreign exchange rate	**1.2935**	1.3797
Impact of 10% depreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.1642**	1.2417
– Increase in consolidated equity (£m)	**2.5**	8.6
Impact of 10% appreciation of UK sterling against US dollar		
– US dollar foreign exchange rate	**1.4229**	1.5177
– Decrease in consolidated equity (£m)	**(2.0)**	(7.0)
Canadian dollar		
Canadian dollar balance sheet foreign exchange rate	**1.7423**	1.7745
Impact of 10% depreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.5681**	1.5971
– Increase in consolidated equity (£m)	**–**	2.3
Impact of 10% appreciation of UK sterling against Canadian dollar		
– Canadian dollar foreign exchange rate	**1.9165**	1.9520
– Decrease in consolidated equity (£m)	**–**	(1.9)

The above sensitivity analysis is based on the following assumptions:

- Only those foreign currency assets and liabilities that are directly affected by changes in foreign exchange rates are included in the calculation.
- The above calculations assume that the exchange rates between sterling and any currencies other than the one stated do not change as a result of the change in the exchange rate between the currencies stated.

Note 25 Financial instruments (continued)

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

(i) Market risk (continued)

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

	2019	2018
	£m	£m
US dollars		
– US$ element of North American operating profit	**16.6**	17.2
– Redundancy/restructuring costs	**(0.2)**	(0.8)
– Exceptional items relating to North American business	**(93.6)**	1.2
– Net finance costs	**(14.7)**	(8.9)
– Net tax credit	**0.3**	0.3
Canadian dollars		
– C$ element of North American operating profit	**3.9**	4.1
– Net tax charge	**(0.7)**	(1.3)
Net exposure	**(88.4)**	11.8

The operating profit figures shown in the above table reconcile to the pre-exceptional operating profit for North America shown in note 5 as follows:

	2019	2018
	£m	£m
US$ element of North American operating profit shown above	**16.6**	17.2
C$ element of North American operating profit shown above	**3.9**	4.1
Share based payment adjustment denominated in sterling	**(0.7)**	(0.3)
Pre-exceptional operating profit shown in note 5	**19.8**	21.0

The loss of £88.4m shown above for 2019 arises due to exceptional items in respect of the North America Division that was disposed of in April 2019. Following that disposal, the Group's consolidated income statement exposures to foreign currency translation risk is not material in respect of reasonably probable changes in foreign exchange rates. That is based on the following assumptions:

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

Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 27 April 2019 there were no material net transactional foreign currency exposures (2018: immaterial).

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" later in this note 25(c)(i).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates), cash and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to reduce the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

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

(i) Market risk (continued)

At 27 April 2019, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
Currency	£m	£m	£m	%	Years
Sterling	27.5	405.5	433.0	4.0	6.4

At 28 April 2018, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

	Floating rate	Fixed rate	Total	Weighted average fixed interest rate	Weighted average period for which rate is fixed
Currency	£m	£m	£m	%	Years
Sterling	189.5*	305.0	494.5	4.0	7.4
US Dollar	–	165.8	165.8	3.4	3.9
Gross interest bearing financial liabilities	189.5	470.8	660.3	3.8	6.2

*includes £16.5m non-controlling interest as at 28 April 2018.

The above figures as at 28 April 2018 take into account the effect of £100m (notional value) of interest rate derivatives which effectively swapped £100m of the £400m Notes maturing September 2025 from fixed to floating rate debt for a period of two years to December 2018.

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to six months based on market rates. The maturity profile of the Group's borrowings is shown in note 21(a).

The Group's financial assets on which floating interest is receivable include cash deposits and cash in hand of £170.4m (2018: £238.2m). The Group's financial assets on which fixed interest is receivable include a loan receivable of £Nil (2018: £1.0m) and a Deferred Payment Instrument receivable of £22.3m (2018: £Nil) arising from the sale of the North America business in April 2019. As at 27 April 2019, the Group had no other financial assets on which fixed interest is receivable (2018: £Nil).

With the exception of the Deferred Payment Instrument, the Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

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

Price risk

The Group is exposed to commodity price risk. The Group's operations as at 27 April 2019 consume approximately 348m litres of diesel fuel per annum. As a result, the Group's future profit and cash flows are exposed to movements in the underlying price of fuel.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an ongoing fuel-hedging programme whereby derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of the different types of fuel used in each of its divisions. The fuel derivatives hedge the underlying commodity price risk (denominated in US$) and in the case of the UK Bus (regional operations) Division, the UK Bus (London) Division and the UK Rail Division, they also hedge the currency risk due to the commodity being priced in US$ and the functional currency of the divisions being pounds sterling.

Note 25 Financial instruments (continued)

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

(i) Market risk (continued)

At 27 April 2019 and 28 April 2018, the projected fuel costs (excluding premia payable on fuel derivatives, delivery margins, fuel taxes and fuel tax rebates) for the next twelve months were:

	2019	2018
	£m	£m
Costs subject to fuel swaps:		
– UK Bus (regional operations)	**(57.1)**	(49.7)
– UK Bus (London)	**(5.0)**	(4.5)
– UK Rail	**(6.4)**	(14.2)
– North America	**–**	(16.5)
	(68.5)	(84.9)
Costs not subject to fuel swaps:		
– UK Bus (regional operations)	**(6.6)**	(3.7)
– UK Bus (London)	**(6.3)**	(7.6)
– UK Rail	**(0.6)**	(11.3)
– North America	**–**	(12.6)
	(13.5)	(35.2)
Total	**(82.0)**	(120.1)

The figures in the above table are after taking account of derivatives and applying the fuel prices and foreign exchange rates as at the balance sheet date.

After taking account of financial derivatives, the projected fuel costs for the next twelve months are not materially exposed to movements in fuel prices.

The revenue receivable under certain of the contracts that the Group has with customers is subject to adjustment for changes to certain fuel prices. This further reduces the unhedged exposure to fuel prices shown above.

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

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

(ii) Credit risk

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

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

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

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

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

The movement in the provision for impairment of trade and other receivables is shown in note 17. There was an opening and closing loss allowance of Nil for all of the other financial assets measured at amortised cost, with no movement in the allowance in the year.

The table below shows the financial assets that are measured at amortised cost and exposed to credit risk at the balance sheet date:

	Gross	**Impairment**	**Net exposure**	Gross	Impairment	Net exposure
	2019	**2019**	**2019**	2018	2018	2018
	£m	£m	£m	£m	£m	£m
Trade receivables	**38.6**	**(2.0)**	**36.6**	108.3	(3.1)	105.2
Loans, other receivables and accrued income	**50.8**	**–**	**50.8**	57.6	–	57.6
Cash and cash equivalents – pledged as collateral	**18.1**	**–**	**18.1**	18.5	–	18.5
Cash and cash equivalents – other	**152.3**	**–**	**152.3**	219.7	–	219.7
Excluding derivative financial instruments	**259.8**	**(2.0)**	**257.8**	404.1	(3.1)	401.0
Financial derivatives	**27.7**	**–**	**27.7**	41.4	–	41.4
Total exposure to credit risk	**287.5**	**(2.0)**	**285.5**	445.5	(3.1)	442.4

In addition to the financial assets carried at amortised cost which are shown in the above table, a Deferred Payment Instrument that is accounted for as fair value through profit or loss, is also exposed to credit risk. Further information on the Deferred Payment Instrument is provided in notes 17 and 25(b).

Note 25 Financial instruments (continued)

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

(ii) Credit risk (continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

The Group's total net exposure to credit risk by geographic region is analysed below:

	2019	2018
	£m	£m
United Kingdom & Europe	**285.5**	386.4
North America	**22.3**	56.0
	307.8	442.4

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

	2019	2018
	£m	£m
Sterling & Euros	**285.3**	377.5
US dollars	**22.5**	61.6
Canadian dollars	**–**	3.3
	307.8	442.4

The Group does not hold any collateral in respect of its credit risk exposures set out above (2018: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 27 April 2019 (2018: £Nil).

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses. This uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivable, other receivables measured at amortised cost and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for other receivables measured at amortised cost and accrued income.

The expected loss rates are based on the payment profiles of sales over a period of 36 months to the balance sheet dates and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that the GDP and the unemployment rate of the countries in which it sells its goods and services are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The loss allowance as at 27 April 2019 and 29 April 2018 (on adoption of IFRS 9) was determined for trade receivables, other receivables measured at amortised cost and accrued income as set out in the following tables:

27 April 2019	Trade receivables	Other receivables	Accrued Income	Loss allowance
	£m	£m	£m	£m
Amounts not yet due	35.9	17.9	32.9	(0.1)
Amounts 1 to 90 days overdue	0.7	–	–	(0.1)
Amounts 91 to 180 days overdue	0.5	–	–	(0.3)
Amounts 181 to 365 days overdue	1.5	–	–	(1.5)
Total	38.6	17.9	32.9	(2.0)

29 April 2018	Trade receivables	Other receivables	Accrued Income	Loss allowance
	£m	£m	£m	£m
Amounts not yet due	95.2	12.2	45.4	(0.2)
Amounts 1 to 90 days overdue	9.9	–	–	(0.2)
Amounts 91 to 180 days overdue	1.3	–	–	(0.8)
Amounts 181 to 365 days overdue	1.9	–	–	(1.9)
Total	108.3	12.2	45.4	(3.1)

Note 25 Financial instruments (continued)

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

(iii) Liquidity risk

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 27 April 2019, the Group's credit facilities were £928.5m (2018: £1,043.4m), £222.9m (2018: £362.4m) of which were utilised, including utilisation for the issuance of bank guarantees, performance/season ticket bonds and letters of credit.

The Group had the following undrawn committed banking and uncommitted asset finance facilities:

	2019	2018
	£m	£m
Expiring within one year	**260.8**	196.5
Expiring beyond two years	**444.8**	484.5
	705.6	681.0

Although there is an element of seasonality in the Group's bus and rail operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding.

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

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				
– 2021	510.0	(65.2)	–	444.8
– 2020	10.0	(10.0)	–	–
– 2019	208.5	(81.4)	(127.1)	–
	728.5	(156.6)	(127.1)	444.8
SHORT-TERM FACILITIES				
– Various	25.3	–	–	25.3
	753.8	(156.6)	(127.1)	470.1

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, including interest payments.

As at 27 April 2019	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m
Non derivative financial liabilities:						
Unsecured bond issues	(405.5)	(512.0)	(16.0)	(16.0)	(48.0)	(432.0)
Hire purchase liabilities	(9.3)	(9.5)	(3.7)	(3.7)	(2.1)	–
Loan notes payable	(18.2)	(18.2)	(18.2)	–	–	–
Trade and other payables	(327.9)	(327.9)	(327.9)	–	–	–
	(760.9)	(867.6)	(365.8)	(19.7)	(50.1)	(432.0)
Derivative financial liabilities:						
Financial derivatives	(2.0)	(2.0)	(0.2)	(0.9)	(0.9)	–
	(762.9)	(869.6)	(366.0)	(20.6)	(51.0)	(432.0)

Note 25 Financial instruments (continued)

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

(iii) Liquidity risk (continued)

As at 28 April 2018	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Unsecured bond issues	(513.7)	(655.5)	(20.7)	(20.7)	(166.1)	(448.0)
Finance lease and hire purchase liabilities	(71.7)	(74.4)	(19.7)	(16.7)	(38.0)	–
Loan notes payable	(18.4)	(18.4)	(18.4)	–	–	–
Trade and other payables	(488.7)	(488.7)	(488.7)	–	–	–
Bank loans	(40.0)	(40.0)	–	–	(40.0)	–
	(1,132.5)	(1,277.0)	(547.5)	(37.4)	(244.1)	(448.0)
Derivative financial liabilities:						
Financial derivatives	(0.5)	(0.5)	(0.4)	(0.1)	–	–
	(1,133.0)	(1,277.5)	(547.9)	(37.5)	(244.1)	(448.0)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on a price, foreign exchange rate, interest rate or index in the future, the contractual cash flows in the above table have been determined with reference to the value of the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted cash flows in respect of interest up to and including the next rollover date are shown and the principal is shown as repayable at the expiry date of the relevant facility.

(d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

(e) Collateral and restricted cash

Included within the cash and cash equivalents balance of £170.4m (2018: £238.2m) are £18.1m (2018: £18.5m) of cash balances that have been pledged as collateral for liabilities as follows:

- £18.1m (2018: £18.1m) has been pledged by the Group as collateral for £18.1m (2018: £18.1m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit at Lloyds Bank and Bank of Scotland. Bank of Scotland has guaranteed the Group's obligations to the holders of the loan notes and to the extent that the Group fails to satisfy its obligations under the loan notes, Bank of Scotland shall use the cash collateral to satisfy such obligations.
- £Nil (2018: £0.4m) is held in an escrow account in North America in relation to insurance claims.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 27 April 2019 and 28 April 2018.

In addition, cash includes train operating company cash of £121.6m (2018: £171.2m) of which £Nil (2018: £25.8m) is cash held by Virgin Trains East Coast that may only be used for innovation projects approved by the UK Department for Transport. Under the terms of the franchise agreements, other than with the Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach any franchise liquidity ratios.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 27 April 2019 and 28 April 2018 and no loans payable were in default as at 27 April 2019 and 28 April 2018. The Group was in compliance with all bank loan covenants as at 27 April 2019 and 28 April 2018.

Note 25 Financial instruments (continued)

(g) Hedge accounting

A summary of the Group's hedging arrangements that applied during the years ended 28 April 2018 and 27 April 2019 is provided in the table below.

Type of hedge	Risks hedged by Group	Hedging instruments used
Fair value hedges	– Interest rate risks	– Derivatives (interest rate swaps)
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Hedges of net investment in foreign operations	– Foreign investment risk	– Foreign currency borrowings

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2019	2018		
	Fuel derivatives & Total	Interest rate derivatives	Fuel derivatives	Total
	£m	£m	£m	£m
Non-current assets	**14.2**	–	30.0	30.0
Current assets	**13.5**	2.3	9.1	11.4
Current liabilities	**(0.2)**	–	(0.4)	(0.4)
Non-current liabilities	**(1.8)**	–	(0.1)	(0.1)
Total	**25.7**	2.3	38.6	40.9

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Embedded derivatives

The Group previously held derivative financial instruments with bank counterparties that were accounted for as cash flow hedges in respect of anticipated fuel consumption by its North America business. When that business was sold on 16 April 2019, hedge accounting was discontinued. Following the sale, the Group continued to hold the derivative financial instruments that were in place at the date of sale in respect of the North American business. As part of the sale, the Group entered into a contractual agreement with its now former North American business that contains embedded derivatives intended to offset the derivative financial instruments held with the bank counterparties. With effect from 16 April 2019, both the derivative financial instruments held with bank counterparties and the embedded derivatives are accounted for at fair value through profit or loss - it is expected that there will be no net gain or loss arising from that arrangement. The fair value of the relevant derivative financial instruments held with bank counterparties was an asset of £0.7m as at 27 April 2019 and is included in the amounts shown in the table above. The fair value of the embedded derivatives was a liability of £0.7m as at 27 April 2019 and is included in accruals within trade and other payables.

In accordance with IFRS 9, all significant contracts to which the Group is a party have been reviewed for embedded derivatives. Except for those explained above, there were no embedded derivatives as at 27 April 2019 (2018: None) which were separately accounted for.

Cash flow hedges - fuel

As noted previously, the Group uses a number of fuel derivatives to hedge the different types of fuel used in each of its divisions.

The movements in the fair value of fuel derivatives in the year were as follows:

	2019	2018
	£m	£m
Fuel derivatives		
Fair value at start of year	**38.6**	(11.7)
Changes in fair value during year taken to cash flow hedging reserve	**16.5**	50.3
Cash received during the year	**(29.4)**	–
Fair value at end of year	**25.7**	38.6

Commodity price risk

The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the fuel forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Notes to the consolidated financial statements

Note 25 Financial instruments (continued)

(g) Hedge accounting (continued)

Cash flow hedges - fuel (continued)

The fair value of the fuel derivatives, split by maturity, was as follows:

	Assets	Liabilities
	£m	£m
As at 27 April 2019		
Within one year	13.5	(0.2)
1 to 2 years	11.8	(0.9)
2 to 3 years	2.2	(0.7)
More than 3 years	0.2	(0.2)
	27.7	(2.0)
As at 28 April 2018		
Within one year	9.1	(0.4)
1 to 2 years	23.9	(0.1)
2 to 3 years	5.6	–
More than 3 years	0.5	–
	39.1	(0.5)

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 27 April 2019		
Sterling denominated – UK Bus (regional operations)	22.5	400.5
Sterling denominated – UK Bus (London)	2.0	57.7
Sterling denominated – UK Rail	0.5	20.2
US dollar denominated – North America	0.7	66.8
	25.7	545.2
As at 28 April 2018		
Sterling denominated – UK Bus (regional operations)	29.4	483.4
Sterling denominated – UK Bus (London)	1.7	29.0
Sterling denominated – UK Rail	3.3	51.8
US dollar denominated – North America	4.2	84.4
	38.6	648.6

The maturity profile of the above fuel contracts is as follows:

	Up to 1 year	1 to 2 years	2+ years	Total
As at 27 April 2019				
Notional amount (in millions of litres)	**203.7**	**198.2**	**143.3**	**545.2**
Notional amount (in £m)	**71.7**	**69.9**	**54.1**	**195.7**
Average hedge rate in (in £/litre)	**0.35**	**0.35**	**0.38**	**0.36**
As at 28 April 2018				
Notional amount (in millions of litres)	150.3	314.1	184.2	648.6
Notional amount (in £m)	50.2	97.8	61.3	209.3
Average hedge rate in (in £/litre)	0.33	0.31	0.33	0.32

Note 25 Financial instruments (continued)

(g) Hedge accounting (continued)

Fair value hedges - interest

The Group entered into £100m (notional value) of interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from December 2016 to December 2018. The movements in the fair value of these derivatives were as follows:

	Fair value hedges	
	2019	2018
	£m	£m
Interest rate derivatives		
Fair value at start of year	**2.3**	2.5
Changes in fair value reflected in carrying value of hedged item	**(0.3)**	(1.0)
Interest income on fair value hedges	**0.3**	0.8
Cash received during the year	**(2.3)**	–
Fair value at end of year	**–**	2.3

All of the interest rate derivatives were managed and held centrally.

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	2019	2018
	£m	£m
Cash flow hedging reserve at start of year	30.1	(9.0)
Changes in fair value during the year taken to cash flow hedging reserve	16.5	50.3
Cash flow hedges reclassified and reported in profit for year	(30.5)	(2.0)
Tax effect of cash flow hedges	2.7	(9.2)
Cash flow hedging reserve at end of year	18.8	30.1
Cash flow hedging reserve before tax	23.1	37.1
Tax to be charged to income statement in future periods	(4.3)	(7.0)
Cash flow hedging reserve after tax	18.8	30.1

The Group previously held derivative financial instruments with bank counterparties that were accounted for as cash flow hedges in respect of anticipated fuel consumption by its North America business. When that business was sold on 16 April 2019, hedge accounting was discontinued. Further information on that is provided earlier in this note 25(g) under the heading of "Embedded derivatives".

There have been no other instances during the year ended 27 April 2019 (2018: None, except for an immaterial overhedge of anticipated UK bus fuel consumption), from a Group perspective where a forecast transaction for which hedge accounting had previously been used was no longer expected to occur.

Hedge of foreign net investments

The Group's hedging of foreign net investments during the year ended 27 April 2019, is explained in note 25(c)(i) under the heading 'Foreign currency translation risk'. The US$ Notes hedged the net investment in the North America business until that business was sold in April 2019 and the US$150m 4.36% Notes were repaid.

The movements in the fair value of the US$150m 4.36% Notes and US$ bank loans used as hedging instruments in the year were as follows:

	2019	2018
	£m	£m
US$ 4.36% Notes		
Fair value at start of year	**108.7**	115.9
Changes in fair value during the year	**5.8**	(7.2)
End of hedging relationship on sale of North America business	**(114.5)**	–
Fair value at end of year	**–**	108.7
US$ bank loans		
Fair value at start of year	**–**	61.8
Loans repaid during the year	**–**	(61.8)
Fair value at end of year	**–**	–

The fair values of the non-derivative hedging instruments shown above only take account of fair value movements arising from movements in foreign exchange rates.

Note 26 Share capital

The allotted, called-up and fully paid ordinary share capital was:

	2019		2018	
	No. of shares	£m	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each				
At beginning and end of year	**576,099,960**	**3.2**	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 3,458,907 (2018: 2,756,662) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements.

Note 27 Share based payments

The Group operates a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report in section 8 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 7, share based payment charges of £3.1m (2018: £3.3m) have been recognised in the income statement during the year in relation to the above scheme.

The following assumptions were applied in accounting for awards under the LTIP scheme:

Grant date	June 2015	December 2015	June 2016	December 2016	August 2017	December 2017	December 2018
Share price at time of grant/award (£)	4.170	3.047	2.265	2.110	1.745	1.780	1.636
Vesting period (years)	3	3	3	3	3	3	3
Option/award life (years)	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3
Expected dividends expressed as an average annual dividend yield	2.72%	3.72%	5.44%	5.84%	7.37%	7.22%	5.08%
Option pricing model	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation	Bespoke simulation

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to the performance conditions explained in the Directors' remuneration report. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market-based performance criteria are reflected in the fair value of the LTIP awards.

Long Term Incentive Plan

The movements in the LTIP Incentive Units during the year to 27 April 2019 were as follows:

Award date	Outstanding at start of year (Incentive Units)	Awards granted in year (Incentive Units)	Lapsed in year (Incentive Units)	Dividends in year (Incentive Units)	Outstanding at end of year (Incentive Units)	Fair value per LTIP unit at grant* £	Fair value per LTIP unit at 27 April 2019* £	TSR ranking at 27 April 2019**	Vesting date
25 June 2015	738,695	–	(738,695)	–	–	2.8531	–	–	25 Jun 2018
10 Dec 2015	1,066,074	–	(1,090,630)	24,556	–	2.0847	–	–	10 Dec 2018
30 June 2016	1,493,363	–	(319,532)	66,796	1,240,627	1.5497	0.1272	194	30 Jun 2019
8 Dec 2016	1,586,152	–	(373,779)	71,096	1,283,469	1.4437	0.1581	181	8 Dec 2019
25 Aug 2017	2,050,052	–	(489,560)	89,868	1,650,360	1.1939	0.3210	179	25 Aug 2020
7 Dec 2017	1,917,414	–	(457,881)	84,046	1,543,579	1.2179	0.5381	140	7 Dec 2020
7 Dec 2018	–	3,878,181	(559,875)	88,555	3,406,861	1.1194	0.5322	127	7 Dec 2021
	8,851,750	3,878,181	(4,029,952)	424,917	9,124,896				

*The fair values of the LTIP Incentive Units shown above take account of both market based vesting conditions (total shareholder return performance versus a benchmark) and non-market based vesting conditions (earnings per share related targets for certain awards). The fair values have not been. adjusted for service conditions and assume all holders of LTIP Incentive Units remain employed by the Group throughout the relevant vesting periods.

**TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Note 27 Share based payments (continued)

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Shares in the year ended 27 April 2019 were as follows:

Award date	Outstanding at start of year (Deferred Shares)	Awards granted in year (Deferred Shares)	Vested in year (Deferred Shares)	Lapsed in year (Deferred Shares)	Dividends in year (Deferred Shares)	Outstanding at end of year (Deferred Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
25 June 2015	490,890	–	(490,708)	(6,279)	6,097	–	25 June 2018	2,165,756	4.1960
10 Dec 2015	30,254	–	(30,820)	–	566	–	10 Dec 2018	79,993	2.9800
30 June 2016	1,160,995	–	(412,745)	(61,621)	42,675	729,304	30 June 2019	2,725,336	2.3110
29 June 2017	1,178,867	–	(307,087)	(67,971)	52,542	856,351	29 June 2020	2,162,081	1.9110
6 Dec 2018	–	1,222,642	(274,448)	(32,346)	28,205	944,053	6 Dec 2021	2,164,076	1.7700
	2,861,006	1,222,642	(1,515,808)	(168,217)	130,085	2,529,708			

Buy As You Earn Scheme

BAYE enables eligible employees to purchase shares ("partnership shares") from their gross income. The Company provides two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no Income Tax and National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 27 April 2019, there were 4,696 (2018: 6,065) participants in the BAYE scheme to which were attributed 6,551,599 (2018: 6,539,549) shares that they purchased, 2,292,178 (2018: 2,226,934) matching shares that the Company contributed and 1,309,518 shares (2018: 1,109,571) in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

Note 28 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 80.

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.

Details of own shares held are given in note 26. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts offset by cumulative sales proceeds.

The translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign operations. It is also used to record the effect of hedging net investments in foreign operations.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 29 Consolidated cash flows

(a) Reconciliation of operating profit to cash generated by operations

The operating profit of Group companies reconciles to cash generated by operations as follows:	**2019**	2018
	£m	£m
Operating profit/(loss) of Group companies		
– Continuing operations	**112.4**	83.6
– Discontinued operations	**(50.2)**	21.4
	62.2	105.0
Intangible asset amortisation	**9.6**	12.7
Pre-exceptional depreciation	**131.4**	132.9
Impairment of property, plant and equipment	**0.5**	3.7
Impairment of intangible assets	**–**	0.8
Exceptional items (no cash effect)	**95.1**	47.8
EBITDA of Group companies before exceptionals items	**298.8**	302.9
Loss/(gain) on disposal of property, plant and equipment	**0.3**	(3.2)
Equity-settled share based payment expense – non-exceptional	**1.4**	1.2
Operating cashflows before working capital movements	**300.5**	300.9
Decrease in inventories	**8.6**	4.5
Decrease in receivables	**46.4**	203.2
Decrease in payables	**(165.7)**	(226.4)
Decrease in provisions	**(56.2)**	(84.7)
Differences between employer pension contributions and pre-exceptional pension expense in operating profit	**(6.5)**	10.4
Cash generated by operations	**127.1**	207.9

Notes to the consolidated financial statements

Note 29 Consolidated cash flows (continued)

(b) Reconciliation of net cash flow to movement in net debt

The decrease in cash and cash equivalents reconciles to the movement in net debt as follows:	**2019**	2018
	£m	£m
Decrease in cash and cash equivalents	**(70.5)**	(73.9)
Cash flow from movement in borrowings	**177.0**	108.0
	106.5	34.1
Borrowings transferred on disposal of subsidiaries	**54.4**	–
New finance leases	**(9.4)**	(27.2)
Foreign exchange movements	**(8.0)**	7.6
Other movements	**(1.0)**	(0.9)
Decrease in net debt	**142.5**	13.6
Opening net debt (as defined in note 34)	**(395.8)**	(409.4)
Closing net debt (as defined in note 34)	**(253.3)**	(395.8)

(c) Analysis of net debt

For the purpose of this note, net debt is as defined in note 34. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

Year to 27 April 2019

	Opening	Cashflows	New finance leases	Disposal of subsidiaries	Foreign exchange movements	(Charged)/ credited to exchange statement	Closing
	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents - other	219.7	(70.1)	–	–	2.7	–	152.3
Cash and cash equivalents - pledged as collateral	18.5	(0.4)	–	–	–	–	18.1
Cash at bank and in hand	238.2	(70.5)	–	–	2.7	–	170.4
Hire purchase and finance lease obligations	(71.7)	20.7	(9.4)	54.4	(3.3)	–	(9.3)
Bank loans and loan stock	(58.4)	40.2	–	–	–	–	(18.2)
Bonds and notes	(503.9)	116.1	–	–	(7.4)	(1.0)	(396.2)
Net debt	(395.8)	106.5	(9.4)	54.4	(8.0)	(1.0)	(253.3)
Accrued interest on bonds	(9.5)	20.9	–	–	–	(20.7)	(9.3)
Effect of fair value hedges on carrying value of borrowings	(0.3)	–	–	–	–	0.3	–
Net borrowings (IFRS)	(405.6)	127.4	(9.4)	54.4	(8.0)	(21.4)	(262.6)

The cash amounts shown above include term deposits as explained in note 19 and cash held by train operating companies as explained in notes 25(e) and 30(i).

Year to 28 April 2018

	Opening	Cashflows	New finance leases	Foreign exchange movements	(Charged)/ credited to exchange statement	Closing
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents - other	294.7	(73.8)	–	(1.2)	–	219.7
Cash and cash equivalents - pledged as collateral	18.6	(0.1)	–	–	–	18.5
Cash at bank and in hand	313.3	(73.9)	–	(1.2)	–	238.2
Hire purchase and finance lease obligations	(72.0)	26.0	(27.2)	1.5	–	(71.7)
Bank loans and loan stock	(140.4)	82.0	–	–	–	(58.4)
Bonds and notes	(510.3)	–	–	7.3	(0.9)	(503.9)
Net debt	(409.4)	34.1	(27.2)	7.6	(0.9)	(395.8)
Accrued interest on bonds	(9.5)	20.9	–	0.1	(21.0)	(9.5)
Effect of fair value hedges on carrying value of borrowings	(1.3)	–	–	–	1.0	(0.3)
Net borrowings (IFRS)	(420.2)	55.0	(27.2)	7.7	(20.9)	(405.6)

(d) Non cash transactions

The principal non cash transactions in the year were the receipt by the Group of a Deferred Payment Instrument for the sale of its North America business and acquisition of equipment using new finance leases.

Further details on the Deferred Payment Instrument are set out in note 5.

During the year, the Group entered into finance lease arrangements in respect of new assets with a total capital value at the inception of the contracts of £9.4m (2018: £27.2m), as a result of which, new finance lease liabilities of £9.4m (2018: £27.2m) were recognised.

Note 30 Contingencies

Contingent liabilities

(i) Under UK rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise. The UK Department for Transport has notified the Company's subsidiary, East Coast Main Line Company Limited (which traded as Virgin Trains East Coast), that it considers that subsidiary defaulted on the Virgin Trains East Coast franchise agreement. That could, in certain circumstances, give the Department for Transport the right to claim against East Coast Main Line Company Limited (and its immediate parent company, Inter City Railways Limited) including in respect of future premia payments foregone. As at 27 April 2019, liabilities have been recorded for amounts payable to the Department for Transport relating to any residual net assets of Virgin Trains East Coast. No further liability has been recorded in the consolidated financial statements as at 27 April 2019 in relation to potential claims by the Department for Transport in respect of default of the franchise agreement, because the Directors currently do not expect further amounts to be payable.

Under certain circumstances following a breach by the Group of one or more of its rail franchise agreements, the Department for Transport has the right to terminate the relevant franchises. The financial effect on the Group of a termination of one or more franchises would depend on which, if any, of the Group's contingent liabilities that the Department for Transport sought to call. As at 27 April 2019, the capital at risk of the Group in this respect was:

	Virgin Trains East Coast	East Midlands Trains	Total
	£m	£m	£m
Contingent liabilities			
Season ticket bonds	–	7.5	**7.5**
Performance bonds	–	10.0	**10.0**
Capital at risk as at 27 April 2019	–	17.5	**17.5**
Cash			
Cash in train operating companies	36.9	84.7	**121.6**
Pro forma impact on net debt	36.9	102.2	**139.1**

Deferred income in respect of season tickets sold by train operating companies is recognised as liabilities in the consolidated balance sheet. The season ticket bond amounts shown above relate to a bond issued by a financial institution in favour of the Department for Transport. The parent company, Stagecoach Group plc, has indemnified the financial institution in respect of that season ticket bond. The season ticket bond is intended to provide cover for the deferred income. No liability has been recorded in the consolidated balance sheet in respect of the season ticket bond because the deferred income has already been recognised as liabilities and it is not expected that the Group would be required to satisfy both the deferred income liabilities and the bond amounts.

The Group considers the likelihood of the capital at risk items crystallising as being low.

However, if all of the liabilities and contingent liabilities had crystallised and the franchises terminated at 27 April 2019, the Group would have needed to have financed £17.5m (2018: £83.0m) and its net debt would have increased by this amount. In addition, some of the cash in East Midlands Trains would be transferred with the franchise.

There is no recourse to the Group in respect of any liabilities or contingent liabilities of Virgin Rail Group.

Under the terms of the franchise agreements, other than with the UK Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach the financial covenants specified in applicable contracts.

Notes to the consolidated financial statements

Note 30 Contingencies (continued)

Contingent liabilities (continued)

(ii) At 27 April 2019, the following rail bonds and bank guarantees were in place relating to amounts for which liabilities have not been recognised in the consolidated balance sheet:

	2019	2018
	£m	£m
Performance bonds backed by bank facilities and/or insurance arrangements		
– East Midlands Trains	**10.0**	15.0
Season ticket bonds backed by bank facilities and/or insurance arrangements		
– East Midlands Trains	**7.5**	7.2
– Virgin Trains East Coast	**–**	5.1

These contingent liabilities are not expected to crystallise.

(iii) On 27 February 2019, class action proceedings were filed with the UK Competition Appeal Tribunal ("CAT") against Stagecoach South Western Trains Limited ("SSWT"), a subsidiary of the Company that formerly operated train services under franchise. The claimant has applied to the CAT for a collective proceedings order, which if it were granted, would allow his claim to proceed to a full trial. Equivalent claims have been brought against First MTR South Western Trains Limited, which succeeded SSWT as the operator of the South Western franchised train services, and London & South Eastern Railway. It is alleged that SSWT and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for Transport for London ("TfL") Travelcard holders wishing to travel outside TfL fare zones. The proposed claim seeks compensation for all those who allegedly have been affected by the train operating companies' allegedly anti-competitive behaviour. The total sought across the three defendants is around £93m. SSWT is arguing against the granting of a collective proceedings order. No provision is held as at 27 April 2019 (2018: £Nil) in respect of this matter.

(iv) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 27 April 2019, the accruals in the consolidated financial statements for such claims total £6.4m (2018: £2.7m).

(v) The Group sold its North American business in April 2019. The Group provided warranties and indemnities in connection with the sale, under which the Purchaser can, in certain circumstances, make claims against the Group. Except for matters for which liabilities are recorded in the consolidated balance sheet, no claims have been notified to the Group or are expected by the Group under those warranties and indemnities. In addition, the Group has the following contingent liabilities in respect of its former North American business:

- The North American business receives claims in respect of traffic incidents and employee incidents. It 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 (the "Uninsured Element"). The North America business is liable for costs of settling the Uninsured Element of claims. In the event that the business was unable to meet its liabilities for claims then the insurers would be responsible for meeting those liabilities for the Uninsured Element of claims. To protect themselves against that risk (being, essentially the credit risk of the North America business), the insurers demand collateral typically in the form of letters of credit and guarantees. In connection with the sale of the North America business, the Group agreed to continue to arrange the letters of credit required by the insurers in respect of claims relating to periods ending on or before April 2019. The Group indemnifies the banks that issue those letters of credit against any losses suffered by the banks. The Group has also provided continuing guarantees to the insurers in respect of claims relating to periods ending on or before 31 July 2019. As at 27 April 2019, the North America business had provided for £68.2m in respect of claims to which the letters of credit and Stagecoach Group guarantees would apply and for which no liability is reflected in the consolidated balance sheet (2018: £Nil).
- The Group continues to guarantee the North American business' obligations under certain vehicle lease arrangements. The estimated amount guaranteed by the Group in respect of such arrangements as at 27 April 2019 for which no liability is reflected in the consolidated balance sheet was £1.5m (2018: £Nil).

Note 31 Financial commitments

(a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2019	2018
	£m	£m
Contracted for but not provided:		
For delivery within one year	**61.3**	61.2

(b) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 27 April 2019:

As at 27 April 2019	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 2 May 2020	5.0	18.4	13.2	2.0	38.6
Year ending 1 May 2021	4.0	15.9	–	1.4	21.3
Year ending 30 April 2022	3.9	11.2	–	0.9	16.0
Year ending 29 April 2023	3.5	8.0	–	0.4	11.9
Year ending 27 April 2024	3.2	4.2	–	0.1	7.5
28 April 2024 and thereafter	14.8	0.1	–	–	14.9
	34.4	57.8	13.2	4.8	110.2

Note 31 Financial commitments (continued)

(b) Operating lease commitments (continued)

The following were the future minimum contractual lease payments due under unexpired operating leases as at 28 April 2018:

As at 28 April 2018	Land & buildings	Buses & other road transportation equipment	Trains & rolling stock	Plant & machinery	Total
	£m	£m	£m	£m	£m
Lease payments due in respect of:					
Year ending 27 April 2019	17.9	21.4	159.8	7.3	206.4
Year ending 2 May 2020	14.9	15.0	295.4	5.5	330.8
Year ending 1 May 2021	12.3	10.2	329.2	4.8	356.5
Year ending 30 April 2022	11.7	5.1	329.1	4.4	350.3
Year ending 29 April 2023	10.1	1.9	309.5	3.8	325.3
30 April 2023 and thereafter	25.8	0.1	–	–	25.9
	92.7	53.7	1,423.0	25.8	1,595.2

The Group's subsidiary, East Coast Main Line Company Limited, traded as Virgin Trains East Coast. On 24 June 2018, responsibility for the train services operated by Virgin Trains East Coast, along with certain of its assets, liabilities and commitments transferred to a publically owned company. Of the total minimum contractual lease payments of £1,595.2m at 28 April 2018, £1,433.2m related to Virgin Trains East Coast under its original franchise agreement which was scheduled to run until March 2023. The minimum contractual lease payments in respect of Virgin Trains East Coast up to 24 June 2018, the date of transfer of services to the publically owned company, were £29.7m. The £1,403.5m remaining Virgin Trains East Coast lease commitments were assumed by the publically owned company on 24 June 2018 and the Group has no further liability in this regard.

The amounts shown above do not include Network Rail charges, which are shown separately in note 31(c).

(c) Network Rail charges

The Group's UK Rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). Commitments for payments, until the expected end of the franchises or the end of the current Network Rail regulatory control period, if earlier, under these contracts as at 27 April 2019 are as shown below.

	2019
	£m
Year ending 2 May 2020	**26.7**

Commitments for payments under these contracts as at 28 April 2018 were as follows:

	2018
	£m
Year ending 27 April 2019	**79.5**

The Group's subsidiary, East Coast Main Line Company Limited, traded as Virgin Trains East Coast. On 24 June 2018, responsibility for the train services operated by Virgin Trains East Coast, along with certain of its assets, liabilities and commitments transferred to a publically owned company. Of the total £79.5m Network Rail commitments shown above as at 28 April 2018, £54.1m related to Virgin Trains East Coast in respect of the remainder of the current Network Rail regulatory control period to 31 March 2019. The commitment of Virgin Trains East Coast up to 24 June 2018, the date of transfer of services to the publically owned company, was £9.0m. The £45.1m remaining Virgin Trains East Coast commitments were assumed by the publically owned company on 24 June 2018 and the Group has no further liability in this regard.

(d) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below is based on the latest statutory financial statements of the relevant companies:

	2019	2018
	£m	£m
Annual commitments under non-cancellable operating leases	**69.2**	66.4
Franchise performance bonds	**10.3**	10.3
Season ticket bonds	**3.3**	3.2

Notes to the consolidated financial statements

Note 32 Related party transactions

Details of major related party transactions during the year ended 27 April 2019 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Virgin Rail Group Holdings Limited

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 27 April 2019, the Group earned fees of £248,000 (2018: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 27 April 2019, the Group had £135,500 (2018: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £1.4m (2018: £Nil) from the group headed by Virgin Rail Group Holdings Limited and as at 27 April 2019 had £0.4m (2018: £Nil) payable in this respect.

(ii) West Coast Trains Limited

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see note 32(i) above). In the year ended 27 April 2019, East Midlands Trains Limited (a subsidiary of the Company) had purchases totalling £0.3m (2018: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were £0.5m (2018: immaterial). The outstanding amounts payable as at 27 April 2019 and 28 April 2018 were immaterial.

During the year ended 27 April 2019, Stagecoach South Western Trains Limited (a subsidiary of the Company) sold services of £Nil (2018: £0.1m) to West Coast Trains Limited and as at 27 April 2019 had £Nil receivable in respect of this (2018: £Nil).

(iii) Alexander Dennis Limited

Until May 2019, when they sold their holdings, Sir Brian Souter (Chairman) and Dame Ann Gloag (Non-Executive Director) collectively held, via companies that they control, 55.1% (2018: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director) was a director of its holding company until 3 January 2019) controlled a further 33.2% (2018: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Dame Ann Gloag or Sir Ewan Brown was a director of Alexander Dennis Limited nor did they have any involvement in the management of Alexander Dennis Limited. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 27 April 2019, the Group purchased £61.7m (2018: £63.5m) of vehicles from Alexander Dennis Limited and £26.2m (2018: £13.9m) of spare parts and other services. As at 27 April 2019, the Group had £0.2m (2018: £0.5m) payable to Alexander Dennis Limited, along with outstanding orders of £59.9m (2018: £28.9m).

(iv) Pension Schemes

Details of contributions made to pension schemes are contained in note 24.

(v) Scottish Citylink Coaches Limited

A non interest bearing loan of £1.7m (2018: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 27 April 2019. The Group earned £20.5m in the year ended 27 April 2019 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2018: £18.0m). The Group also collected revenue of £17.5m on behalf of Scottish Citylink Coaches Limited in the year ended 27 April 2019 (2018: £18.0m). As at 27 April 2019, the Group had a net £1.5m payable (2018: £0.4m receivable) to Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) East Coast Main Line Company Limited

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and entered into various arm's length transactions with other Group companies. In the year ended 27 April 2019, other Group companies earned £3.0m (2018: £20.1m) from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services. Other Group companies had a net payable to East Coast Main Line Company Limited of £0.3m as at 27 April 2019 (2018 receivable of £1.5m).

As previously reported, an inter-company loan was provided by Stagecoach Group plc to East Coast Main Line Company Limited but as at 28 April 2018, the loan was not expected to be recovered by Stagecoach Group plc and provision was made against the full receivable in the separate financial statements of the parent company. A loan from Virgin Holdings Limited to Stagecoach Group plc, and the related accrued interest, was only repayable by Stagecoach Group plc to the extent of 10% of any amounts recovered by Stagecoach Group plc of its loan to East Coast Main Line Company Limited. During the year ended 27 April 2019, Stagecoach Group plc settled its loan amount due to Virgin Holdings Limited through the assignment of 10% of its receivable due from East Coast Main Line Company Limited. As East Coast Main Line Company Limited was unable to settle any of the loans, all amounts were treated as irrecoverable and released on cessation of the Virgin Trains East Coast franchise. Furthermore, Stagecoach Group plc paid £21.0m to the Department for Transport in respect of the Virgin Trains East Coast performance bond, of which £2.1m was funded by a payment to Stagecoach Group plc from Virgin Holdings Limited in respect of its 10% share. The £19.1m effect of the payment from Virgin Holdings Limited in respect of the bond and the release of its loan to East Coast Main Line Company Limited is shown in the Consolidated Statement of Changes in Equity as part of shareholder transactions with non-controlling interest. In addition, Stagecoach Group plc paid £1.7m to Virgin Holdings Limited in the year ended 27 April 2019 in relation to East Coast Main Line Company Limited and the end of its franchise and had a payable of £0.6m as at 27 April 2019 (2018: £Nil) in respect of that. Stagecoach Group plc had an outstanding receivable of £Nil as at 27 April 2019 in respect of its loan to East Coast Main Line Company Limited (2018: £165.0m). The interest receivable on the loan for the year ended 27 April 2019 was £Nil (2018: £3.4m) and the accrued interest outstanding at 27 April 2019 was £Nil (2018: £4.9m). Related to that, the Group had an outstanding payable for £Nil as at 27 April 2019 in respect of the loan from Virgin Holdings Limited (2018: £16.5m) and the accrued interest outstanding at 27 April 2019 was £Nil (2018: £0.5m).

Note 33 Post balance sheet events

Details of the final dividend proposed are given in note 9.

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In the period since the balance sheet date, from 28 April 2019 to 24 June 2019 inclusive, the Group has purchased 6,529,996 of its ordinary shares under that programme at a total cost of £8.5m. The shares are held in treasury.

Note 34 Definitions

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 27 April 2019 and for comparative amounts shown in this document for prior years.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding non-software intangible asset amortisation and exceptional items, by the basic weighted average number of shares in issue in the year.

For the year ended 27 April 2019 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed “performance pre intangibles (exc software) and exceptional items”. The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 10 to the consolidated financial statements.

Basic earnings per share and adjusted earnings per share are also separately reported for each of the continuing operations and the discontinued operations. Details of how these are calculated are also provided in note 10.

Like-for-like amounts

Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year amount for those businesses and individual operating units that have been part of the Group throughout both years.

Like-for-like revenue growth for the year ended 27 April 2019 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each continuing segment is shown in note 2(a) to the financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

Year ended 27 April 2019		Reported revenue	Exclude effect of business closed	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	1,043.3	(1.6)	–	1,041.7
UK Bus (London)	£m	252.8	–	–	252.8
UK Rail	£m	589.5	–	(145.4)	444.1

Year ended 28 April 2018		Reported revenue (restated)	Exclude effect of business closed	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	1,013.8	(6.7)	–	1,007.1
UK Bus (London)	£m	251.8	–	–	251.8
UK Rail	£m	1,556.0	–	(1,121.9)	434.1

The figures above for the year to 28 April 2018 have been restated to reflect the application of IFRS 15 (see note 1).

Operating profit

Operating profit for the Group as a whole is profit before non-operating exceptional items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group’s share of joint ventures’ profit/loss after taxation. For continuing operations, both total profit and operating profit from Group companies are shown on the face of the consolidated income statements. For discontinued operations, operating profit is shown in note 5.

Operating profit (or loss) for a particular business unit or division within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, non-software intangible asset amortisation, exceptional items and restructuring costs. The operating profit (or loss) for each continuing segment is directly identifiable from note 2(b) and for discontinued operations from note 5.

Operating margin

Operating margin for a particular business unit or division within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from notes 2(a), 2(b) and 5. The revenue, operating profit (or loss) and operating margin for each continuing segment are also shown on page 2 of this Annual Report.

Pre-exceptional EBITDA

Pre-exceptional EBITDA is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items.

A reconciliation of pre-exceptional EBITDA for the year ended 27 April 2019, and the comparative prior year, to the financial statements is shown in section 1.6.1 of this Annual Report.

EBITDA from Group companies before exceptional items

EBITDA from Group companies before exceptional items is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit from joint ventures).

EBITDA from Group companies before exceptional items is directly identifiable from note 29(a) to the financial statements.

Notes to the consolidated financial statements

Note 34 Definitions (continued)

(a) Alternative performance measures (continued)

Net finance charges

Net finance charges are finance costs less finance income, each as shown on the face of the consolidated income statement for continuing operations and in note 5 for discontinued operations.

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest and the effect of fair value hedges on the carrying value of borrowings.

The components of gross debt are shown in note 29(c) to the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net debt

Net debt (or net funds) is the net of cash/cash equivalents and gross debt (see above).

The components of net debt are shown in note 29(c) to the financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment on net debt. Its reconciliation to the consolidated financial statements is explained in section 1.6.6 of this Annual Report.

(b) Other definition

The following other definition is also used in this document:

Exceptional items

Exceptional items means items which individually or, if of a similar type, in aggregate, need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.

12. Separate financial statements of the parent company, Stagecoach Group plc

Company balance sheet

As at 27 April 2019

	Notes	2019 £m	2018 (restated) £m
ASSETS			
Non-current assets			
Property, plant and equipment	3	**3.4**	0.2
Investments	4	**1,039.5**	1,037.6
Deferred tax asset	7	**2.5**	2.1
Derivative instruments at fair value	8	**14.2**	30.0
		1,059.6	1,069.9
Current assets			
Other receivables	5	**341.2**	481.3
Derivative instruments at fair value	8	**13.1**	8.1
Cash and cash equivalents		**33.3**	18.2
		387.6	507.6
Total assets		**1,447.2**	1,577.5
LIABILITIES			
Current liabilities			
Trade and other payables	6	**289.7**	369.9
Derivative instruments at fair value	8	**0.2**	0.4
		289.9	370.3
Non-current liabilities			
Other payables	6	**405.5**	553.7
Derivative instruments at fair value	8	**1.8**	0.1
Retirement benefit obligations	9	**6.0**	7.5
		413.3	561.3
Total liabilities		**703.2**	931.6
Net assets		**744.0**	645.9
EQUITY			
Ordinary share capital	10	**3.2**	3.2
Share premium account	11	**8.4**	8.4
Retained earnings	11	**349.0**	249.5
Capital redemption reserve	11	**422.8**	422.8
Own shares	11	**(39.4)**	(38.0)
Total equity		**744.0**	645.9

In accordance with the concession granted under section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company has not been separately presented in these financial statements. The profit of the Company was £142.0m (2018: £31.9m).

These financial statements were approved for issue by the Board of Directors on 26 June 2019. The accompanying notes form an integral part of this balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Company statement of changes in equity

	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Total equity
	£m	£m	£m	£m	£m	£m
Balance at 29 April 2017	**3.2**	**8.4**	**284.7**	**422.8**	**(37.0)**	**682.1**
Profit for the year and total comprehensive income	–	–	31.9	–	–	31.9
Own ordinary shares purchased	–	–	–	–	(1.0)	(1.0)
Credit in relation to equity-settled share based payments	–	–	1.2	–	–	1.2
Dividends paid on ordinary shares	–	–	(68.3)	–	–	(68.3)
Balance at 28 April 2018	**3.2**	**8.4**	**249.5**	**422.8**	**(38.0)**	**645.9**
Profit for the year and total comprehensive income	–	–	142.0	–	–	142.0
Own ordinary shares purchased	–	–	–	–	(1.4)	(1.4)
Cash paid to settle share based payments originally intended to be equity-settled	–	–	(0.3)	–	–	(0.3)
Credit in relation to equity-settled share based payments	–	–	1.9	–	–	1.9
Dividends paid on ordinary shares	–	–	(44.1)	–	–	(44.1)
Balance at 27 April 2019	**3.2**	**8.4**	**349.0**	**422.8**	**(39.4)**	**744.0**

Note 1 Parent company accounting policies

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

The Company financial statements are prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101").

- **Basis of preparation**

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payments'
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member
- Paragraphs 91-99 of IFRS 12 'Fair Value Measurements'

- **Restatement of Balance sheet as at 28 April 2018**

The Company has restated the prior year comparatives to reclassify the provision for amounts owed by group undertakings from payables to other receivables as set out in notes 5 and 6. This has resulted in a decrease in other receivables of £53.8m from the figure previously reported and a corresponding decrease in payables of £53.8m, with no impact on the net assets or profit previously reported for the year ended 28 April 2018.

The Company has also reclassified the deferred tax asset at 28 April 2018 of £2.1m from current assets to non-current assets to better reflect the expected timing of the reversal of the balance. This has had no impact on the net assets or profit previously reported for the Company.

- **Intangible assets**

Intangible assets, consisting of software, are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over the estimated useful economic life of each asset, typically between 2 to 5 years.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

- **Property, plant and equipment**

Property, plant and equipment are shown at their original historic cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

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

Freehold buildings	50 years
IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any impairment is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

- **Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

Exchange differences arising on the translation of foreign currency equity investments and on foreign currency borrowings (including loans from other Group companies), to the extent the borrowings hedge the equity investments, are dealt with in the income statement.

- **Taxation**

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

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

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

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

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

- **Foreign currencies**

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

For the principal rates of exchange used, see the Group accounting policies on page 89.

- **Share based payments**

The Company issues equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the income statement to the extent that the amount is not recharged to each subsidiary company.

Notes to the Company financial statements

Note 1 Parent company accounting policies (continued)

- **Share based payments (continued)**

Equity-settled transactions

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

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

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved.

Changes in the carrying amount of the liability are recognised in the income statement for the period. Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

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

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

Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

- **Dividends**

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

- **Financial instruments**

Financial instruments are accounted for in accordance with IFRS 9 *"Financial Instruments"*, and IFRS 7 *"Financial instruments: Disclosures"* which is the same as the accounting policy for the Group. Therefore, for details of the Company's accounting policy for financial instruments refer to page 84 and pages 93 to 94.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. However, these instruments are accounted for in the Company financial statements at fair value through profit or loss.

- **Investment in own shares**

Own shares held in treasury by the Company have also been classified as deductions from equity.

- **Interest bearing loans and borrowings**

Borrowings are recognised initially as the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. The carrying value of borrowings takes account of accrued interest and issue costs.

- **Retirement benefit obligations**

During the year ended 28 April 2018, the Company was confirmed as the "principal employer" of the main section of the Stagecoach Group Pension Scheme ("SPS"). Where other participating employers are unable to meet their liabilities to the SPS, the Company is liable for the remaining liabilities. No liability has been recognised in the Company's financial statements for that as the participating employers are expected to meet their liabilities to SPS. The Company has no employees and is therefore not liable for a share in any of the other Group defined benefit schemes that are disclosed in note 24 to the consolidated financial statements. It does have unfunded liabilities in respect of former employees and these are reflected in the balance sheet.

Note 2 Intangible assets

The movements in intangible assets were as follows:

	2019
	£m
Cost	
At beginning and end of year	0.7
Accumulated amortisation	
At beginning and end of year	(0.7)
Net book value at beginning and end of year	–

Note 3 Property, plant and equipment

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

	2019
	£m
Cost	
At beginning of year	1.9
Additions	3.2
Disposals	(0.5)
At end of year	4.6
Depreciation	
At beginning of year	(1.7)
Disposals	0.5
At end of year	(1.2)
Net book value at beginning of year	0.2
Net book value at end of year	3.4

Note 4 Investments

The movements in investments were as follows:

	2019 Subsidiary undertakings
	£m
Cost and net book value	
At beginning of year	1,037.6
Additions	1.9
At end of year	1,039.5

Note 5 Other receivables

Other receivables were as follows:

	2019	2018 (restated)
	£m	£m
Current:		
Amounts owed by Group undertakings	**352.7**	678.9
Less: provision for impairment	**(53.8)**	(223.9)
Amounts owed by Group undertakings – net	**298.9**	455.0
Other receivables	**42.1**	26.2
Prepayments and accrued income	**0.2**	0.1
	341.2	481.3

Of amounts owed by Group undertakings, £87.1m (2018: £73.2m) accrue no interest and are repayable on demand. The remaining £265.6m (2018: £605.7m) owed by Group undertakings accrue interest at 6 month LIBOR plus margins ranging from 2.5% to 3.5%. These are all repayable on demand except for £Nil (2018: £170.0m) for which repayment is subject to rail franchise contractual arrangements.

In the year ended 28 April 2018, an inter-company loan provided by Stagecoach to the East Coast Main Line Company was fully provided for as the loan was not expected to be recovered. Further details of this are included in note 32(vi) to the consolidated financial statements.

Note 6 Payables

Trade and other payables were as follows:

	2019	2018 (restated)
	£m	£m
Current:		
Bank overdraft	**124.2**	109.0
Loan notes	**18.2**	18.4
Amounts owed to Group undertakings	**142.7**	200.9
Accruals and deferred income	**4.6**	25.1
Loan from non-controlling investor in subsidiary	**–**	16.5
	289.7	369.9
Non-current:		
Sterling 4.00% Notes	**405.5**	405.0
US Dollar 4.36% Notes	**–**	108.7
Bank loans	**–**	40.0
	405.5	553.7

Of amounts owed to Group undertakings, £10.7m (2018: £24.9m) accrue no interest and are repayable on demand. The remaining £132.0m owed to Group undertakings (2018: £176.0m) accrue interest at 6 month LIBOR or bank rate plus a margin of 1.5%. These are all repayable on demand.

At 28 April 2018, £53.8m of a trade receivables loss allowance for amounts owed by Group undertakings was included within the closing amounts owed to Group undertakings. This has been reclassified in these financial statements.

Notes to the Company financial statements

Note 6 Payables (continued)

Borrowings are repayable as follows:	2019	2018
	£m	£m
On demand or within 1 year		
Bank overdraft	**124.2**	109.0
Loan notes	**18.2**	18.4
Repayable after 2 years, but within 5 years		
Bank loans	**–**	40.0
US Dollar 4.36% Notes	**–**	108.7
Repayable after 5 years		
Sterling 4.00% Notes	**405.5**	405.0
Total borrowings	**547.9**	681.1

Note 7 Deferred tax

The movement in the deferred tax asset during the year was as follows:	2019	2018
	£m	£m
At beginning of year	**2.1**	1.2
Credit to the income statement	**0.4**	0.9
At end of year	**2.5**	2.1

	2019	2018
	£m	£m
Deferred taxation is calculated as follows:		
Pension temporary differences	**1.0**	1.3
Short-term timing differences	**0.1**	0.1
Accelerated capital allowances	**1.4**	0.7
At the end of year	**2.5**	2.1

Note 8 Financial instruments

The fair values of derivative financial instruments, none of which are intra-Group, are set out below:	2019	2018
	£m	£m
Non-current assets		
Fuel derivatives	**14.2**	30.0
Current assets		
Interest rate derivatives	**–**	2.3
Fuel derivatives	**13.1**	5.8
	13.1	8.1
Current liabilities		
Fuel derivatives	**(0.2)**	(0.4)
Non-current liabilities		
Fuel derivatives	**(1.8)**	(0.1)

The Company previously held derivative financial instruments with bank counterparties that were accounted for in the consolidated financial statements as cash flow hedges in respect of anticipated fuel consumption by the Group's North America business. When the Group sold that business on 16 April 2019, hedge accounting was discontinued in the consolidated financial statements. Following the sale, the Company continued to hold the derivative financial instruments that were in place at the date of sale in respect of the North America business. As part of the sale, the Company entered into a contractual agreement with the Group's now former North America business that contains embedded derivatives intended to offset the derivative financial instruments held with the bank counterparties. With effect from 16 April 2019, both the derivative financial instruments held with bank counterparties and the embedded derivatives are accounted for at fair value through profit or loss – it is expected that there will be no net gain or loss arising from that arrangement. The fair value of the relevant deprivative financial instruments held with the bank counterparties was an asset of £0.7m as at 27 April 2019 and is included in the amounts shown in the table above. The fair value of the embedded derivatives was a liability of £0.7m as at 27 April 2019 and is included in accruals and deferred income within payables.

Note 9 Retirement benefit obligations

	2019	2018
	£m	£m
Retirement benefit obligations	**6.0**	7.5

The Company no longer has any employees but has unfunded retirement benefit liabilities in respect of former employees which are shown above. See note 24 to the consolidated financial statements for more details on retirement benefits.

Note 10 Share capital

Information on share capital is provided in note 26 to the consolidated financial statements.

Note 11 Equity reserves

The profit of £142.0m (2018: £31.9m) shown in the statement of changes in equity is consolidated in the results of the Group. Details of dividends paid, declared and proposed during the year are given in note 9 to the consolidated financial statements.

The retained earnings are distributable but the amount available for distribution under the Companies Act 2006 by reference to these financial statements is reduced by the Own shares reserve of £39.4m (2018: £38.0m). The other components of equity shown in the statement of changes in equity are not distributable.

The remuneration of the Directors is borne by other Group companies and is detailed in section 8 of this Annual Report. The remuneration of the auditors is shown in note 3 to the consolidated financial statements.

Note 12 Share based payments

For details of share based payment awards and fair values see note 27 to the consolidated financial statements. The Company financial statements for the equity-settled share based payment charge for the year of £1.9m (2018: £1.2m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2018: Nil) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment charge for the year of £0.5m (2018: £0.2m) by recording an adjustment to the liability for this amount and recording a corresponding entry as a charge through the profit and loss account. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the income statement.

Note 13 Guarantees, other financial commitments and contingent liabilities

(a) The Company has provided guarantees to third parties of £114.0m (2018: £228.2m) 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 £89.7m (2018: £92.7m) in respect of contingent liabilities that are neither included in the consolidated balance sheet nor the Company balance sheet.

The Company is also party to cross-guarantees whereby the bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 30(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:

	2019	2018
	£m	£m
Contracted for but not provided:		
For delivery in one year	**59.9**	37.8

(c) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 27 April 2019:

	Total
As at 27 April 2019	£m
Lease payments in respect of:	
Year ending 2 May 2020	0.1
Year ending 1 May 2021	0.1
	0.2

The following were the future minimum contractual lease payments due under unexpired operating leases as at 28 April 2018:

	Land and buildings	Other	Total
As at 28 April 2018	£m	£m	£m
Lease payments in respect of:			
Year ending 27 April 2019	0.1	0.1	0.2
Year ending 2 May 2020	0.1	0.1	0.2
Year ending 1 May 2021	0.1	–	0.1
Year ending 30 April 2022	0.1	–	0.1
Year ending 29 April 2023	0.1	–	0.1
30 April 2023 and thereafter	0.1	–	0.1
	0.6	0.2	0.8

Note 14 Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions entered into between two or more members of a group. Related party disclosures provided by the Group can be found in note 32 to the consolidated financial statements.

Note 15 Employees

The Company has no (2018: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

13. Subsidiary and related undertakings

The Company owns the following subsidiary and related undertakings. The Company indirectly owns 100% of each undertaking through its holding of the stated class or classes of share or other interest unless otherwise stated.

Company	Country of registration	Class of shares/other interest	Registered office address
A1 Service Limited	Scotland	Guarantor	Perth
AA Buses Limited	Scotland	Ordinary shares	Perth
Aberdare Bus Company Limited	England	Ordinary shares	Stockport
Bayline Limited	England	Ordinary shares	Stockport
Bluebird Buses Limited	Scotland	Ordinary shares	Perth
Busways Travel Services (1986) Limited	England	Ordinary shares	Stockport
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares	Stockport
Busways Trustee (No.1) Limited	England	Ordinary shares	Stockport
Busways Trustee (No.2) Limited	England	Ordinary shares	Stockport
Cambus Limited	England	Ordinary shares	Stockport
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares	Stockport
Cheltenham District Traction Company Limited	England	Ordinary shares	Stockport
Chesterfield Transport (1989) Limited	England	Ordinary shares	Stockport
Chesterfield Transport E.B.T. (Number 2) Limited	England	Ordinary shares	Stockport
Chesterfield Transport Limited	England	Ordinary shares	Stockport
Chesterfield Transport PST Limited	England	Ordinary shares	Stockport
Cleveland Transit Limited	England	Ordinary shares	Stockport
Cleveland Transit Trustee (No.1) Ltd	England	Ordinary shares	Stockport
Cumberland Motor Services Limited	England	Ordinary shares	Stockport
Devon General Limited	England	Ordinary shares	Stockport
East Coast Mainline Company Limited (90%)	England	Ordinary shares	Stockport
East Kent Coaches Limited	England	Ordinary shares	Stockport
East Kent Road Car Company Limited	England	Ordinary shares	Stockport
East London Bus and Coach Company Limited	England	Ordinary shares	Stockport
East London Bus Group Property Investments Limited	England	Ordinary shares	Stockport
East London Bus Ltd.	England	Ordinary shares	Stockport
East Midlands Trains Limited	England	Ordinary shares	Derby
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares	Perth
Formia Limited	England	Ordinary shares	Stockport
Frenchwood Holdings Limited	England	Ordinary shares	Stockport
G&G Travel Limited	England	Ordinary shares	Stockport
Glenvale Transport Limited	England	Ordinary shares	Stockport
Glossopdale Bus Company Limited	England	Ordinary shares	Stockport
Greater Manchester Buses South Limited	England	Ordinary shares	Stockport
Grimsby Cleethorpes Transport Company Limited	England	Ordinary shares	Stockport
Halliday-Hartle Travel (1988) Limited	England	Ordinary shares	Stockport
Hartlepool Transport (1993) Limited	England	Ordinary B and Preference shares	Stockport
Hartlepool Transport Limited	England	Ordinary shares	Stockport
Hastings and District Transport Limited	England	Ordinary shares	Stockport
Highland Country Buses Limited	Scotland	Ordinary shares	Perth
Inter City Railways Limited (90%)	England	A Shares	Stockport
JW Coaches Limited	Scotland	Ordinary shares	Perth
KHCT (ESOP) Limited	England	Ordinary shares	Stockport
KHCT (Holdings) Limited	England	Ordinary shares	Stockport
Kingston Upon Hull City Transport Limited	England	Ordinary shares	Stockport
Lincoln City Transport Limited	England	Ordinary shares	Stockport
Lincolnshire Road Car Company Limited	England	Ordinary shares	Stockport

Company	Country of registration	Class of shares/other interest	Registered office address
Megabus.com (UK) Limited	England	Ordinary shares	Stockport
Megabus.com SAS	France	Ordinary shares	Paris
Megacity Limited (35%)	Scotland	Ordinary shares	Glasgow
Midland Red (South) Limited	England	Ordinary shares	Stockport
Nicecon Limited (50%)	Scotland	Ordinary shares	Aberdeen
P. Phythian and Son Limited	England	Ordinary shares	Stockport
Parfitts Motor Services Limited	England	Ordinary shares	Stockport
Planet Coach BVBA	Belgium	Ordinary shares	Brussel
Planet Coach GmbH	Germany	Common stock	Munchen
Planet Coach SRL	Italy	Ordinary shares	Firenze
Precis (1628) Limited	England	Ordinary shares	Stockport
PSV Claims Bureau Limited	England	Ordinary shares	Stockport
Red & White Services Limited	England	Ordinary shares	Stockport
Rhondda Buses Limited	England	Ordinary shares	Stockport
Rhondda Valley Buses Limited	England	Ordinary shares	Stockport
Ribble Motor Services Limited	England	Ordinary shares	Stockport
RTI Stagecoach Limited	England	Ordinary A shares. Ordinary B shares and preference shares	Cheshire
Schoolbus Limited	Scotland	Ordinary shares	Perth
SCOTO Limited	England	Ordinary shares	Stockport
SCOTO US Subsidiary Limited LLC	United States	LLC Units	Wilmington
Scottish Citylink Coaches Limited (35%)	Scotland	Ordinary shares	Glasgow
SCUSI Limited	England	Ordinary A and B shares	Stockport
SCUSI US Subsidiary Limited LLC	United States	LLC Units	Wilmington
SGP Group Finance Sarl *	Luxembourg	Ordinary shares	Luxembourg
Sharpton Limited	England	Ordinary shares	Stockport
South East London & Kent Bus Company Limited	England	Ordinary shares	Stockport
South Yorkshire Supertram Limited	England	Ordinary shares	Stockport
South Yorkshire Supertram Operating Company Limited	England	Ordinary shares	Stockport
Southdown Motor Services Limited	England	Ordinary shares	Stockport
Stagecoach (North West) Limited	England	Ordinary shares	Stockport
Stagecoach (South) Limited	England	Ordinary shares	Stockport
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Devon Limited	England	Ordinary shares	Stockport
Stagecoach Glasgow Limited	Scotland	Ordinary shares	Perth
Stagecoach Holdings Limited	Scotland	Ordinary shares	Perth
Stage-coach International Services Limited	Scotland	Ordinary shares	Perth
Stagecoach East Midlands Trains Limited	England	Ordinary shares	Stockport
Stagecoach QUEST Trustee Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Operations Limited	England	Ordinary shares	Stockport
Stagecoach Rail Projects Limited	England	Ordinary shares	Stockport
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares	Stockport
Stagecoach Rail Replacement (South) Limited	England	Ordinary shares	Stockport
Stagecoach Rail Replacement Limited	England	Ordinary shares	Stockport
Stagecoach (Scotland) Limited	Scotland	Ordinary shares	Perth
Stagecoach Services Limited	England	Ordinary shares	Stockport
Stagecoach South Eastern Trains Limited	England	Ordinary shares	Stockport

Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest	Registered office address
Stagecoach South West Limited	England	Ordinary shares	Stockport
Stagecoach South Western Trains Limited	England	Ordinary shares	Greater Manchester
Stagecoach Supertram Maintenance Limited	England	Ordinary shares	Stockport
Stagecoach Technology Limited	Scotland	Ordinary shares	Perth
Stagecoach West Coast Trains Ltd	England	Ordinary shares	Stockport
Stagecoach Transport Holdings Limited *	Scotland	Ordinary shares	Perth
SuperCAM Limited	England	A and B shares	Cheshire
Swindon and District Bus Company Limited	England	Ordinary shares	Stockport
Tanport Limited	England	Ordinary shares	Stockport
Tees Valley Limited	England	Ordinary and A-Ordinary shares	Stockport
Thames Transit Limited	England	Ordinary shares	Stockport
The Barnsley & District Traction Company Limited	England	Ordinary shares	Stockport
The Mexborough and Swinton Traction Company Limited	England	Ordinary shares	Stockport
The Valleys Bus Company Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Company (Trustee) Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Company Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Group (LLCS) Limited	England	Guarantor	Stockport
Transit Advertising Ltd	England	Ordinary shares	Stockport
TravelHero Limited	England	Ordinary shares	Stockport
Tyne and Wear Omnibus Company Limited	England	Ordinary shares	Stockport
United Counties Omnibus Company Limited	England	Ordinary shares	Stockport
Virgin Rail Group Holdings Limited (49%)	England	Common stock B shares	London
Virgin Rail Group Limited (49%)	England	Ordinary and Preference shares	London
Virgin Rail Projects Limited (49%)	England	Ordinary shares	London
Virgin Trains Sales Limited (49%)	England	Ordinary shares	London
Virgin Trains Limited (49%)	England	Ordinary shares	London
Welcome Passenger Transport Limited	England	Ordinary shares	Stockport
West Coast Partnership Limited (50%)	England	Ordinary shares	Stockport
West Coast Trains Limited (49%)	England	Ordinary shares	London
West Coast Trains Partnership Limited (50%)	England	Ordinary shares	Stockport
West Sussex Buses Limited	England	Ordinary shares	Stockport
Western Buses Limited	England	Ordinary shares	Stockport
Whites World Travel Limited	England	Ordinary shares	Stockport

* Companies are directly held by Stagecoach Group plc

All subsidiary undertakings are included in these consolidated financial statements.

Registered office	Registered office address
Perth	10 Dunkeld Road, Perth, Perthshire, PH1 5TW
Stockport	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
York	East Coast House, 25 Skeldergate, York, North Yorkshire YO1 6DH
Derby	Prospect House, No1 Prospect Place, Millennium Way, Derby, Derbyshire DE24 8HG
Paris	34 Avenue des Champs Elysees, 75008, Paris
Glasgow	Buchanan Bus Station, Killermont Street, Glasgow, G2 3NP
Aberdeen	395 King Street, Aberdeen, AB24 5RP
Brussel	Koningsstraat 97, 1000 Brussel
Munchen	Prinzregentenstrasse 48, c/o Heuking Kuhn Luer Wojtek, 80538 Munchen
Firenze	Piazza della Stazione n.2, Commune di Firenze
Cheshire	Daw Bank, Stockport, Cheshire, SK3 0DU
Wilmington	1209 Orange Street, Wilmington, DE 19801
Luxembourg	6, Rue Henri M Schnadt, 2nd Floor Luxembourg
Greater Manchester	20 Railway Road, One Stockport Exchange, Stockport, Greater Manchester, England, SK1 3SW
Cheshire	Daw Bank, Stockport, Cheshire, SK3 0DU
London	The Battleship Building, 179 Harrow Road, London, W2 6NB

14. Shareholder information

Shareholder enquiries

Link Asset Services
Stagecoach Group Share Register
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Telephone: +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
Email: StagecoachGroup@linkgroup.co.uk.

Online share administration

You can access your share account online using the Signal Shares share portal service at www.signalshares.com. You will need your Investor Code, which is shown on shareholder correspondence, in order to register to use the portal.

Registering your account is quick and easy and you will immediately be able to benefit from the full range of services available on the share portal, including:

- updating your personal details;
- adding a mandate to receive dividends direct to your bank account;
- reinvesting dividends to buy more shares;
- registering proxy votes online; and
- buying and selling shares.

Using the online share portal reduces the need for paperwork and provides 24 hour access.

Share dealing facilities

The Company has set up a range of execution only share dealing services to enable Stagecoach shareholders to buy and sell shares by phone, online or by post. Phone and online dealing services are provided by Link Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services register for online share administration as above and choose the option to buy and sell shares. Alternatively, go to www.linksharedeal.com or call +44 (0)371 664 0364 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday excluding public holidays in England and Wales). Please have your share certificate to hand when you log-in or call.

A postal dealing service is available from Stocktrade, a division of Brewin Dolphin. Shareholders who would like further information should write to Stocktrade, 6th Floor, Atria One, 144 Morrison Street, Edinburgh, EH3 8BR or call +44 (0)131 240 0414, quoting dealing reference 'Stagecoach dial and deal'. Lines are open 8.00am to 4.30pm, Monday to Friday. Postal dealing packs are available on request.

Other organisations also offer facilities to buy and sell shares.

Dividend Re-Investment Plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares. Shareholders can opt to reinvest dividends using the online share administration services referred to above. Shareholders who would like further information should telephone the Company's registrars, Link Asset Services, on +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@linkgroup.co.uk.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own.

To find out more about these “boiler room scams”, or how to report a potential scam, visit the Financial Conduct Authority website at **www.fca.org.uk/consumers/scams/investment-scams/**

INVESTMENT SCAMS ARE OFTEN SOPHISTICATED AND DIFFICULT TO SPOT

How to avoid investment and pension scams

1. **Reject unexpected offers**

   Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you’ve been offered an investment out of the blue, chances are it’s a high risk investment or a scam.

2. **Check the FCA Warning List**

   Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without our authorisation.

3. **Get impartial advice**

   Get impartial advice before investing – don’t use an adviser from the firm that contacted you.

If you’re suspicious, report it

You can report a firm or scam to the **Financial Conduct Authority** on **0800 111 6768** or through www.fca.org.uk/scamsmart. If you’ve lost money in a scam, contact Action Fraud on 0300 123 2040 or www.actionfraud.police.uk

Corporate information and calendar

Corporate Information

Company Secretary
Mike Vaux

Registered Office
10 Dunkeld Road
Perth PH1 5TW

Telephone	+44 (0) 1738 442 111
Facsimile	+44 (0) 1738 447 588
Email	info@stagecoachgroup.com

Company Number
SC100764

Calendar

Annual General Meeting
30 August 2019

Final Dividend
2 October 2019

Interim Dividend
March 2020

www.stagecoach.com

Registered Office:
10 Dunkeld Road, Perth PH1 5TW, Scotland
T: 01738 442111 | F: 01738 447588 | E: info@stagecoachgroup.com

Registered in Scotland | Number: SC100764