

# Stagecoach Group Annual Report and Financial Statements 2020



Decisive management actions, creditable financial performance and progress in delivery of business strategy through a challenging period for our sector and the communities we serve

## Financial highlights – 53 weeks ended 2 May 2020

- Adjusted earnings per share 13.5p (2019: 22.1p): excluding 53rd week, also 13.5p (2019: 22.1p)
- Statutory earnings per share of 6.4p (2019: 3.8p) reflecting non-recurrence of prior year charges relating to the impairment and disposal of the discontinued North America business
- Substantial available liquidity: over £800m of undrawn, committed bank facilities and available cash/deposits
- Cost reduction programme, taking account of COVID-19 situation
- In the short-term, management actions and continuing support of government should ensure we remain EBITDA positive and poised to benefit from any new opportunities

## Operational highlights

- Good progress in line with the strategy announced in December 2019
  - Maximise our core business' potential in a changing market
    - As expected, regional bus revenue trends were improving pre-COVID
      - 2.7% like-for-like revenue growth in 14 weeks ended 1 February 2020
    - 90% plus customer satisfaction
    - New branding launched with supportive marketing developed
  - Manage change through our people and technology to make it simpler and better
    - Projects to implement new people systems underway
    - 46% of 2019/20 bus commercial revenue sold via contactless and digital channels
  - Grow by diversifying to balance the portfolio and open up new markets
    - Shortlisted to bid for two Dubai bus contracts
    - Shortlisted for one rail and four bus opportunities in Sweden
- Strengthened long-term prospects
  - Renewed societal focus on health, wellbeing and the environment
  - Public transport can play a major role in tackling climate change and road congestion with strong government action to reduce car use
  - Swift, decisive action taken to respond to the COVID-19 pandemic and plan for the future
  - 41% of bus fleet (June 2019: 33%) now Euro 6 clean diesel, ultra-low emission or zero emission
  - Greenhouse gas emissions down 4% in 2019/20 on a like-for-like basis
  - Nearing completion of a new sustainability strategy with a roadmap to a zero carbon business
  - Without Stagecoach buses, UK CO<sub>2</sub> emissions would be around 200,000 tonnes per annum higher

## Environmental, social and governance (“ESG”) measures

- Positive ESG ratings:
  - “Low risk” rating from Sustainalytics
  - “A” rated by MSCI
  - FTSE4Good percentile rating of 98 out of a maximum of 100
- One of only c.86 listed companies to receive the London Stock Exchange Green Economy Mark

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## Financial summary

|   | "Adjusted" results                            |         | "Statutory" results |         |
|---|---|---------|---------------------|---------|
|   | Results excluding separately disclosed items* |         |                     |         |
|   | 2020  | 2019    | 2020                | 2019    |
| <b>CONTINUING OPERATIONS</b>              |   |         |                     |         |
| Revenue (£m)                              | <b>1,417.6</b>                                | 1,878.9 | <b>1,417.6</b>      | 1,878.9 |
| Total operating profit (£m)               | <b>119.7</b>                                  | 161.3   | <b>87.2</b>         | 135.7   |
| Net finance costs (£m)                    | <b>(28.8)</b>                                 | (28.4)  | <b>(46.6)</b>       | (34.5)  |
| Profit before taxation (£m)               | <b>90.9</b>                                   | 132.9   | <b>40.6</b>         | 101.2   |
| Earnings per share (pence)                | <b>13.5p</b>                                  | 19.3p   | <b>6.7p</b>         | 17.4p   |
| <b>TOTAL OPERATIONS</b>                   |   |         |                     |         |
| Earnings per share (pence)                | <b>13.5p</b>                                  | 22.1p   | <b>6.4p</b>         | 3.8p    |
| Proposed final dividend per share (pence) | –   | 3.9p    | –                   | 3.9p    |
| Full year dividend per share (pence)      | <b>3.8p</b>                                   | 7.7p    | <b>3.8p</b>         | 7.7p    |

\* see definitions in note 34 to the consolidated financial statements.

# 1. Strategic report

## 1.1 Introduction

Stagecoach Group plc ("the Company") is the ultimate parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group plc ("the Directors") are pleased to present their report on the Group for the year ended 2 May 2020.

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, regulatory 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

In common with many businesses, we have been significantly impacted by the COVID-19 pandemic and the necessary measures put in place by government, which have affected travel patterns since March. Setting aside this unprecedented factor, we delivered a creditable financial performance for the year ended 2 May 2020 as we progressed our updated strategy and objectives.

We have continued to prioritise the safety and wellbeing of our people and our customers during this unprecedented period, and have taken decisive action to protect the long-term sustainability of the business. We are proud of the incredible response of our people and other key workers to the COVID-19 pandemic and the part they have played in getting the country through the worst.

Prior to the COVID-19 pandemic, our regional bus operations were performing well. We are pleased that the most recent independent customer satisfaction research by Transport Focus shows that we are continuing to deliver industry-leading quality of service and value for money to our passengers. In our London bus operations, where we operate services on behalf of Transport for London, we are amongst the top performing contractors and have delivered new tender wins.

Our operation of the East Midlands rail franchise ended in August 2019 and we worked collaboratively with the new operator to ensure the smooth transition of the train services. In December 2019, our joint venture, Virgin Rail Group, completed its operation of the West Coast rail franchise, also working collaboratively with the new operator on the transfer of responsibility for the train services. We are continuing to progress the unwinding and settlement of contractual matters in relation to these and other former rail franchises. Our rail operations are now limited to our Sheffield Supertram tram and tram-train operations.

With a simpler and more focused business in place, we are actively exploring opportunities to diversify our portfolio. Public transport will remain critical to the country's economy and communities, and will be a key part of the recovery ahead.

### *Financial results*

The results are for the 53 weeks ended 2 May 2020. To improve comparability to the 52 weeks ended 27 April 2019, we also present some measures excluding the 53rd week.

Revenue from continuing operations was £1,417.6m, and excluding the 53rd week, was £1,404.2m (2019: £1,878.9m). The lower revenue reflects the end of the Virgin Trains East Coast franchise in June 2018 and the end of the East Midlands Trains franchise in August 2019. Adjusted total operating profit from continuing operations was £119.7m, and excluding the 53rd week, was £119.4m (2019: £161.3m). The change in operating profit reflects the adverse effect of the COVID-19 situation on the operating profit of the regional bus operations since March and the end of the East Midlands and West Coast rail franchises. Unadjusted operating profit from continuing operations was £87.2m (2019: £135.7m), reflecting the reduction in adjusted operating profit and an increase in the costs from separately disclosed items due to the COVID-19 situation. Adjusted earnings per share were 13.5p (2019: 22.1p), with the change including the reduction in adjusted operating profit partly offset by a lower taxation expense. Basic, unadjusted earnings per share were 6.4p (2019: 3.8p) with the increase principally reflecting the non-recurrence of charges relating to the impairment and disposal of the North America business being partially offset by COVID-19 related separately disclosed items.

### *Dividend*

We maintained the interim dividend for 2019/20 at 3.8p per share and this was paid on 4 March 2020. Given the uncertainties caused by the impact of COVID-19, we announced in March that no further dividends will be proposed in respect of the year ended 2 May 2020. We recognise the importance of dividends to many shareholders and it is our ambition to resume dividend payments in due course. We anticipate that being when our profit and cash flow generation has returned to a level, which relative to our net debt and pension liabilities, supports the resumption of dividend payments.

### *Business strategy*

The Board reviewed the strategy of the business during the year and we are now focused on three objectives:

- Maximise our core business' potential in a changing market
- Manage change through our people and technology to make it simpler and better
- Grow by diversifying to balance the portfolio and open up new markets

While our short and medium-term priorities have changed to reflect the COVID-19 situation, the above strategic objectives that we established in late 2019 remain in place. We will continue to review and adjust our strategy to take account of changes that emerge as the UK and our business recovers from the COVID-19 pandemic.

# 1. Strategic report (continued)

## *Transport policy*

We remain encouraged by the UK Government's commitment to delivering a national bus strategy and we are helping to shape the planned priorities. Combined with significant new funding to support the growth of the bus market in the years ahead, we see a clear opportunity to leverage the potential of the bus to support economic growth and improved connectivity in our communities, as well as addressing the major challenges of road congestion and air quality in our towns and cities. Along with our industry partners, we are progressing a sector strategy to deliver a billion more passenger journeys a year by bus in England by 2030, with a commitment to work in partnership with government and local authorities to also grow bus patronage in Scotland and Wales.

## *UK franchised rail market*

In late 2019, we exited the UK franchised rail market after more than 20 years of delivering industry-leading performance and customer satisfaction both individually and with our partners. We were proud our railway stewardship was recognised with the last of our operations, East Midlands Trains, being named Passenger Operator of the Year at the 2019 National Rail Awards. We would like to thank our former employees and customers across all of our rail businesses for their contribution to our success. We have continued to progress outstanding contractual matters as part of the unwind of these rail operations. While the current rail franchise model is subject to ongoing assessment by the Williams Review, as indicated previously we have no intention to bid for new UK rail contracts on the current risk profile offered by the Department for Transport.

## *Funding*

In March 2020, we completed a re-financing of our core, bi-lateral bank facilities. We have entered into £325m of new, bi-lateral bank facilities committed through to March 2025 with the potential for those to be extended by up to two years. In May 2020, we issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. The current issuances are due to mature in February and March 2021. The undrawn amounts on committed bank facilities, together with available surplus cash and deposit balances, are now over £800m and we continue to review our funding options in light of the emerging outlook for the business.

## *Our people*

Our employees continue to play a critical role in delivering our long-term growth strategy. Providing safe, high quality services for our customers every day drives all aspects of our business and we have a team that is truly proud to serve. We are pleased that our most recent employee engagement survey has shown further increased response rates and levels of staff satisfaction. We are continuing to invest in the training and development of our people at all levels within the business, as well as promoting diversity and inclusion in our teams, to build on these positive results.

We appreciate the understanding and support of our people as we deal with the challenges of the COVID-19 situation. In reducing costs to partly offset the reduction in revenue, we took the decision to furlough a significant number of our people under the Government's Coronavirus Job Retention Scheme ("CJRS"). As we have built back up our bus and tram service levels, many of the furloughed employees have returned to work.

During the year, there were a number of changes to our Board of Directors. Sir Brian Souter stepped down as Chairman on 31 December 2019 and continues to serve on the Board as a non-executive director. Ray O'Toole, Non-Executive Director, who has several decades' experience in senior public transport sector roles, became the independent Chairman of the Company from 1 January 2020. Dame Ann Gloag and Sir Ewan Brown, both long-serving non-executive directors, retired from the Board on 31 December 2019 and we thank them for their good counsel and major contribution to the business.

Will Whitehorn stepped down from the Board and as Deputy Chairman on 30 June 2020, having served for approximately nine years as an independent non-executive director. We thank Will for his wide range of insights and significant contribution to the Group during those nine years.

We are delighted that Lynne Weedall will join the Board with effect from 1 August 2020. Lynne is an experienced director who has worked in a number of large organisations, bringing key expertise in business strategy, organisation design, strategic change management and employee engagement. We look forward to welcoming Lynne to the Board.

## *Outlook*

With the continuing uncertainty of the COVID-19 situation and the UK's recovery, it remains difficult to reliably predict profit for the new financial year ending 1 May 2021. In the short-term, the actions we have taken and the continuing support of government should ensure we continue to generate positive EBITDA (earnings before interest, tax, depreciation and amortisation) and avoid significant operating losses, and we are working to re-build profitability over time.

We expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our public transport services returns to pre-COVID levels and we are planning for a number of scenarios. We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for our business from a renewed societal focus on health, wellbeing and the environment. Public transport can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

As Britain's biggest bus and coach operator, we have clear opportunities to grow our business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the public transport services our customers want.

Beyond our existing core operations, we have identified opportunities overseas as part of our strategy to diversify the business. We are investing in our people and in new technology to navigate our changing and challenging world. Challenge brings opportunity and we believe our track record of innovation, collaborative working, and commitment to excellence will help deliver the solutions needed to ensure better mobility, cleaner air and a more sustainable future for our communities.

# 1. Strategic report (continued)

## Summary of financial results

Revenue from continuing operations, split by segment, is summarised below:

### Revenue – continuing operations

|                              | 2020<br>£m     | 2019<br>£m | Growth<br>% | Growth excluding<br>53rd week<br>% |
|------------------------------|----------------|------------|-------------|------------------------------------|
| Continuing Group operations  |                |            |             |                                    |
| UK Bus (regional operations) | <b>1,011.9</b> | 1,043.3    | (3.0)%      | (3.9)%                             |
| UK Bus (London)              | <b>246.2</b>   | 252.8      | (2.6)%      | (4.4)%                             |
| UK Rail                      | <b>161.1</b>   | 589.5      | (72.7)%     | (72.7)%                            |
| Intra-Group revenue          | <b>(1.6)</b>   | (6.7)      |             |                                    |
|                              | <b>1,417.6</b> | 1,878.9    |             |                                    |

Operating profit from continuing operations, split by segment, is summarised below:

### Operating profit – continuing operations

|  | 2020<br>£m    | 2020<br>% margin | 2019<br>£m | 2019<br>% margin |
|--|---------------|------------------|------------|------------------|
| Continuing Group operations  |               |                  |            |                  |
| UK Bus (regional operations)   | <b>90.6</b>   | <b>9.0%</b>      | 117.0      | 11.2%            |
| UK Bus (London)  | <b>16.1</b>   | <b>6.5%</b>      | 10.7       | 4.2%             |
| UK Rail  | <b>4.4</b>    | <b>2.7%</b>      | 26.4       | 4.5%             |
| Group overheads  | <b>(8.1)</b>  |                  | (13.6)     |                  |
| Restructuring costs  | <b>(0.9)</b>  |                  | (2.5)      |                  |
| <b>Operating profit before joint ventures and separately disclosed items</b>                             | <b>102.1</b>  |                  | 138.0      |                  |
| <b>Joint ventures – share of profit after tax</b>  |               |                  |            |                  |
| Virgin Rail Group  | <b>15.8</b>   |                  | 21.3       |                  |
| Citylink   | <b>1.8</b>    |                  | 2.0        |                  |
| <b>Total operating profit before separately disclosed items</b>  | <b>119.7</b>  |                  | 161.3      |                  |
| Non-software intangible asset amortisation   | <b>(0.7)</b>  |                  | (0.3)      |                  |
| Other separately disclosed items   | <b>(31.8)</b> |                  | (25.3)     |                  |
| <b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b> | <b>87.2</b>   |                  | 135.7      |                  |

More details on the financial results for the year are provided in section 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. The Group employs around 25,000 people and operates bus, coach and tram services. The Group has three main segments – 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 or tram. Our "This is Stagecoach Group" infographic provides more information and can be found on our website at: <https://www.stagecoachgroup.com/infographic-july-2019.pdf>

This section 1.4.1 summarises the Group's business model. The remaining parts of 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 publicly traded and it is not under the control of any single shareholder.

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

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.

# 1. Strategic report (continued)

## 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 entrepreneurship 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 publicly 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 entrepreneurship. 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 pays us to run specified bus services. Any amount payable by individual passengers flows 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 receive other income, which may include income from:

- property rental;
- selling advertising space on vehicles and premises we operate;
- government grant income to support transport networks affected by the COVID-19 situation.

## Key costs and inputs

Our main tangible fixed assets are property, buses, coaches and technology. Some of the property, buses and coaches we operate are leased.

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

Our other major operating costs are:

- diesel and electricity to fuel or power our buses, coaches and trams;
- insurance costs and claims costs;
- materials and consumables, including replacement parts for vehicles;
- depreciation 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 segment 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. Indeed, while all of the major rail franchises we were involved in have now expired, there remain various assets and liabilities to be settled in relation to such franchised operations.

## 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;
- 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.

# 1. Strategic report (continued)

## 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.

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 Board has reviewed the strategy of the Group and we are now focused on three main objectives:

- Maximise our core business' potential in a changing market
- Manage change through our people and technology to make it simpler and better
- Grow by diversifying to balance the portfolio and open up new markets

#### Maximise our core business' potential in a changing market

Our short to medium-term priorities in maximising our core business' potential are focused around four main areas set out below.

##### *Multi-journey fares capping*

We continue to focus on modernising retailing and fares to open up new channels, secure customer loyalty and attract new customers. Research shows that fare simplification can improve customer perception of value for money and help drive increased patronage. We are progressing work on single operator day and weekly fares capping using contactless payment technology. We are also working with other operators to progress multi-operator bus and tram fares capping. Contactless payment facilities cover all of Stagecoach's vehicle fleet following the biggest roll-out of the technology by any bus operator in Britain. Looking ahead, this will also give us the platform to introduce multi-operator price-capped tickets in urban areas across the country.

##### *New bus and coach services*

There are significant opportunities for us to both grow and diversify our risk profile by developing new service propositions in our core market. As travel patterns and lifestyles change, we see growing areas of demand to support new bus and coach services.

##### *Corporate sales*

In many locations across the UK, we have identified a market for direct corporate sales. We are looking to focus on business parks and major employers in rapidly growing cities with constrained parking, particularly organisations with a growing emphasis on demonstrating they are responsible employers. There is also an opportunity to deliver ready-made solutions in areas that may be investigating the introduction of workplace charging levies. To access these markets, we have developed a simple corporate product structure and booking tool which will allow us to build direct relationships.

##### *Brand and marketing*

During the year ended 2 May 2020, we introduced a new over-arching brand proposition for Stagecoach. This is about far more than a new identity for our vehicles. It incorporates a new brand vision and values and the roll out of commercial initiatives. Stagecoach research has shown that by increasing brand awareness and relevance and implementing a coordinated marketing and customer strategy, we can improve the end-to-end customer experience and increase our passenger revenue through modal shift. Our marketing activity has tended to be locally driven and focused. While we intend to continue with our local marketing activity, we see significant potential from complementing that with centrally co-ordinated branding and marketing activity, optimising our position as the UK's largest bus and coach operator.

#### Manage change through our people and technology

The way people live their lives is changing, including how consumers access goods and services. How we operate as a business also needs to change by implementing best practice and innovative improvements to underpin our growth strategy.

##### *Investing in our people*

Our people continue to be our most important asset and they have been fundamental to our success over the past four decades. Our starting point is to focus on getting the basics right, ensuring our high standards of safety, operation and customer service are maintained through enhancing our processes. We have also been progressing changes to ensure our organisational structure is fit for the future, making sure we have the right skills and people in place.

##### *Harnessing technology to support our customers and our business*

As well as using technology to improve our customer proposition and experience, we are taking steps to use technology to improve the way our business operates. A key element of our plans is developing sustainable vehicle technology to meet the long-term needs of the business.

#### Grow by diversifying

With the disposal of our North American operations and our exit from UK rail franchises, the core of our business is now largely focused on our bus operations in the UK. Nevertheless, consistent with our record of accomplishment over the past four decades, we continue to seek out opportunities to grow and diversify our business in new markets. We have undertaken assessments of overseas markets to establish the potential for value adding public transport services that would enhance our current portfolio.

The markets we are focusing on are those where we see relatively low political/regulatory risk, contract opportunities that offer an appropriate risk-reward balance, a positive economic outlook and positive demographic factors. We see potential to earn a higher return on capital than we were achieving in North America.

In line with our considered approach over many years, we will continue to evaluate options for growth closely and pursue opportunities that have an appropriate balance of risk and potential reward for our stakeholders.



# 1. Strategic report (continued)

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

### UK Bus (regional operations)

|                                   |   |
|-----------------------------------|---|
| <b>Description</b>                | <p>The UK Bus (regional operations) business 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.</p> <p>The business operates a fleet of around 7,100 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.</p> <p>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.</p>  |
| <b>Regulatory environment</b>     | <p>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.</p> <p>The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the revenue is from customers paying for their own travel by bus. The business also operates tendered services, including schools contracts, on behalf of local authorities. Pre-COVID, around 10% of the UK Bus (regional operations) revenue was 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. Pre-COVID, around 24% of the UK Bus (regional operations) revenue was 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.</p>   |
| <b>Strategy</b>                   | <p>The strategy of the UK Bus (regional operations) business 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.</p>  |
| <b>Market opportunity</b>         | <p>The Group has around 26% 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 2018, there was an average of 986 trips per person per year. Trips by car or van accounted for 77% of distance travelled, bus trips accounted for 4%, rail trips accounted for 9% and walking, cycling and other modes accounted for 10%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to the NTS, around 22% of bus journeys outside of London are for shopping, 22% for commuting and business, 24% for leisure, 20% for education, 12% are for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.</p>  |
| <b>Macroeconomic factors</b>      | <p>Although the UK Bus (regional operations) 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.</p>   |
| <b>Competition</b>                | <p>The UK Bus (regional operations) face 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 publicly 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.</p>   |
| <b>Future market developments</b> | <p>With the continuing uncertainty of the COVID-19 situation and the UK's recovery, it remains difficult to reliably predict financial performance for the new financial year ending 1 May 2021. In the short-term, the actions we have taken and the payments from government for continuing bus services should ensure we continue to generate positive EBITDA and avoid significant operating losses.</p> <p>Looking further ahead, we expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our regional bus services returns to pre-COVID levels and we are planning for a number of scenarios. We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for the business from a renewed societal focus on health, wellbeing and the environment. Buses across the UK can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.</p> <p>The business 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. While people's reducing propensity to travel is a risk to the business, 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.</p> <p>As Britain's biggest bus and coach operator, we have clear opportunities to grow our regional bus business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the bus services our customers want.</p> |

# 1. Strategic report (continued)

## UK Bus (London)

|                                   |   |
|-----------------------------------|---|
| <b>Description</b>                | The Group is the fourth largest operator in the London bus market, operating from 10 depots with a fleet of around 1,150 buses serving routes in and around east and south-east London.   |
| <b>Regulatory environment</b>     | The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and 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) business currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.   |
| <b>Strategy</b>                   | 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.  |
| <b>Market opportunity</b>         | 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.   |
| <b>Macroeconomic factors</b>      | 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.   |
| <b>Competition</b>                | 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.  |
| <b>Future market developments</b> | <p>The contractual nature of the London bus business means its profitability has been much less affected by the COVID-19 situation than the profitability of the regional bus business. While financial pressure on Transport for London does present risks for the business, we have not significantly changed our London bus strategy.</p> <p>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 business, continuing population growth in London and positive government policy on public transport can contribute to a positive long-term outlook for the business.</p> |

## Rail

|                                   |  |
|-----------------------------------|--|
| <b>Description</b>                | <p>The Group continues to evaluate and bid for overseas rail opportunities, as well as progressing the unwind of the affairs of its former UK franchised rail businesses.</p> <p>The last major franchises the Group was involved with expired during the year. Its rail operations are now limited to the Sheffield Supertram operation of a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024.</p> |
| <b>Strategy</b>                   | In rail, we seek to grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.  |
| <b>Market opportunity</b>         | The market opportunity in rail arises from the potential to win new franchises in the UK or overseas. However, the Group has no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport.   |
| <b>Competition</b>                | The main competitors that bid against the Group for rail franchises are FirstGroup, Go-Ahead Group, Arriva, MTR, Keolis, Transdev, Trenitalia, SNCF, Eurostar, Serco, Abellio, East Japan Railway Company and Mitsui.  |
| <b>Future market developments</b> | The Group will assess each opportunity to bid for a new rail contract 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. Strategic report (continued)

## 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, 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 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 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 constructive dialogue with organisations such as the Campaign for Better Transport.

### Suppliers

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

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, coach and tram 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 and trams, which are produced to detailed specifications relevant to the individual markets in which they are required.

### Licences

We hold various licences 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 and UK Tram.

# 1. Strategic report (continued)

## 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, 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 of this Annual Report. 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. Where appropriate, the principal risks and uncertainties below include emerging risks such as the risks of lasting effects from the current COVID-19 situation.

The main changes in the Group's principal risks and uncertainties during the year ended 2 May 2020 were as follows:

- The Group's involvement in operating major UK train services ended. Taking account of that, we no longer consider "sustainability of rail profit" and "breach of franchise" to be amongst the Group's principal risks and uncertainties.
- The risk of "management and board succession" has been broadened to a risk relating to "people and culture", reflecting changes to the Board during the year and an increasing emphasis on the management of broader people and culture risks.
- The risk of "disease" was identified and first reported as a principal risk some years ago but the COVID-19 situation is a clear and substantial crystallisation of the risk.

| Description of risk   | Management of risk   | Developments in year ended 2 May 2020 and since   | Section in Annual Report |
|---|--|---|--------------------------|
| <p><b>Major event such as a serious accident</b></p> <p>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.</p> <p>A series of less severe incidents could have similar consequences.</p>  | <p>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.</p> | <ul style="list-style-type: none"> <li>• No significant matters to report.</li> </ul>   |                          |
| <p><b>Economy</b></p> <p>The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus services. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.</p> <p>The effects of the COVID-19 situation and the ongoing negotiation of the terms during the transition period following the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty, particularly in the event that the UK exits the transition with no EU trade deal. 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.</p> | <p>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.</p> <p>Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.</p>   | <ul style="list-style-type: none"> <li>• We no longer have any exposure to ongoing UK train revenue risk following the expiry of the remaining UK rail franchises we were involved with.</li> <li>• The COVID-19 situation is having a substantial, adverse effect on the UK economy. There is significant uncertainty to what extent, and for how long, the economy will be affected by COVID-19.</li> </ul> | 1.3, 1.6.1 and 1.7       |
| <p><b>Terrorism</b></p> <p>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.</p>   | <p>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.</p>   | <ul style="list-style-type: none"> <li>• No significant matters to report.</li> </ul>   |                          |

# 1. Strategic report (continued)

| Description of risk   | Management of risk   | Developments in year ended 2 May 2020 and since   | Section in Annual Report |
|---|--|---|--------------------------|
| <b>Changing customer habits</b>   |  |   |                          |
| <p>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 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.</p> <p>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.</p> <p>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.</p> <p>It is likely that COVID-19 will accelerate trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram, there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.</p> | <p>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 contracts, the Group considers research and evidence on changing customer behaviour.</p> <p>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.</p>   | <ul style="list-style-type: none"> <li>We continue to adjust the timetables for certain of our bus services to adapt to changes in demand from customers. Service changes have been substantial over the recent months as the COVID-19 situation has developed. Accurately forecasting future revenue and financial performance is particularly difficult at this time given the ongoing COVID-19 situation.</li> </ul>   | 1.3, 1.6.1 and 1.7       |
| <b>Pension scheme funding</b>   |  |   |                          |
| <p>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.</p>  | <p>Decisions on bus 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. The Board oversees the Group's overall pensions strategy and participates in major decisions on the funding and design of pension schemes.</p>   | <ul style="list-style-type: none"> <li>Pension scheme liabilities have increased significantly during the year, reflecting lower interest rates and a decrease in the value of investments held by the pension schemes. The COVID-19 situation has contributed to volatility in asset values and interest rates.</li> </ul>   | 1.6.11.2                 |
| <b>Insurance and claims environment</b>   |  |   |                          |
| <p>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.</p> <p>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. There is also a risk of fines and other regulatory action in relation to incidents.</p>  | <p>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.</p> | <ul style="list-style-type: none"> <li>The Group continues to retain some of the risks associated with the US insurance and claims arrangements that were in place prior to the disposal of its US business in April 2019 through its exposure to letters of credit and guarantees being left in place in respect of current insurance policies for up to five years post-disposal. The quantum of the risk is reducing as the US business settles claims.</li> </ul> |                          |

# 1. Strategic report (continued)

| Description of risk   | Management of risk  | Developments in year ended 2 May 2020 and since  | Section in Annual Report |
|---|---|--|--------------------------|
| <b>Regulatory changes and availability of public funding</b>  |   |  |                          |
| <p>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. There remains a 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.</p> <p>The Labour Party, the main opposition political party in the UK, 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.</p> <p>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.</p> <p>In the year ended 2 May 2020, the UK Bus (regional operations) earned £68.7m of Bus Service Operators Grant, essentially a rebate of fuel tax. Those operations also earned £104.4m in tender/school revenue and £256.6m in concessionary revenue from local government bodies. Also, the vast majority of the reported revenue of the UK Bus (London operations) is earned from contracts with Transport for London.</p> <p>The Group is receiving significant payments from government to ensure the continuation of public transport services in light of the COVID-19 situation. That includes continuing payments to some extent of concessionary revenue, tender revenue and Bus Service Operators Grant. The Group is also receiving grants under the Coronavirus Job Retention Scheme ("CJRS") and the COVID-19 Bus Services Support Grant ("CBSSG") scheme. There is a risk that the extent of the payments available to the Group reduces faster than improvements in the underlying financial performance of its businesses. That could adversely affect the Group's financial performance and financial position.</p> <p>There is a risk that government COVID-19 related public messaging or requirements, such as in respect of face coverings and physical distancing, suppress demand for our services and/or our capacity to transport passengers.</p> <p>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.</p> <p>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.</p> | <p>Management, including at a senior level, has been closely engaged with government and industry colleagues during the COVID-19 pandemic. Engagement has focused on ensuring the health and wellbeing of our people and customers, determining the appropriate level of services to operate, and discussing the level of payments from government for those services.</p> <p>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.</p> <p>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.</p> <p>Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it.</p> <p>The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.</p> | <ul style="list-style-type: none"> <li>In July 2019, the Welsh Government announced the Public Transport (Wales) Bill as part of a wider process of reform it is undertaking in relation to the delivery of bus services in Wales. The Bill proposes enabling provisions that will provide options for local authorities to consider using when planning and delivering bus services, including enhanced partnership working, franchising and local authority run bus services. Any franchising of bus services could adversely affect the revenue and profit of the Group's bus businesses in Wales.</li> <li>The Group has received COVID-19 related payments from government for periods since mid-March 2020.</li> </ul> | 1.5.5 and 1.5.6.1        |

# 1. Strategic report (continued)

| Description of risk  | Management of risk  | Developments in year ended 2 May 2020 and since  | Section in Annual Report     |
|--|---|--|------------------------------|
| <b>People and culture</b>  |   |  |                              |
| <p>The is a risk that the Group is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision making.</p>  | <p>As explained in section 1.8.2 of this Annual Report, we have clear, established corporate values, which are set out in our Code of Conduct. 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. 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.</p> <p>We have employment policies in place as described in section 1.8.4.2 of this Annual Report. Employees' roles and responsibilities are defined and we aim to reward employee contributions through fair pay and benefits.</p> <p>We recognise the value and benefit of having an inclusive and diverse workforce, as further explained in section 1.8.5 of this Annual Report.</p> <p>Training, development and succession planning arrangements are in place, which take account of the potential future skills that the business may require. The Nomination Committee considers succession planning for the Directors and senior management, as described in section 6.6 of this Annual Report.</p> <p>The Board monitors the Group's culture through the results of staff surveys, reports of any employee fraud and reports from the whistleblowing process.</p> | <ul style="list-style-type: none"> <li>• During the year ended 2 May 2020, we refreshed our corporate values, Code of Conduct and Whistleblowing Policy, and introduced a new whistleblowing platform. The new platform provides digital and telephone channels for employees to report concerns they have while ensuring that all concerns are systematically investigated and tracked.</li> <li>• The first meeting of our new employee engagement forum took place digitally in June 2020.</li> </ul>   | 1.8.2, 1.8.4, 1.8.5, and 6.6 |
| <b>Disease</b>   |   |  |                              |
| <p>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.</p> <p>This was identified by the Board as a principal risk some years ago but the COVID-19 situation is a clear and substantial crystallisation of the risk.</p> | <p>The Group has plans in place to respond to any significant outbreak of disease. As a result, it was able to respond swiftly and decisively to the COVID-19 situation.</p>  | <ul style="list-style-type: none"> <li>• The COVID-19 pandemic has had a significant adverse effect on the Group's financial performance, which is continuing. Government payments have mitigated the effect to some extent but the Group's current financial performance is nevertheless significantly below previous expectations as a result of the COVID-19 situation.</li> </ul>  | 1.3                          |
| <b>Information security</b>  |   |  |                              |
| <p>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.</p> <p>There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.</p>                  | <p>An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts.</p> <p>Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.</p>  | <ul style="list-style-type: none"> <li>• 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.</li> <li>• We have continued to invest in our personnel and systems to strengthen the Group's information security environment.</li> <li>• Additional security measures were established in light of the COVID-19 situation and the increased level of employees working from home.</li> </ul> |                              |

# 1. Strategic report (continued)

| Description of risk  | Management of risk   | Developments in year ended 2 May 2020 and since   | Section in Annual Report |
|--|--|---|--------------------------|
| <b>Information technology</b>  |  |   |                          |
| <p>The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group.</p> <p>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.</p>   | <p>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.</p>   | <ul style="list-style-type: none"> <li>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.</li> </ul>   | 1.5.6.2                  |
| <b>Competition</b>   |  |   |                          |
| <p>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 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.</p> <p>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.</p> <p>Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key segments.</p> | <p>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.</p> <p>We work with local authorities, including passenger transport executives and regional transport committees, in the delivery and planning of bus and rail services.</p> | <ul style="list-style-type: none"> <li>No significant matters to report.</li> </ul>   |                          |
| <b>Climate change</b>  |  |   |                          |
| <p>We see public transport as a critical part of the battle against climate change. At the same time, we recognise that climate change presents a number of risks to the Group.</p> <p>Section 1.8.7.2 of this Annual Report sets out in more detail our assessment of climate change risks.</p>   | <p>Section 1.8.7.2 of this Annual Report sets out how we are managing climate change risks.</p>  | <ul style="list-style-type: none"> <li>Section 1.8.7 more broadly sets out the impact of the Group's business on the environment, our environmental policy, actions we are taking to reduce our impact on the environment and the effectiveness of our environmental policies.</li> </ul> | 1.8.7                    |

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. Strategic report (continued)

## 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 segment, looking at like-for-like growth in passenger volumes and/or revenue as we consider most appropriate for the particular business.

### 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 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 separately disclosed items (“Adjusted EPS”). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude separately disclosed items) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period.

Adjusted EPS was as follows:

| Target   | Year ended          |                        |                        |
|--|---------------------|------------------------|------------------------|
|  | 2 May 2020<br>pence | 27 April 2019<br>pence | 28 April 2018<br>pence |
| Adjusted EPS To increase in excess of the UK Consumer Prices Index | 13.5p               | 22.1p                  | 22.3p                  |

#### 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 measured as the percentage increase in revenue relative to the equivalent period in the previous year.

The measures vary by business 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<br>2 May 2020<br>Growth % | Year ended<br>27 April 2019<br>Growth % | Year ended<br>28 April 2018<br>Growth % |
|---|--------------------------------------|---|---|
| UK Bus (regional operations) passenger journeys | (10.0)%                              | –                                       | (2.8)%                                  |
| UK Bus (London) revenue                         | (4.4)%                               | 0.4%                                    | (4.4)%                                  |
| UK Rail passenger miles                         |                                      |   |   |
| – East Midlands Trains                          | n/a                                  | (1.6)%                                  | 0.7%                                    |
| – Virgin Trains East Coast                      | Positive                             | n/a                                     | 3.2%                                    |
| – Virgin Rail Group – West Coast Trains         | growth                               | 1.6%                                    | 1.3%                                    |
| North America revenue                           | each year                            | n/a                                     | (0.3)%                                  |

The fall in UK Bus (regional operations) passenger journeys in the year ended 2 May 2020 principally reflects the effect of the COVID-19 situation on customer demand from mid-March 2020. The stabilisation in passenger journeys 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 fall in UK Bus (London) revenue in the year ended 2 May 2020 reflects the effects of contracts lost when tendered the previous year and the cost savings passed to Transport for London from COVID-related service reductions. The modest increase in revenue 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 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 resignalling programme at Derby railway station during the year.

# 1. Strategic report (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. Six of the more important safety KPIs are reported below:

|  | Target          | Year ended<br>2 May 2020 | Year ended<br>27 April 2019 | Year ended<br>28 April 2018 |
|--|-----------------|--------------------------|-----------------------------|-----------------------------|
| UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled |                 | 23.3                     | 19.8                        | 19.5                        |
| UK Bus (London) – number of blameworthy accidents per 1 million miles travelled              |                 | 41.8                     | 47.2                        | 45.4                        |
| US – number of blameworthy accidents per 1 million miles travelled                           | To decrease     | n/a                      | n/a                         | 7.2                         |
| East Midlands Trains – workforce lost time injuries per 1,000 staff                          | each year –     | n/a                      | 0.7                         | 1.0                         |
| Virgin Trains East Coast – workforce lost time injuries per 1,000 staff                      | ultimate target | n/a                      | n/a                         | 1.3                         |
| Virgin Rail Group – West Coast – workforce lost time injuries per 1,000 staff                | is zero         | n/a                      | 1.0                         | 1.3                         |

We believe the increase in blameworthy accidents across our UK Bus (regional operations) in the year ended 2 May 2020 partly reflects improved reporting of minor vehicle damage incidents which did not cause personal injury. These include contact with overhanging trees and minor incidents involving vehicle wing mirrors. Autumn 2019 also saw an increase in other operating incidents which corresponds to a period of poor weather and challenging operating conditions for some of our regional bus businesses. The reduction in our blameworthy accidents at UK Bus (London) follows on from the downward trend experienced in the later months of 2018/19 and a marked reduction in the number of blameworthy accidents during the COVID-19 pandemic in the last two months of 2019/20.

## 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.

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

The service delivery KPIs were as follows:

|  | Target | Year ended<br>2 May 2020<br>% | Year ended<br>27 April 2019<br>% | Year ended<br>28 April 2018<br>% |
|--|--------|-------------------------------|----------------------------------|----------------------------------|
| UK Bus (regional operations) reliability | >99.0% | 99.4%                         | 99.4%                            | 99.3%                            |
| UK Bus (London) reliability              | >99.0% | 98.8%                         | 98.4%                            | 98.5%                            |
| UK Rail punctuality                      |        |                               |                                  |                                  |
| – East Midlands Trains                   | >85.0% | n/a                           | 89.6%                            | 91.6%                            |
| – Virgin Trains East Coast               | >85.0% | n/a                           | n/a                              | 80.7%                            |
| – Virgin Rail Group – West Coast Trains  | >85.0% | n/a                           | 84.1%                            | 83.6%                            |

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 Strategic and operating review

### 1.5.1 Strategic background and market environment

During the year, we have refocused the business on our core UK bus and coach operations with the successful divestment of our North American operations and our withdrawal from the UK rail franchised market. We have restructured the way we operate to support the core business and ensure we are in a strong position to seek new commercial opportunities, including in overseas markets.

We are operating in a changing world, which brings both headwinds and tailwinds as we seek to deliver sustainable growth. There are positive contributors to the UK public transport sector, with a growing UK population, greater proportions of younger and older people, and further urbanisation.

At the same time, changing social and working patterns and the growth of the digital economy are contributing to fewer trips across all modes of transport. We expect that lasting effects of the COVID-19 situation will include an acceleration in trends of more working from home, shopping from home, telemedicine, and online education. There is also a greater desire among consumers for flexibility between modes, and there is currently an uncertain public policy and funding environment. Nevertheless, the biggest opportunity lies in driving modal shift from the car to mass transit as governments across the globe face growing expectations from citizens to address climate change, poor air quality and crippling road congestion. According to the National Travel Survey, only 4% of the distance travelled within Great Britain in 2018 by residents of England was by bus while 77% was by car or van. The market for sustainable modal shift from car to bus is therefore substantial.

### 1.5.2 Supporting our economy and communities

Our transport services remain critical to the future prosperity of our economy and communities. In February, we and the Centre for Economics and Business Research ("Cebr") published a new report, which shows that our transport services contribute over £1.6 billion a year in Gross Value Added to the UK economy. As well as providing direct employment for around 25,000 people, around a further 10,000 jobs are supported nationally. We help support 7,000 small, medium and large businesses, investing over £580m a year through our supply chain. The new research carried out by Cebr also provides a breakdown of our impacts by region and details the wider health, safety and environmental benefits of our transport services. This includes more than £44m saved annually in costs associated with road traffic accidents, around £13m in reduced healthcare costs, some £12m saved in emissions costs, and up to £343m in potential road congestion-related savings from a reduction of more than 1.2 billion miles of traffic.

# 1. Strategic report (continued)

## 1.5.3 A more sustainable alternative

Surface transport is the single largest producer of carbon emissions in the UK and the only sector where these are growing. While that arguably in part reflects a shifting of manufacturing and industry overseas, the UK Government has introduced a "net zero" target for greenhouse gas ("GHG") emissions by 2050 and has set aside a £2.45 billion Transforming Cities Fund to help drive productivity and prosperity through investment in public and sustainable transport. The targets set by government to address these environmental and economic challenges are unachievable without a major switch from polluting private transport to sustainable public transport.

We are proud to have received positive environmental, social and governance ratings from several assessment bodies, including being "A" rated by MSCI and classed as "low risk" by Sustainalytics. In addition, we achieved two prestigious benchmarks for commitment to responsible business and driving the green economy. The business is one of around only 86 companies publicly listed in the UK who have received the new London Stock Exchange Green Economy Mark. The benchmark is for companies that generate over 50% of their total annual revenues from products and services that contribute to the global green economy. The Green Economy Mark identifies sectors that are contributors to a greener, more sustainable economy such as through climate change mitigation and adaptation. In addition, we achieved the FTSE4Good global corporate responsibility standard for the 19th consecutive year. Constituents in the FTSE4Good Index Series have been independently assessed as meeting stringent environmental, social and governance criteria. We were rated as having a percentile rating of 98 out of a maximum of 100, putting us in the top 3% of companies in the Travel and Leisure sector.

We have invested more than £1 billion in new greener vehicles in the past decade. New Euro 6 buses emit fewer emissions overall than a Euro 6 car, as well as having up to 20 times the carrying capacity. 41% of our vehicle fleet across the UK is now Euro 6, ultra-low emission or zero emission. Our overall GHG emissions decreased by 4% in 2019/20 (excluding North America and expired rail franchises to give a more like-for-like figure). Analysis carried out by Cebr also shows that without Stagecoach bus services, there would be an annual increase of 0.19 million tonnes of CO<sub>2</sub> through passengers using alternative modes of transport, principally the car. The Confederation of Passenger Transport ("CPT"), of which we are a member, has set out a vision for every new bus in the UK from 2025 to be ultra-low or zero emission. CPT's vision is also for all new buses in large urban areas to be ultra-low or zero emission from 2023, supported by funding from government.

## 1.5.4 Safety always

Safety always is at the heart of our values. We have an approach based on fostering the right culture, which goes beyond strict compliance with policies and procedures. We have a collaborative approach to safety, working with employees and trade union representatives through safety forums at our local operating companies. This year, we have taken further steps to enhance our commitment to a strong safety culture across the business. We are the first national bus business to have become a member of Confidential Incident Reporting and Analysis System ("CIRAS") across all our operations to enhance health and safety reporting by providing our people with an additional channel to raise any issues of concern. In addition, we have progressed new initiatives around risk profiling and hazard perception, as well as rolling out new training to our team of professional drivers around doing the right thing. We are pleased that these initiatives continue to have a positive impact on both our safety key performance indicators and employee perception that we take safety seriously.

## 1.5.5 COVID-19 impact and response

The COVID-19 situation has had a significant impact on the business. Our priority has been to protect the health and wellbeing of our people and our customers, while taking action so that the business emerges from this period in as strong a position as possible and well placed for the significant long-term opportunities that we still see for public transport. We extend our thanks to our employees, other public transport staff, the country's healthcare professionals and other key workers for the huge efforts and sacrifices they have been making as part of the national effort to tackle the situation.

Our transport services and those of other organisations have played a critical role in getting key workers, such as healthcare and other staff, to work during the pandemic as well as ensuring people can access medical care, food and other essentials. We have undertaken a number of specific initiatives as part of the national effort to deal with the COVID-19 crisis, in addition to following government and public health advice across our operations. This has included dedicated shuttles and demand responsive transport for healthcare workers and other measures to support local communities, the supply chain and distribution networks.

We welcome the measures put in place by the respective governments in England, Scotland and Wales and our local authority partners to protect the continuity of bus and tram services during a period when passenger volumes were as much as 90% lower and the normal public transport networks were paused.

COVID-related government payments have been available to bus operators in respect of periods from mid-March. In each of Scotland, England and Wales, we have seen a continuation to a large extent of payments to regional bus operators of concessionary revenue, tendered revenue and Bus Service Operators Grant at pre-COVID levels. Regional bus operators in England have also been able to access COVID-19 Bus Services Support Grant ("CBSSG"). The amounts receivable by bus operators for periods from mid-March are subject to a reconciliation process, which has not yet been completed and therefore gives rise to some uncertainty in estimating our income for the year ended 2 May 2020 and thereafter.

As COVID-related restrictions have been relaxed, we have restored services and our regional bus vehicle mileage is now at around 80% of prior year levels. Nevertheless, with ongoing physical distancing requirements placing a capacity constraint on our vehicles and government advice influencing public transport use in the short-term, government is continuing payments to bus operators for the increased level of services. We are discussing with the relevant authorities how these arrangements will evolve. We expect the current or replacement arrangements for regional bus operators to continue until at least 14 October 2020 in England and 17 August 2020 in Scotland.

In London, where bus operators provide bus services under contract to Transport for London, Transport for London has generally maintained contract revenue payments to operators, adjusted down to reflect any variable cost savings achieved by operators from running a reduced level of service.

Additional government funding has been provided to Sheffield City region to help underpin the operation of the Sheffield Supertram network from mid-March and we expect the current funding arrangement to continue until at least 3 August 2020.

# 1. Strategic report (continued)

These measures helped underpin our own extensive internal actions to respond to the unprecedented situation, which have included:

- pay sacrifices for all Board directors and other executives.
- furloughing of a significant proportion of bus drivers, engineers and other staff as part of the UK Government's Coronavirus Job Retention Scheme.
- significant reductions in service levels and vehicle mileage in our regional bus and tram networks, and the temporary suspension of all megabus.com inter-city coach services in England and Wales.
- reduction in fuel hedging to take account of the lower regional bus mileage and associated fuel consumption.
- reduction in our previously planned 2020/21 capital expenditure.
- reductions in other discretionary costs.

## 1.5.6 Strategic objectives and initiatives

Notwithstanding the unprecedented environment caused by the COVID-19 pandemic, we see significant long-term opportunities in our key markets as the pressing challenges they need to address remain. Our strategic objectives and initiatives remain focused on the business actions we believe will best realise these opportunities.

### 1.5.6.1 Maximise our core business' potential

#### *Maintaining high customer satisfaction*

Our core business is built on having a clear focus on our customers and continuing to anticipate ways that we can make travel simpler and better. We are proud to have some of the highest levels of customer satisfaction in the UK public transport sector. The latest independent research published by Transport Focus in March 2020 shows customer satisfaction among Stagecoach bus passengers in England was 91%, the highest level achieved by any major bus operator. Stagecoach was also first among major operators on value for money and bus journey time measures in England. In Scotland, we achieved customer satisfaction of up to 95%. However, we continue to explore ways to improve our product offering and maximise the potential of the business.

#### *Value travel*

Stagecoach offers the lowest average weekly bus fares of Britain's four main national operators, according to the sixth National Bus Fares Survey undertaken by transport consultants, TAS. It found that Stagecoach weekly bus travel was nearly £1 cheaper than the UK average and over £4 cheaper than weekly capped bus travel in London.

#### *Multi-journey fares capping*

We continue to focus on modernising retailing and fares to open up new channels, secure customer loyalty and attract new passengers. Research shows that fare simplification can improve customer perception of value for money and help drive increased patronage. We are progressing work on single operator day and weekly fares capping using contactless payment technology. We are also working with other operators to progress multi-operator bus and tram fares capping. Contactless payment facilities cover all of our vehicle fleet following the biggest roll-out of the technology by any bus operator in Britain. Looking ahead, this will also give us the platform to introduce multi-operator price-capped tickets in urban areas across the country.

Development of a scheme to deploy a pilot in Peterborough to offer Contactless Tap In/Tap Out with daily/weekly capping for multiple journeys was well progressed when measures to mitigate the impact of COVID-19 were introduced in March. We have developed a technical solution with our technology partner to deliver a customer proposition that was in the final stages of testing. When restrictions are sufficiently relaxed and market conditions are appropriate, we will look to progress the scheme.

#### *New bus and coach services*

There are significant opportunities for us to both grow and diversify our risk profile by developing new service propositions in our core market. As travel patterns and lifestyles change, we see growing areas of demand to support new bus and coach services.

A new partnership between Stagecoach East Midlands and Sherwood Forest NHS Foundation Trust will provide employees with more than 30% off bus travel when they join the 'smartcommute' scheme. The scheme aims to collaborate with businesses in the region to provide a viable cost-effective bus travel option which will help reduce road congestion, pollution and car parking issues. It has already been successfully implemented with several employers.

In February 2020, we started to operate a new state-of-the-art on-demand mobility service in Tees Valley. Tees Flex, operated on behalf of the Tees valley Combined Authority, aims to help residents in more isolated communities across the region access essential services, as well as training and employment opportunities. Nine high-quality minibuses are being used for the pilot, with passengers able to pre-book the bus via a smartphone app, a website or over the telephone. The pilot, which will run for three years, has the potential to be extended across the region if successful.

Additionally, in the East Midlands, in May 2020, we launched Stagecoach Connect, the UK's first dedicated app-based demand responsive bus service for NHS workers. We introduced the initiative at Sherwood Forest NHS Trust in partnership with the Trust, Nottinghamshire County Council, and technology provider, ViaVan. We developed it from concept to delivery in just two weeks to help the COVID-19 response. We see potential to roll this out to other parts of the NHS across the UK, as well as there being a key role for targeted on demand solutions as part of future public transport plans.

We have also been selected to operate a new major contract to operate commuter, shuttle and park and ride services on behalf of the Sellafield site in Cumbria. We took over the contract on 1 April 2020.

#### *Corporate sales*

In many locations across the UK, we have identified a market for direct corporate sales. We are looking to focus on business parks and major employers in rapidly growing cities with constrained parking, particularly those with a growing emphasis on demonstrating they are responsible employers. There is also an opportunity to deliver ready-made solutions in areas that may be investigating the introduction of workplace charging levies. To access these markets, we have developed a simple and bespoke corporate product structure and booking tool via our app, which allow us to build relationships direct. Our first two customers, Aberdeen City Council and University of Kent, will launch this proposition in early August 2020.

We look forward to resuming conversations with other potentially significant new corporate customers when COVID-19 restrictions are sufficiently relaxed.

# 1. Strategic report (continued)

## *Brand and marketing*

In early 2020, we launched a new brand and associated values as part of a wider commitment to simplify, modernise and enhance the customer experience. It includes a new design for our buses based on customer research around what would make people use public transport more regularly. The findings highlighted that 69% of customers often found it confusing to find the bus they wanted, with a further 37% stating they would use the bus more often if it was simpler and more modern. We have introduced a simplified colour coded service offer – Local, Longer, and Specialist – to reflect the types of journeys our customers make. Under the banner “Proud to Serve”, the changes are designed to complement the multi-million-pound investments we are making in greener buses, smart technology, and better journeys. By increasing brand awareness and relevance and implementing a coordinated marketing and customer strategy, we can improve the end-to-end customer experience and increase our passenger revenue through modal shift. Our marketing activity has tended to be driven and focused locally. While we intend to continue with our local marketing activity, we see significant potential from complementing that with centrally co-ordinated branding and marketing activity, optimising our position as the UK’s largest bus and coach operator. We have been encouraged by the returns on investment that we have achieved from initial central marketing activity during 2019 and are looking to build on that. Our plans include a mix of short-term tactical marketing activity to drive near term sales, as well as generating long-term revenue and profit growth through brand building. We previously reported our intention to increase marketing spend from c.£8m per annum to c.£13m per annum to target passenger revenue growth. We continue to see an opportunity from this element of our strategy and, while the phasing has been changed and some initiatives put on hold as a result of the COVID-19 pandemic, we plan to revisit these.

## *Government bus policy and investment*

We are pleased at the increased importance placed on buses in government announcements over the past year. We welcome additional funding to support the effective and sustainable delivery of current and future bus services. This includes the UK Government announcement of a long-term funding package for buses to be included in the 2020 spending review; support for local authorities to improve current or restore lost bus services; a greater emphasis on bus priority measures in new road schemes, and backing for electric bus fleets and pilots of on-demand services in rural areas. In Scotland, we welcome the £500m funding package announced for bus priority and congestion busting schemes. It is essential that these pledges are implemented with clear and practical action on the ground by local transport authorities to tackle the problem of unsustainable car use, which is responsible for undermining bus networks and air quality. Addressing this problem can deliver significant bus passenger growth through modal shift.

We also welcome the UK Government’s announcement of £95m of funding to help regenerate high streets in 69 towns and cities in England, including support for projects aimed at turning disused buildings into shops, houses and community centres. We operate bus services in a number of the towns and cities covered by this initiative and support efforts to regenerate their high streets.

We are progressing, with bus operator partners, a bold new industry strategy to work with local and central government to get a billion more passenger journeys by bus in England by 2030. It would see every new bus being an ultra-low or zero emission vehicle from 2025. Job seekers and apprentices would benefit from reduced travel costs. Price-capped daily and weekly tickets across multiple operators would mean simpler ticketing for people in urban areas. The industry has also pledged to work with government to develop innovative, sustainable transport solutions in rural areas that have been heavily impacted by public sector cuts in recent years.

These initiatives are now of even greater importance as the country recovers from the COVID-19 pandemic.

## *Regulatory developments*

In October 2019, Greater Manchester Combined Authority (“GMCA”) launched a public consultation on proposals for a bus franchise scheme in the region. The published plans show that the bus network would be no bigger in scope under franchising, that there would be significant fares increases for customers and higher bills for local taxpayers, with around one in four current bus journeys being lost. We continue to believe that partnership can deliver the improvements people want at lower cost, lower risk and more quickly. Indeed, GMCA’s own figures show that partnership delivers a better benefit to cost ratio than franchising.

In addition to the all-operator partnership proposal for the region, we published an alternative option of a 10-year partnership in south Manchester between GMCA and bus operators, which could be integrated with any partnership or franchise system in the north of the region. Under the partnership plan, there would be a package of London-style improvements to deliver a further step-change in the region’s bus network, improving connectivity, delivering cleaner air, ensuring better value for taxpayers, and supporting a stronger economy.

We are proud of our record of running high quality, successful bus services in Manchester for over 20 years and we want to continue working alongside the Mayor, GMCA and Transport for Greater Manchester to help deliver on their wider strategy for the region. Mayoral elections previously planned for May 2020 have been postponed until 2021 because of the COVID-19 pandemic and it is unclear at this stage when a decision will be made on bus reform in Greater Manchester.

In June 2020, GMCA said the majority of responses to the consultation were in favour of the bus franchising proposal. However, further work is to be undertaken to assess the impact of COVID-19 on the region’s bus market, the assessment and the outcome of the consultation. A report will be submitted to GMCA later in the year on these impacts and next steps.

We believe that franchising is now even more unaffordable for Greater Manchester’s taxpayers than when the consultation was undertaken. Instead, we should build on the strong partnership working between the private and public sector during the COVID-19 situation to maximise the potential of the bus as a solution to the region’s economic, social and environmental challenges and opportunities. We have plans in place to deliver simpler ticketing, better value fares, easier and faster journeys, and improved connectivity for all customers, including young people and other priority groups. We stand ready to work with stakeholders across Greater Manchester on the future design of the region’s bus network and encourage people to switch from the car to more sustainable public transport and other forms of active travel.

Excluding the more recent effect of the COVID-19 situation, the annual revenue of our Manchester bus business is around £125m. Consistent with the high quality bus services we provide there, the significant investment we have made in those services over many years and our capable management team, our operating profit margin in Manchester has generally in recent years exceeded the average margin we see for our overall regional UK Bus operations. We recognise that any change in the model for delivering bus services in Manchester, including the introduction of bus franchising and/or commitments under partnership arrangements, will likely put some downward pressure on our Manchester bus profit.

We are also seeking to shape the reviews of bus services underway in the South Yorkshire and Merseyside metropolitan areas, where strong partnerships have resulted in more robust networks than in many other parts of the country. With public funding likely to be under pressure following the steps taken to respond to the COVID-19 pandemic, we believe that partnership continues to offer the quickest and best value approach to improving services and attracting more passengers on board buses.

# 1. Strategic report (continued)

MSPs in Scotland have passed the Transport (Scotland) Act 2019, providing local authorities with options to help improve bus services in their areas, including Bus Service Improvement Partnerships. While the legislation provides for franchising, we believe there is little appetite for councils in Scotland to pursue a route that would add a significant additional financial burden and risk to taxpayers. The Act also allows councils to operate bus services directly, although we do not believe such steps are necessary and in any case, local authorities should be obliged to operate on a level playing field with commercial bus operators. Provisions in the Act for councils to introduce a workplace parking levy are a positive step that could help generate modal shift to the bus.

In March 2020, the Welsh Government published an updated Bus Services Bill intended to provide local authorities with options to improve local bus services and deliver a more integrated public transport system. This includes both partnership and franchising options, as well as powers for councils to operate their own bus companies. Other measures include powers to improve passenger information. We believe that any strategy to improve bus services in Wales requires meaningful action to tackle road congestion to speed up worsening journey times. This factor, rather than the regulatory environment, is the key reason people choose not to take the bus. It will also require significant investment from the Welsh Government in bus priority measures in towns and cities to support the ongoing investment by bus operators to improve services. The Bill is continuing its progress through the parliamentary process.

We would encourage all of our political leaders to work with the private sector to seize the potential for public transport to contribute meaningfully to efforts to reduce both greenhouse gas emissions and road congestion. We believe that by working in partnership, we can together deliver change faster and more cost effectively than will be possible through ideologically driven changes to the ownership and commercial regulation of transport services.

## *London bus market*

In London, where we operate around 13% of the scheduled bus network on behalf of Transport for London, we remain focused on maintaining good operational performance and customer service, controlling costs and ensuring we have a portfolio of contracts that offer an appropriate balance of risk and reward.

We are pleased that our strong operational performance in the first half of 2019/20 has continued into the second half. Our London bus business has been consistently towards the top of the Transport for London quality of service tables for reliability of bus services across the capital.

As previously reported, we have maintained a disciplined approach to bidding for bus contracts in London, which we believe is in the long-term interests of our business, customers and taxpayers. In the year ended 2 May 2020, we retained 90% of the re-tendered peak vehicle requirement that we already operated and have won six routes previously run by other operators. This has resulted in us securing additional work involving a peak vehicle requirement of more than 60 buses. The routes are all due to commence in the first half of 2020/21.

### **1.5.6.2 Manage change through our people and technology**

The way people live their lives is changing, including how consumers access goods and services. How we operate as a business also needs to change by implementing best practice and innovative improvements to underpin our growth strategy.

#### *Investing in our people*

Our people continue to be our most important asset and they have been fundamental to our success over the past four decades.

We are upgrading our people systems and processes, including recruitment, on-boarding and performance management, to ensure we access and retain the best skilled and motivated people, as well as giving managers the tools they need to manage their people to a high and consistent standard. As part of that project, we accelerated work to provide our colleagues with electronic payslips and P60s during the COVID-19 pandemic.

Britain's Most Admired Companies 2019 survey rated us Britain's top public transport company for diversity and inclusion. We have already taken some significant steps in building a more gender diverse workforce with more female representation in our graduate scheme.

We are continuing to see positive results from this investment in our people. The response rate from our annual employee engagement survey was 80% in 2019, with improved results across areas such as recognition, communication, customer service and safety. We are progressing action plans to build on these positive scores and address areas for further improvement.

#### *Harnessing technology to support our customers and our business*

We continue to enhance our use of technology to support our customers and our business. For example, during the year, we:

- Launched a new enhanced version of the Stagecoach bus app for customers.
- Began a new Mobility as a Service ("MaaS") pilot in Manchester that allows people to plan, book and pay for travel across bus, tram and train journeys, as well as car hire and car clubs, via their smartphones.
- Progressed the streamlining and modernisation of our back office systems.

Plans have been developed for a new enterprise asset management system to further enhance the way we maintain our bus fleet, ensuring greater availability and reducing service delays. We already operate one of the most reliable bus fleets in the country with 99.4% regional bus service reliability, but the new system will enable us to further improve that.

Work continues on developing sustainable vehicle technology to meet the long-term needs of the business. This will ensure we are well placed to manage and benefit from government commitments on climate change and the steps being taken by local authorities around the country to put in place Clean Air Zones. We welcome the UK Government funding for a city to feature an all-electric bus fleet and we have been working with local authority partners on the submission of bids for this initiative. We are already making major investment in this technology. In the first quarter of 2020, we introduced the first double-decker electric buses in Greater Manchester. The 32 electric buses connect Manchester city centre, Manchester Airport, five hospitals and three universities. These zero emission buses, which benefit from support funding by the Department for Transport, can travel 190 miles on a single charge and will help to ease pollution on some of Europe's busiest roads. We are also investing in delivering infrastructure and power requirements at depot level.

We are continuing to progress our industry-leading trials of innovative autonomous bus technology in partnership with bus manufacturer, Alexander Dennis, and technology partner, Fusion Processing. Last year, we successfully completed a live trial of the first full-size autonomous bus within a depot environment at Sharston, Manchester. The vehicle carried out basic movements such as parking and moving into the fuelling station and bus wash. Using self-driving vehicles more widely within bus depots could help improve safety, efficiency and utilisation of space. Planning is now well underway for the next phase of our proof of the technology in passenger service as part of an Innovate UK pilot in Scotland. Later this year, five autonomous single-decker vehicles will navigate a 15-mile route between Fife and Edinburgh, crossing the Forth Road Bridge and connecting with Edinburgh Park train and tram interchange. The buses will operate autonomously to level 4 standard, with a driver on board in line with UK regulations.

# 1. Strategic report (continued)

## 1.5.6.3 Grow by diversifying

Our business is now largely focused on our successful bus operations in the UK. Nevertheless, consistent with our record of accomplishment over the past four decades, we continue to seek out opportunities to grow and diversify our business in new markets. We have undertaken assessments of overseas markets to establish the potential for value adding public transport services that would enhance our current portfolio.

The markets we are focusing on are those where we see relatively low political/regulatory risk, contract opportunities that offer an appropriate risk-reward balance, a positive economic outlook, supportive public transport policies and positive demographic factors. We see potential to earn a higher return on capital than we were achieving in North America. Our approach to these markets involves using a combination of our own highly skilled UK-based business development team and experienced domestic consultants in each market.

We were disappointed that our bid for the 12.5-year contract to operate Sweden's Roslagsbanan commuter railway was unsuccessful. However, we have learnt a great deal from the bid and have not been discouraged from pursuing other opportunities.

To this end, we have been shortlisted to bid for the Mälartåg railway operating between Stockholm and the regions of Stockholm County, Sörmland, Uppsala, Västmanland, Örebro County and Östergötland. We are also shortlisted for four bus tenders in the Skåne Municipality (South West/Malmö) region of Sweden.

The four Skåne bus opportunities would involve the operator assuming limited passenger revenue risk and cover a contract period of eight years, with a potential two-year extension. The Mälartåg railway contract is for eight years and has no passenger revenue risk with expected bid submission in early autumn. The combined Skåne and Mälartåg contract values are expected to exceed £1bn over the contract lengths.

We have completed detailed market assessments of the United Arab Emirates, a market which fits our profile, and we are actively looking at capital light and low revenue risk opportunities in the region, particularly Dubai, where we are pleased to have prequalified to participate in the forthcoming Dubai Bus Outsourcing project tender commencing in quarter one of 2021. We anticipate forthcoming opportunities in the wider Gulf region coming to market over the course of the next twelve months and we are well placed to pursue these.

We are also evaluating potential bus and metro contract opportunities in some other overseas markets where they fit into our profile and experience.

In addition to these overseas opportunities, we are actively exploring new contract opportunities in the UK which include building on our successful rail replacement business as well as building bespoke solutions for local authorities and other clients.

In line with our considered approach over many years, we will continue to evaluate options for growth closely and pursue opportunities that have an appropriate balance of risk and potential reward for our stakeholders.

## 1.6 Financial review

### 1.6.1 UK Bus (regional operations)

#### Summary

- Decisive action taken in response to COVID-19, working with government to adjust service levels while taking account of customer demand
- Constructive engagement with, and payments from, government for the continuation of bus services
- Compelling long-term opportunities for buses to play a major role in a cleaner, greener and more resilient economy and society

#### Financial performance

The financial performance of the UK Bus (regional operations) for the year ended 2 May 2020 is summarised below:

|                        | 2020<br>£m | 2019<br>£m | Change  |
|------------------------|------------|------------|---------|
| Revenue                | 1,011.9    | 1,043.3    | (3.0)%  |
| Like-for-like* revenue | 1,002.6    | 1,041.7    | (3.8)%  |
| Operating profit*      | 90.6       | 117.0      | (22.6)% |
| Operating margin*      | 9.0%       | 11.2%      | (220)bp |

\* see definitions in note 34 to the consolidated financial statements

Having delivered a solid performance for the most of the year, the UK Bus (regional operations) business has been adversely impacted by the substantial fall in passenger demand for public transport in response to the COVID-19 pandemic.

Like-for-like revenue decline of 3.8% reflects the effect of the COVID-19 situation, and the related government advice discouraging travel, on customer demand in the final two months of the year. Up to this point, revenue growth had strengthened from the reported growth of 1.6% at the half-year, with like-for-like revenue growth of 2.1% for the 44 weeks ended 29 February 2020.

Like-for-like vehicle miles operated were 4.0% lower than the prior year. Mileage in the final weeks of the year was down significantly year-on-year reflecting an overall reduction in mileage of around 60% in response to the COVID-19 situation. Like-for-like revenue per mile grew by 0.3% and like-for-like revenue per journey increased 6.9%. The relatively high increase in the like-for-like revenue per journey is principally due to the continuation of concessionary revenue payments at close to pre-COVID revenue rates despite the significant drop off in concessionary journey numbers from mid-March 2020.

# 1. Strategic report (continued)

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

|                                    | 2020<br>£m | 2019<br>£m | Change |
|------------------------------------|------------|------------|--------|
| Commercial on and off bus revenue  |            |            |        |
| – megabus.com                      | 26.4       | 28.1       | (6.0)% |
| – other                            | 583.5      | 627.2      | (7.0)% |
| Concessionary revenue              | 251.8      | 244.3      | 3.1%   |
| Commercial & concessionary revenue | 861.7      | 899.6      | (4.2)% |
| Tendered and school revenue        | 102.6      | 100.3      | 2.3%   |
| Contract and other revenue         | 38.3       | 41.8       | (8.4)% |
| Like-for-like revenue              | 1,002.6    | 1,041.7    | (3.8)% |

Commercial revenue was significantly impacted by a fall in customer demand in response to COVID-19. At the end of the year, commercial sales across our companies were at around 15% of prior year levels. 46% of 2019/20 commercial revenue was sold via contactless and digital channels. Passenger demand is gradually returning as COVID-related restrictions are relaxed, with commercial revenue now at around 40% of the prior year level.

As the Department for Transport COVID-19 related payments for bus services do not cover inter-city coach operations, we took the decision to temporarily wind-down our megabus.com services in England and Wales, with services suspended from 5 April.

Revenue receivable from public authorities in respect of concessionary, tendered and school revenue has been more robust, with that revenue generally continuing at around pre-COVID levels despite reductions in vehicle mileage and patronage.

The reduction in contract and other revenue is principally attributable to the effects of rail replacement work undertaken in the prior year associated with the Derby railway station resignalling.

The increase in operating margin was built up as follows:

|                            |               |
|----------------------------|---------------|
| Operating margin – 2018/19 | <b>11.2%</b>  |
| Change in:                 |               |
| Other operating income     | <b>3.5%</b>   |
| Staff costs                | <b>(5.2)%</b> |
| Fuel costs                 | <b>(0.5)%</b> |
| IFRS 16 Leases             | <b>0.1%</b>   |
| Other                      | <b>(0.1)%</b> |
| Operating margin – 2019/20 | <b>9.0%</b>   |

The main changes in the operating margin shown above are:

- Other operating income has increased significantly, reflecting government payments to protect jobs and to ensure the continuation of bus services and support their critical role in getting key workers to work, as well as ensuring people can access medical care, food and other essentials. We have recognised grant income under the Coronavirus Job Retention Scheme (“CJRS”) and COVID-19 Bus Services Support Grant (“CBSSG”).
- As the largest component of our cost base, staff costs as a proportion of revenue increased significantly towards the end of the year. A substantial element of this increase in staff costs is offset by the higher other operating income, with the costs of employees on furlough (included in staff costs) being largely offset by CJRS grant income (included in other operating income).
- Fuel costs have increased, reflecting market fuel prices and our fuel hedging programme.
- The adoption of the new lease accounting standard, IFRS 16, results in a different pattern of expense within the income statement. The IAS 17 operating lease expense for certain leases is replaced by depreciation and interest charges, although the net effect on the regional bus operating margin is small.

## Outlook

With the continuing uncertainty of the COVID-19 situation and the UK’s recovery, it remains difficult to reliably predict financial performance for the new financial year ending 1 May 2021. In the short-term, the actions we have taken and the payments from government for continuing bus services should ensure we continue to generate positive EBITDA and avoid significant operating losses.

As COVID-related restrictions have been relaxed, we have restored services and our regional bus vehicle mileage is now at around 80% of prior year levels. Nevertheless, with ongoing physical distancing requirements placing a capacity constraint on our vehicles and government advice discouraging public transport use in the short-term, government is continuing payments to bus operators for the increased level of services.

Looking further ahead, we expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our regional bus services returns to pre-COVID levels and we are planning for a number of scenarios. We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for the business from a renewed societal focus on health, wellbeing and the environment. Buses across the UK can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

As Britain’s biggest bus and coach operator, we have clear opportunities to grow our regional bus business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the bus services our customers want.



# 1. Strategic report (continued)

## 1.6.2 UK Bus (London)

### Summary

- Strong operational and financial performance, out-performing start of year expectations
- Good tender results
- Continuing profitability and good prospects

### Financial performance

The financial performance of UK Bus (London) for the year ended 2 May 2020 is summarised below:

|                       | 2020<br>£m   | 2019<br>£m | Change |
|-----------------------|--------------|------------|--------|
| Revenue               | <b>246.2</b> | 252.8      | (2.6)% |
| Like-for-like revenue | <b>241.7</b> | 252.8      | (4.4)% |
| Operating profit      | <b>16.1</b>  | 10.7       | 50.5%  |
| Operating margin      | <b>6.5%</b>  | 4.2%       | 230bp  |

We are delighted with the strong operational and financial performance of our London business, in a year where we expected to see a reduction in operating profit arising from contracts lost in the prior year. Quality Incentive Contract income increased by £3.9m from the prior year, reflecting favourable service performance and fewer roadworks on our routes.

The movement in like-for-like revenue partly reflects the reduction in operating mileage associated with the impact of contracts lost in the prior year. It also reflects that in the latter part of the year, we reduced our vehicle mileage in agreement with Transport for London in response to the COVID-19 situation. We agreed with Transport for London that the contract payments we receive from it would be reduced by the amount of savings in variable costs achieved as a result of operating less mileage.

The movement in operating margin was built up as follows:

|                                   |               |
|-----------------------------------|---------------|
| Operating margin 2018/19          | <b>4.2%</b>   |
| Change in:                        |               |
| Quality Incentive Contract income | <b>1.6%</b>   |
| Fuel costs                        | <b>1.1%</b>   |
| Insurance and claims costs        | <b>(1.5)%</b> |
| Materials and consumables         | <b>(0.8)%</b> |
| Other operating income            | <b>0.4%</b>   |
| IFRS 16 Leases                    | <b>0.4%</b>   |
| Other                             | <b>1.1%</b>   |
| Operating margin 2019/20          | <b>6.5%</b>   |

The main changes in the operating margin shown above are:

- Quality Incentive Contract income has increased reflecting improved performance against quality targets.
- Fuel costs have decreased as a proportion of revenue, due to lower fuel hedge prices.
- Insurance and claims costs have increased reflecting our latest assessment of the self-insured portion of claims.
- Materials and consumables have increased year-on-year as a result of some price increases and a non-recurring prior year reduction in the liabilities held to undertake maintenance work on leased vehicles to meet contractual requirements.
- Other operating income has increased, reflecting grant income recognised under CJRS for employees furloughed as we reduced contract mileage at the request of Transport for London. Any benefit from the grant income was effectively passed to Transport for London through reductions in contract revenue.
- The adoption of the new lease accounting standard, IFRS 16, results in a different pattern of expense within the income statement. The IAS 17 operating lease expense for certain leases is replaced by depreciation and interest charges. A significantly greater proportion of the London bus fleet is leased than of the regional bus fleet, meaning that the application of IFRS 16 has a proportionately greater effect on the London bus operating margin.
- Other costs have reduced, principally due to a one-off rates rebate at one of our depots during the year and our fleet size reducing by a greater proportion than our fall in revenue.

### Outlook

Transport for London has generally maintained contract revenue payments to London bus operators, adjusted down to reflect any variable cost savings achieved by operators from running a reduced level of service. The method for determining contract payments for the period up until 22 August 2020 has been agreed with Transport for London and discussions are continuing on the determination of contract payments for periods thereafter. Those ongoing discussions include considerations of how best to manage the risk that, as a result of the COVID-19 situation, the inflation adjustments to contract payments might not remain a good reflection of operators' actual underlying cost inflation.

Our vehicle mileage should increase in 2020/21 as we begin to operate the new contracts we secured in 2019/20.

We continue to see good prospects for the London business and we will maintain our discipline in bidding for new contracts as well as focusing on strong operational delivery.

# 1. Strategic report (continued)

## 1.6.3 UK Rail

### Summary

- Strong financial performance at East Midlands Trains in the final months of its franchise to August 2019

### Financial performance

The financial performance of UK Rail for the year ended 2 May 2020 is summarised below:

|                       | 2020<br>£m   | 2019<br>£m | Change  |
|-----------------------|--------------|------------|---------|
| Revenue               | <b>161.1</b> | 589.5      | (72.7)% |
| Like-for-like revenue | <b>13.0</b>  | 14.2       | (8.5)%  |
| Operating profit      | <b>4.4</b>   | 26.4       | (83.3)% |
| Operating margin      | <b>2.7%</b>  | 4.5%       | (180)bp |

The reported revenue for the prior year includes revenue at the Virgin Trains East Coast franchise, which ended in June 2018, and a full year of the East Midlands Trains franchise, which ended in August 2019. The substantial fall in reported revenue reflects the end of these franchises.

The like-for-like revenue is in respect of the ongoing Sheffield Supertram business, and includes the adverse effect of the COVID-19 situation on revenue since March 2020.

The operating profit for the year reflects continued good profitability in the final few months of East Midlands Trains, as we progressed with concluding contractual matters associated with that franchise. The reported profit includes the costs of our business development team, the majority of whose work is focused on unwinding our former rail franchises and evaluating future rail opportunities.

We were disappointed that our claims against the Secretary of State for Transport regarding his decisions to disqualify us from three rail franchise competitions were unsuccessful. Our share of the estimated costs of the litigation are included within operating profit.

### Outlook

We have previously indicated that we have no intention to bid for new UK rail franchises with the Department for Transport on the current risk profile. Furthermore, it is not clear if and when the Department will invite bids for further UK rail franchises. In light of those factors, we see no near-term prospect of us participating in UK rail franchise bids and we have accordingly notified the Department for Transport that we surrender our passport to bid for such franchises.

Our Sheffield Supertram business is receiving payments from government to ensure the continuation of tram services and support their critical role in getting key workers, such as healthcare and other staff, to work as well as ensuring people can access medical care, food and other essentials.

## 1.6.4 Joint Ventures

### 1.6.4.1 Virgin Rail Group

#### Summary

- Good financial performance at West Coast Trains in the final months of the franchise to December 2019

### Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 2 May 2020 is summarised below:

| 49% share          | 2020<br>£m   | 2019<br>£m |
|--------------------|--------------|------------|
| Revenue            | <b>388.0</b> | 609.5      |
| Operating profit   | <b>18.9</b>  | 25.7       |
| Net finance income | <b>0.4</b>   | 0.8        |
| Taxation           | <b>(3.5)</b> | (5.2)      |
| Profit after tax   | <b>15.8</b>  | 21.3       |
| Operating margin   | <b>4.9%</b>  | 4.2%       |

Virgin Rail Group's West Coast rail franchise ran until 8 December 2019, with the change in operating profit from the prior year reflecting the end of the franchise during the year. Profitability remained satisfactory in the final few months of the franchise, and the focus is now on concluding outstanding contractual matters.

Throughout the final months of Virgin Rail Group's West Coast franchise, the management team continued to work hard to deliver a safe, high quality and professional service to customers, meet contractual obligations and ensure a smooth handover to the new operator. Virgin and we are most grateful to all our employees and partners who have been involved in delivering the revolution on the West Coast rail network.

# 1. Strategic report (continued)

## 1.6.5 Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items (adjusted EBITDA) amounted to £237.3m (2019: £327.0m). Adjusted EBITDA can be reconciled to the consolidated financial statements as follows:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| Total operating profit – continuing operations | 87.2       | 135.7      |
| Total operating loss – discontinued operations | –          | (50.2)     |
| Separately disclosed items                     | 32.5       | 95.4       |
| Software amortisation                          | 4.5        | 9.3        |
| Non-separately disclosed depreciation          | 109.2      | 131.4      |
| Non-separately disclosed impairment            | 0.3        | 0.5        |
| Add back joint venture finance income & tax    | 3.6        | 4.9        |
| Adjusted EBITDA                                | 237.3      | 327.0      |

The adjusted EBITDA of £237.3m for the year ended 2 May 2020 reflects the effect of implementing International Financial Reporting Standard 16 (“IFRS 16”) in respect of accounting for leases. The implementation of IFRS 16 results in amounts previously recognised as operating lease rentals being reclassified as depreciation and finance costs in the income statement. The effect is to increase adjusted EBITDA by £26.6m for the year ended 2 May 2020. Comparative amounts have not been re-stated for IFRS 16. The year-on-year decrease in adjusted EBITDA principally reflects the disposal of the North America business in April 2019 and the end of the East Midlands Trains franchise in August 2019.

Software amortisation and depreciation reduced from the prior year principally due to the sale of the Group’s North America Division in April 2019.

## 1.6.6 Separately disclosed items

The Directors believe that there are certain items that we should separately disclose to help explain the consolidated results. We summarise those “separately disclosed items” in note 4 to the consolidated financial statements and further explain them below.

### *Non-software intangible asset amortisation*

We separately disclose non-software intangible asset amortisation because analysts have told us that they find separate disclosure helpful, a number of our peers separately disclose such costs and the costs generally arise from business acquisitions and/or contract wins.

Non-software amortisation for the year ended 2 May 2020 amounted to £0.7m (2019: £0.3m).

### *Re-organisation costs*

In April 2019, there were two significant events relevant to the Group’s overall strategy: the sale of the Group’s North America Division and the UK Department for Transport’s decision to disqualify the bids that the Group was involved in for new UK rail franchises. In light of those, the Group subsequently reshaped its management structure and reduced overheads to reflect the reduced scope of the business. The re-organisation costs associated with those changes amounted to £2.4m in the year ended 2 May 2020.

### *Asset impairment and onerous contract provision*

Taking account of the effects of the COVID-19 situation, the Group has assessed its assets for impairment and reviewed for onerous contracts. Based on that review, a cumulative separately disclosed expense of £16.5m was recorded for the year ended 2 May 2020.

### *Discontinued fuel hedges*

The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed government advice to avoid all but essential travel in light of the COVID-19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable and hedge accounting was discontinued in mid-March 2020 for certain of the fuel hedges covering the period from mid-March 2020 to April 2021.

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement expense of £12.9m for that, and subsequent movements in the fair value of fuel derivatives that are no longer effective hedges, has been presented as a separately disclosed item.

### *Changes in the fair value of Deferred Payment Instrument*

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 October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group’s exposure to the purchaser of the North American business ranks behind all of its secured lenders. The carrying value of the instrument was £22.3m as at 27 April 2019. At 2 May 2020, the fair value of the instrument was estimated to be £4.5m, resulting in a loss of £17.8m being recognised as finance costs for the year ended 2 May 2020.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the holder of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group’s financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.

### *Tax credit*

The net effect of separately disclosed items from continuing and discontinued operations was a pre-tax loss of £51.6m (2019: £125.3m).

The separately disclosed tax credit of £12.8m for the year ended 2 May 2020 (2019: £22.5m) includes the tax effect of the pre-tax separately disclosed items, as well as a tax credit of £3.4m in respect of tax losses relating to expired rail franchises.

# 1. Strategic report (continued)

## 1.6.7 Net finance costs

Net finance costs from continuing operations, excluding separately disclosed items, for the year ended 2 May 2020 were £28.8m (2019: £28.4m) and can be further analysed as follows:

|   | 2020<br>£m   | 2019<br>£m |
|---|--------------|------------|
| <i>Finance costs</i>  |              |            |
| Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance | 3.3          | 2.1        |
| Lease interest payable  | 2.8          | 0.2        |
| Interest payable and other finance costs on bonds   | 17.2         | 21.8       |
| Unwinding of discount on provisions   | 1.3          | 1.2        |
| Interest charge on defined benefit pension schemes  | 5.1          | 4.6        |
|   | <b>29.7</b>  | 29.9       |
| <i>Finance income</i>   |              |            |
| Interest receivable on cash   | (0.9)        | (1.2)      |
| Effect of interest rate swaps   | –            | (0.3)      |
|   | <b>(0.9)</b> | (1.5)      |
| Net finance costs, excluding separately disclosed items ("adjusted net finance costs")            | <b>28.8</b>  | 28.4       |

The increase in adjusted net finance costs is principally as a result of interest on leases following the adoption of IFRS 16, and the costs of arranging the Group's new bank facilities. This increase is partially offset by the Group's repayment of debt following the disposal of the North America Division.

## 1.6.8 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 2 May 2020, excluding separately disclosed items, was 21.1% (2019: 20.0%).

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

|  | Pre-tax profit<br>£m | Tax<br>£m | Rate<br>% |
|--|----------------------|-----------|-----------|
| Year to 2 May 2020                                       |                      |           |           |
| Excluding separately disclosed items                     | 94.9                 | (20.0)    | 21.1%     |
| Non-software intangible asset amortisation               | (0.7)                | –         |           |
| Other separately disclosed items                         | (49.6)               | 12.8      |           |
| With joint venture taxation gross                        | 44.6                 | (7.2)     |           |
| Reclassify joint venture taxation for reporting purposes | (4.0)                | 4.0       |           |
| Reported in income statement                             | 40.6                 | (3.2)     |           |

The effective tax rate on profit from continuing operations, excluding separately disclosed items, of 21.1% is higher than the 19.0% rate of UK corporation tax for the year, principally due to the revaluation of deferred tax balances following the reversal of the UK corporation tax rate reduction from 19.0% to 17.0%. 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 separately disclosed items) to be between 18.0% and 20.0%.

The cash tax paid in the year of £Nil (2019: £17.8m) compares to the tax charge for continuing and discontinued Group companies of £3.2m (2019: credit of £0.1m).

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 £10.7m are held as at 2 May 2020 (2019: £13.3m) 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 European Union State Aid rules. On 13 June 2019, Her Majesty's Revenue and Customs ("HMRC") applied to annul the decision of the European Commission, and in November 2019, the Group, in line with a number of UK corporates, made a similar appeal.

# 1. Strategic report (continued)

## 1.6.9 Cash flows and net debt

Consolidated net debt (as analysed in note 29(c) to the consolidated financial statements) has, as expected, increased from 27 April 2019, reflecting the impact of adopting the new lease accounting standard, IFRS 16, the effect of share buy-backs, the transfer of cash following the expiry of the East Midlands Trains franchise and additional capital investment, partly offset by continued cash generation from other operations.

Net cash from operating activities before tax for the year ended 2 May 2020 was £164.6m (2019: £124.7m) and can be further analysed as follows:

|   | 2020          | 2019    |
|---|---------------|---------|
|   | £m            | £m      |
| EBITDA of Group companies before separately disclosed items     | <b>216.1</b>  | 298.8   |
| Cash effect of current year separately disclosed items          | <b>(2.4)</b>  | –       |
| (Gain)/loss on disposal of property, plant and equipment        | <b>(0.9)</b>  | 0.3     |
| Share based payment movements                                   | <b>0.9</b>    | 1.4     |
| Working capital movements                                       | <b>(54.9)</b> | (173.4) |
| Net interest paid   | <b>(21.5)</b> | (27.8)  |
| Dividends from joint ventures                                   | <b>27.3</b>   | 25.4    |
| <b>Net cash flows from operating activities before taxation</b> | <b>164.6</b>  | 124.7   |

Net debt increased from £253.3m at 27 April 2019 to £352.1m at 2 May 2020. The movement in net debt was:

| Year to 2 May 2020                                       | £m             |
|--|----------------|
| Net cash flows from operating activities before taxation | <b>164.6</b>   |
| Investing activities                                     | <b>(111.7)</b> |
| Financing activities                                     | <b>(61.8)</b>  |
| Other  | <b>(0.9)</b>   |
| <b>Movement in net debt</b>                              | <b>(9.8)</b>   |
| Opening net debt   | <b>(253.3)</b> |
| Adoption of IFRS 16                                      | <b>(89.0)</b>  |
| <b>Closing net debt</b>                                  | <b>(352.1)</b> |

The £98.8m increase in net debt includes the impact of implementing IFRS 16, where lease liabilities of £89.0m have been recognised on transition.

As at 2 May 2020, all of the major rail franchises previously operated by Group subsidiaries had ended. Therefore, as at 2 May 2020, there is no restricted cash held by train operating companies. However, the settlement of the train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 2 May 2020, the consolidated net liabilities included net liabilities (excluding cash) of £101.0m in respect of such items. Accordingly, if all items were to be settled at their 2 May 2020 carrying values, consolidated net debt would increase by £101.0m. Consolidated net debt plus those outstanding train operating company net liabilities as at 2 May 2020 was £453.1m.

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

|                              | 2020         | 2019   |
|------------------------------|--------------|--------|
|                              | £m           | £m     |
| UK Bus (regional operations) | <b>82.1</b>  | 50.7   |
| UK Bus (London)              | <b>21.6</b>  | 14.9   |
| North America                | –            | 11.2   |
| UK Rail                      | <b>(3.1)</b> | (15.2) |
|                              | <b>100.6</b> | 61.6   |

In addition to the amounts shown in the table above, the impact of purchases of intangible assets and other investments was £5.5m (2019: £4.4m). In addition, £0.5m (2019: £28.1m) of cash was received from disposals of intangible assets.

The actions we have taken in response to the impact of the COVID-19 situation on the business include reducing our planned capital expenditure. Prior to COVID-19 having an effect on the business, our capital expenditure plans for 2020/21 envisaged around £105m of cash capital expenditure and around £38m of new leases. As we previously announced, we have scaled down that planned expenditure to around £54m of cash capital expenditure and around £20m of new leases.

## 1.6.10 Financial position and liquidity

The Group was in a good financial position pre-COVID and we have taken action to ensure it is well positioned to manage during this period of increased uncertainty. In particular:

- We continue to have available liquidity of over £800m. We monitor our liquidity and cash flow daily.
- In March 2020, we re-financed our core bank facilities and entered into £325m of new bank facilities, committed through until at least 2025.
- In June 2020, we secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in those £325m of facilities. The waivers cover the years ending 31 October 2020 and 1 May 2021. As things stand, the next testing of those covenants will be in respect of the year ending 30 October 2021. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity.
- In May 2020, we issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility.
- We engaged with the credit rating agencies on the effect of the COVID-19 situation on our business. Moody's (Baa3) and S&P (BBB-) have since reaffirmed our investment grade credit ratings, whilst also revising the rating outlooks to negative from stable.
- We restructured our fuel hedging portfolio to take account of changes in our vehicle mileage.

Since our regulatory announcement of 28 May 2020, we have seen further positive cash flow (excluding movements in borrowings) of approximately £26m.

# 1. Strategic report (continued)

As at 20 July 2020, our consolidated liquidity position was as follows:

|   | £m      |
|---|---------|
| Cash balances and money market deposits                                 | 433.5   |
| Undrawn, committed headroom under bank facilities expiring March 2025   | 266.4   |
| Undrawn, committed headroom under bank facilities expiring October 2021 | 140.0   |
| Available liquidity   | 839.9   |
| Less: net train operating company liabilities                           | (101.0) |
| Adjusted liquidity  | 738.9   |
| Less: facilities expiring October 2021                                  | (140.0) |
| Adjusted liquidity, excluding facilities expiring October 2021          | 598.9   |

## 1.6.11 Year-end financial position of the Group

### 1.6.11.1 Net (liabilities)/assets

Net liabilities at 2 May 2020 were £130.2m (2019: net assets of £128.4m).

The reduction in the net assets reflects the actuarial losses on defined benefit pension schemes, the effects of share buy-backs and dividends paid, partly offset by the profit for the year ended 2 May 2020.

### 1.6.11.2 Retirement benefits

The reported net liabilities of £130.2m (2019: net assets of £128.4m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £413.1m (2019: £197.7m), and associated deferred tax assets of £78.5m (2019: £33.9m).

The Group recognised pre-tax actuarial losses of £220.1m in the year (2019: £36.2m). The discount rate used to determine pension scheme liabilities is determined with reference to AA-rated bond yields. The discount rate and asset values have been volatile over the COVID-19 period.

A provisional estimate of the deficit on the main scheme as at 2 May 2020 on the trustees' funding basis is £53m, compared to £404.1m on an accounting basis (included in the £413.1m above). That reflects the long-term rates of return that the trustees expected from the scheme's investments. 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. We forecast employer defined benefit cash contributions for 2020/21 of £13.9m (2019/20: £20.7m) and we do not expect any material changes to these before 2021/22, when the funding position of the main scheme will be assessed in light of an updated triennial valuation.

### 1.6.11.3 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 2 May 2020, the Group's capital comprised:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| Market value of ordinary shares in issue (excluding shares held in treasury) | 393.9      | 763.9      |
| Cash   | 348.3      | 170.4      |
| Gross debt   | (700.4)    | (423.7)    |
| Net debt (see section 1.6.9)   | (352.1)    | (253.3)    |

The Group manages its capital centrally. Its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group 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. In line with the Company's strong capital discipline, the Board decided in October 2019 to conclude the programme when around £30m of shares had been bought back. The Board was then satisfied that the programme had largely achieved its objective of making appropriate use of the Group's cash, whilst retaining a good financial position and maintaining an investment grade credit rating. The Group concluded the programme on 9 October 2019 having invested £30.4m under the programme in acquiring a total of 23,086,035 ordinary shares. The shares are held in treasury.

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

# 1. Strategic report (continued)

## 1.6.12 Dividend policy

The Board has proposed no final dividend in respect of the year ended 2 May 2020.

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 2 May 2020, the Company's distributable reserves totalled £164.8m (2019: £309.6m), which compares to dividends paid in cash in the year ended 2 May 2020 of £42.6m (2019: £44.1m).

The Group continues to have substantial available liquidity and it is our ambition to resume dividend payments in due course. We anticipate that being when our profit and cash flow generation have returned to a level, which relative to our net debt and pension liabilities, supports the resumption of dividend payments. While the current uncertainty caused by the COVID-19 situation makes it difficult to accurately forecast the timing and extent of profit recovery, we continue to see good long-term opportunities for the Group and a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

## 1.6.13 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.

## 1.6.14 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, adjusted 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.

## 1.6.15 Adoption of new accounting standard for leases

The Group has adopted 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 were 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 the impact on the consolidated financial statements is provided in note 1 to the consolidated financial statements.

## 1.7 Outlook

We see a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our public transport services returns to pre-COVID levels and we have planned for a number of scenarios.

However, we continue to see positive long-term prospects for public transport. There is a large market opportunity to lock in the reduced volume of car traffic and lower carbon emissions seen during the COVID-19 pandemic and secure long-term economic, social, health and environmental benefits for the country. Critical to maximising this window of opportunity is delivering modal shift from private cars to active travel and more sustainable public transport.

We are ready for our greener transport services to play a leading role in helping government achieve its long-term objectives for the country.

# 1. Strategic report (continued)

## 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

For four decades, Stagecoach transport services have served a clear purpose: connecting people and communities. Our lifeline services have enabled billions of journeys, helped to build strong local economies and provided a greener way to travel.

As the UK's biggest bus and coach operator, our operations serve communities in major cities as well as other urban and rural locations. We connect people with jobs, skills and training, bring customers to our high streets and draw families, friends and communities together, supporting the country's economic growth and reducing social deprivation.

Our positive direct and indirect impact on the UK has been quantified in a report we published with the Centre for Economics and Business Research in February 2020. It shows that Stagecoach's aggregate contribution to the country is £1.63 billion a year in Gross Value Added.

Stagecoach is one of the country's biggest private sector employers. We provide direct employment for around 25,000 people in the UK and support around a further 10,000 jobs nationally across the economy.

We also contribute towards making the nation more active, delivering cleaner air, reducing congestion on our roads and making our communities safer. People using Stagecoach buses rather than cars helps avoid millions of pounds of wasted resources every year, with the savings able to be invested in better public services.

A copy of the full report, How we support Britain's economy and communities, can be accessed here:  
<https://www.stagecoachgroup.com/stagecoachs-contribution-to-britains-economy-and-communities.pdf>

We seek to work responsibly and in partnership with all of our stakeholders. Our values inform our approach to engaging with our people and our customers; promoting safety, health, wellbeing and security; delivering accessible and affordable transport services; taking care of our environment and striving for sustainability; demonstrating good governance; and building collaborative community relationships.

We are proud that our strong customer focus, commitment to sustainability, and sector-leading reputation has been independently recognised by a range of organisations. Stagecoach has received the new London Stock Exchange Green Economy Mark for its contribution to a more sustainable economy and has also achieved the FTSE4Good global corporate responsibility standard for the 19th consecutive year.

This section 1.8 of our report includes an overview, and selected examples of our work, to demonstrate the steps we are taking to meet our responsibilities.

Further information on our approach to corporate social responsibility can be found on our website at the following link:  
<https://www.stagecoachgroup.com/sustainability.aspx>.

### 1.8.2 Our corporate values

#### 1.8.2.1 Corporate values and Code of Conduct

Stagecoach Group has a set of core values and policies, which are detailed in our Group Code of Conduct. During the year, we reviewed these and agreed a set of five new shared values to drive our people and the brands they represent across our business: We're go getting; We do the right thing; We're in it together; We keep it simple and We care. We significantly revised our Code of Conduct to ensure that it aligns with these revised corporate values, that it reflects changes in our business during the year 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 of Conduct 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.stagecoachgroup.com/code-of-conduct.pdf>

#### 1.8.2.2 Whistleblowing

The Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. In conjunction with revising our corporate values and Code of Conduct, we also launched a new "Speak Up" whistleblowing platform. This new platform provides a channel for employees to anonymously report concerns they have, while enabling us to ensure that all concerns are systematically investigated and tracked.

A new "Speak Up" whistleblowing policy was launched to explain this new platform and to help employees understand their rights and responsibilities. The policy also sets out how the Group will investigate any concerns raised and the action it may take. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. A copy of the document is available at: [www.stagecoachgroup.com/whistleblowing-policy.pdf](http://www.stagecoachgroup.com/whistleblowing-policy.pdf)

The Board reviews summaries of matters raised through the "Speak Up" platform and through other whistleblowing reporting channels. Instances of fraud, theft or similar irregularities affecting the Group are reported to, and considered by, the Audit Committee.



# 1. Strategic report (continued)

## 1.8.3 Health and safety

The health and safety of our people and our customers is at the heart of our business as a public transport operator. We believe that good safety inspires customer and employee confidence in Stagecoach and that by actively engaging with our employees we can create a strong safety culture and consistently improve safety performance.

Our overarching approach to safety management is articulated through the Stagecoach Strategic Safety Framework. Understanding safety risk and being compliant with, or exceeding, the applicable health and safety regulations is core to this framework. We 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.

COVID-19 brought an unprecedented health and safety challenge to our business. Our bus and tram businesses provide vital services to essential workers and have needed to quickly adapt to ensure that we can do this safely, whilst protecting the health of our people and our customers. We are very proud of how our people have risen to the challenge and, in order to make sure we are doing everything we can to protect them, have implemented new control measures both on board vehicles, and at our premises to enhance cleaning and maintain social distancing. These measures have included introducing enhanced cleaning regimes on our vehicles and in our depots, operating vehicles with protective screens between drivers and customers, encouraging contactless payment options and advising our customers on how to socially distance both on and off our vehicles. At every stage we have ensured our approach follows the scientific advice from the Government, the World Health Organisation and public health bodies. We have worked closely with the Confederation of Passenger Transport and UK Tram to make sure that our approach is aligned with the sector in which we operate.

We are greatly saddened to have lost eight members of the Stagecoach family to COVID-19. Our thoughts are with their families and loved ones.

Our operating companies have safety management systems in place which are appropriate for their respective risk profile and regulatory requirements. The safety management systems include policies, procedures, risk assessments and safe working arrangements 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.

## 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 appropriate package of benefits, which allows us to deliver good customer service.

### 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

During National Apprenticeship Week in March 2020, Stagecoach successfully became a member of the "5% Club". This involves committing to planning for a minimum of 5% of our workforce to be enrolled on formalised apprenticeship programmes within five years of joining the club and further illustrating our commitment to developing employees through national apprenticeship programmes. We have 507 employees enrolled onto our flagship driver apprenticeship programme and 46 employees have completed their driver apprenticeship across our English operating companies. Stagecoach is the only bus operator group to have employees who have completed this qualification.

We have an industry leading engineering apprenticeship programme in our bus businesses in the UK and this has benefited hundreds of apprentices over more than a decade. In October 2019, we welcomed a further 30 engineering apprentices new to the business as part of our ongoing programme. 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 2020, we had more than 300 applications from across the country. We currently have 223 engineering apprentices.

We recognise the importance of investing in our current and future leaders of our business. We introduced a new senior leader development programme and we refreshed our high potential graduate and frontline manager programmes to help our leaders at all levels to achieve their potential.

# 1. Strategic report (continued)

## 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.

The latest 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 2019 meeting, discussion topics included bus driver recruitment and retention, our approach to inclusion and diversity, defining the role of an operations manager, and looking ahead to new digital opportunities. Amongst other matters, these dinners have given the Board an insight into current issues in the business, including workforce issues and views. The Board has generally found the discussions to be lively and informative.

In addition, we have established “Stagecoach Colleague Forums” which acts as a workforce advisory panel. Twice a year, a group of employees from across the business will meet with certain non-executive directors. Our first meeting was delayed by the COVID-19 situation but took place digitally in June 2020. The purpose of the Forums is to:

- Enable members of the Board to hear, and report to the Board, the views of our people so that 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.

At the first Colleague Forum meeting, seventeen colleagues met with two non-executive directors. Some of our executive team also attended to provide colleagues with a business update, including in respect of our COVID-19 response. The colleagues attending were from a variety of geographical locations, covered a wide range of business roles and included some who had experienced being furloughed. The level of engagement was good with discussion topics including: the preparedness of the business for a second spike in COVID-19 cases; the rollout of the Group’s new brand identity; the feasibility of a “one driver, one vehicle” policy; training; operating cashless transport services; targeting modal shift from car to bus; the value for money and pricing of our services versus alternative transport modes; employee furloughing and rotation; furloughed employees returning to work and the need for personalised communications, and; enforcing the use of face coverings. All participants received copies of notes and information on follow up actions.

We held our second group-wide employee survey with a single provider in 2019/20, listening to the views of our people. The response rate achieved (80%) was the best ever of any of the employee surveys we have undertaken. The overall engagement score was 70%. This is a 2-point increase based on a recalibrated score of 68% with the extraction of data from our rail and North American businesses, which were included in our 2018/19 survey.

We have continued to evolve and improve 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. Our employee communications app, Blink, helps increase employee voice and reach a wider audience through a modern digital platform. Our employee magazine, Focus, enables us to share our people’s stories and help everyone understand how they contribute towards the success of our business.

We have continued to have various programmes and support structures in place to promote the health and wellbeing of our people with a particular focus on physical, financial and mental health. During 2019/20, we held two Health & Wellbeing Champions meetings with representatives from our businesses to ensure our focus is consistent, whilst encouraging ownership from our front line operations to deliver local initiatives to complement our overall strategy. A health and wellbeing calendar has been introduced to ensure we have a planned approach throughout the year and that the focus on key areas is acted upon by local teams and communicated widely throughout the businesses. In our continued commitment to our Time to Change pledge, we supported Time to Talk Day with posts and personal story telling on Blink and highlighted areas of good practice in Focus magazine.

The impact of COVID-19 has seen our health and wellbeing engagement and delivery move to our Blink platform with frequent communication of the support available to ensure we continue to support our people and offer support and assistance to those on furlough.

We launched a new benefits platform in October 2019 which, alongside offering discounts for shopping and entertainment, also gives our employees easy access to a whole host of wellbeing resources. We have become increasingly aware of the growing need to improve the support we provide around financial wellbeing. So in November 2019, we launched a partnership with Salary Finance to help our people to take practical steps to adopt good money habits and use tools and education to make them more financially resilient.

Following on from the introduction of our Stagecoach Star of the Month recognition scheme, which recognises and rewards our people for their outstanding performance and behaviours, we also evolved our approach to our annual awards. In February 2020, we held our Stagecoach Stars annual ceremony, celebrating the outstanding efforts of our people in 11 different categories.

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. With the challenges that we have faced both as a business and in our personal lives, we will continue to build on those relationships and to support our people as we move forward.

Section 1.9 of this Annual Report summarises, amongst other matters, how the Directors have regard to employee interests, and the effect of that regard, including on decisions taken during the year ended 2 May 2020.

# 1. Strategic report (continued)

## 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 have a diversity and inclusion strategy to 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 2 May 2020. The Group's workforce is around 87% male and around that high proportion is common in the ground transportation industry.

| Population                 | Male   | Female | Total  | % Male | % Female |
|----------------------------|--------|--------|--------|--------|----------|
| Board                      | 7      | 1      | 8      | 87.5%  | 12.5%    |
| – Board from 1 August 2020 | 6      | 2      | 8      | 75.0%  | 25.0%    |
| Senior management*         | 44     | 9      | 53     | 83.0%  | 17.0%    |
| Whole workforce            | 21,633 | 3,201  | 24,834 | 87.1%  | 12.9%    |

\*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 2020 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 27 April 2019 were:

| 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%    |

The increase in the percentage of male employees reflects a change in the composition of our business since last year. Our East Midlands rail franchise expired in August 2019, and the employees of that business transferred to the successor operator. In common with the wider sector, the proportion of female employees in train operating companies is generally higher than in bus operating companies, and so the expiry of the franchise affected the overall gender mix of our employees. Excluding East Midlands Trains, the proportion of our employees who are female increased from 12.7% at 27 April 2019 to 12.9% at 2 May 2020.

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. It provides us with an opportunity to measure where we are when it comes to 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.stagecoachgroup.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.

We are continuing to take a range of steps to encourage positive action 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 work with Women in Transport, Northern Power Women and Inclusive Employers to provide networking opportunities and support for all women within the sector, devising initiatives aimed at positioning public transport as an attractive career choice for young people.
- We have introduced an application tracking system to monitor the response to recruitment campaigns and have undertaken targeted advertising to ensure we attract a diverse talent pool for all roles.
- Embedding our new driver recruitment process to increase female diversity. Our pilot highlighted an increase in female applications by 34% which is encouraging for both our future female diversity and our gender pay gap.

### Improved support for our female colleagues

- We have continued to provide support and career development to our female leaders internally and our Stagecoach Group Female Leaders network is now well established, running quarterly events to raise the profile and support the women within our businesses.
- We offer flexible and part time working arrangements to encourage employees to stay within the business.
- Two female Regional Director appointments were made during the year adding to our senior leadership team.

# 1. Strategic report (continued)

## Raising our profile as an employer of choice

- We have been shortlisted for Northern Power Women Awards 2020 in the Large Employer category in recognition for our work in supporting female leaders through their career with us.
- We continue to work with selected partner schools to develop initiatives to promote public transport as an attractive career choice for young people, changing the perception of gender stereotypical roles such as engineers and bus drivers.

### 1.8.6 Accessible and affordable travel

Making our services more accessible and delivering better value travel is central to our strategy to encourage people to switch from single use car trips to more sustainable public transport. Independent research published in February 2020 found that Stagecoach offers the lowest average weekly bus fares of Britain's four main national operators. The sixth National Bus Fares Survey undertaken by transport consultants, TAS, surveyed nearly 1,100 adult fares across England, Scotland and Wales. It also found that Stagecoach weekly bus travel was nearly £1 cheaper than the UK average and over £4 cheaper than weekly capped bus travel in London.

We continue to take steps to deliver fare simplification to improve customer perception of value for money and help drive more use of our buses and trams. Initiatives are underway on single operator day and weekly fares capping using contactless payment technology. We are also working with other operators to progress multi-operator bus and tram fares capping. Contactless payment facilities cover all of Stagecoach's vehicle fleet following the biggest roll-out of the technology by any bus operator in Britain, making it easier for people to use our services.

All of our local bus fleets in the UK are fully accessible as a result of significant investment over many years. Our new vehicles are fitted with CCTV and USB charging points. Around three quarters of new vehicles ordered for the 2019/20 financial year included audio visual display systems which provide next-stop information, as part of their specification. This is designed to improve accessibility for blind and partially sighted people.

As well as introducing these "talking buses" to our fleet, we have worked with sight loss organisations including, the Royal National Institute of Blind People and Guide Dogs, on "Swap With Me" events so our management and frontline teams get a practical insight into the barriers faced by customers with particular challenges. We are also 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.

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. During the year, we enhanced our Stagecoach bus app with the launch of the UK's most advanced real time bus tracker. The 'bus on a map' feature helps customers quickly and easily find out exactly where and how close their service is, increasing confidence in travelling by bus.

As part of our Proud to Serve ethos where every customer matters, we offer Journey Assistance Cards for passengers who need additional help when using the bus. We are also working with other partners to help raise awareness of the needs of all passengers. Earlier this year, we used our marketing channels to support the Department for Transport's 'it's everyone's journey' advertising campaign to highlight how we can all play a part in making public transport inclusive, particularly for those people with non-visible impairments. We have also been working with government to promote bus use as a way of combating loneliness in our society.

For further information on our initiatives, please go to: <https://www.stagecoachgroup.com/sustainability/accessibility-affordability.aspx>

### 1.8.7 Environmental matters and climate change

#### 1.8.7.1 Impact of the Group's business on the environment

The Group sees a huge opportunity for modal shift from the car to mass transit as governments across the globe face growing expectations from citizens to address climate change, poor air quality and crippling road congestion. Positive political action in tackling these threats should also be positive for the future development, performance and position of the Group. According to the National Travel Survey, only 4% of the distance travelled within Great Britain in 2018 by residents of England was by bus while 77% was by car or van. The market for sustainable modal shift from car to bus is therefore substantial. 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.

Surface transport is the single largest producer of carbon emissions in the UK and the only sector where these are growing. While that arguably in part reflects a shifting of manufacturing and industry overseas, the UK Government has introduced a "net zero" target for greenhouse gas ("GHG") emissions by 2050 and has set aside a £2.45 billion Transforming Cities Fund to help drive productivity and prosperity through investment in public and sustainable transport. Targets being set by government to address these environmental and economic challenges are unachievable without a major switch from polluting private transport to sustainable public transport.

A comparison of the Group's total energy consumption and carbon emissions for 2019/20 and 2018/19 (including the North America Division in 2018/19 and the East Midlands Trains franchise in both years) is summarised as follows:

| Source                        | Unit       | 2019/20       |                                | 2018/19       |                                |
|-------------------------------|------------|---------------|--------------------------------|---------------|--------------------------------|
|                               |            | Quantity      | Emissions (tCO <sub>2</sub> e) | Quantity      | Emissions (tCO <sub>2</sub> e) |
| Scope 1                       |            |               |                                |               |                                |
| Fuel                          | kwh        | 2,355,703,936 | 528,328                        | 3,761,207,073 | 879,134                        |
| Refrigerants                  | kg         | 970           | 1,476                          | 12,614        | 18,137                         |
| <b>Total Scope 1</b>          | <b>Gwh</b> | <b>2,356</b>  | <b>529,804</b>                 | <b>3,761</b>  | <b>897,271</b>                 |
| Scope 2                       |            |               |                                |               |                                |
| Purchased electricity         | Gwh        | 46            | 11,784                         | 68            | 20,193                         |
| Scope 3                       |            |               | 135,058                        |               | 215,539                        |
| <b>Total Scope 1, 2 and 3</b> |            |               | <b>676,646</b>                 |               | <b>1,133,003</b>               |

# 1. Strategic report (continued)

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.

Overall Stagecoach greenhouse gas ("GHG") emissions decreased by 4% in 2019/20, compared to 2018/19 (excluding North America and expired UK rail franchises to give a more like-for-like figure). The decrease partly reflects lower bus mileage operated between mid-March 2020 and 2 May 2020 as bus services were adjusted to reflect the COVID-19 situation.

Analysis carried out by the Centre for Economics and Business Research shows that without Stagecoach bus services, there would be an annual increase of 0.19 million tonnes of CO<sub>2</sub> through passengers using alternative modes of transport, principally the car.

The data below shows our greenhouse gas emissions for the year ended 2 May 2020 with comparative data for the year ended 27 April 2019. To enhance comparability, the greenhouse gas emissions presented here for both 2019/20 and 2018/19 exclude the North America Division (which was disposed of in April 2019). They also exclude expired rail franchises, in particular the East Midlands Trains franchise (which ended in August 2019) and the Virgin Trains East Coast franchise (which ended in June 2018). Revenue presented alongside emissions figures has also been determined on that basis.

| Greenhouse Gas Emission Source            | 2019/20        | 2018/19 | % change |
|---|----------------|---------|----------|
| Scope 1 (tCO <sub>2</sub> e)              | <b>482,412</b> | 500,325 | (4)%     |
| Scope 2 (tCO <sub>2</sub> e)              | <b>10,700</b>  | 11,917  | (10)%    |
| Scope 3 (tCO <sub>2</sub> e)              | <b>123,954</b> | 128,622 | (4)%     |
| <b>Total emissions (tCO<sub>2</sub>e)</b> | <b>617,066</b> | 640,864 | (4)%     |

The Group has used the UK Government Environmental Reporting Guidance methodology in reporting its greenhouse gas emissions, together with emissions factors from the Department for Business, Energy & Industrial Strategy (BEIS) Government gas reporting: conversion factors 2019.

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

The Group uses biodiesel fuel and biofuel-blend petrol for some of its fleet. As recommended in the UK Government Environmental Reporting Guidelines, biogenic CO<sub>2</sub> from this was reported separately, whereas biogenic CH<sub>4</sub> and N<sub>2</sub>O emissions were accounted for in Scope 1 fuel combustion. To estimate energy use for Scope 1 and 2 emissions from fuel, the fuel volumes used were converted to kWh. We used BEIS GHG emissions conversion factors for 2019 and 2018 to convert the 2019/20 and 2018/19 fuel volumes to energy use.

Like-for-like scope 1 emissions have decreased by 4%. The main contributors to this were a reduction in mileage and the replacement of older diesel vehicles with new smart hybrid vehicles. A new energy management system was also rolled out to 10 sites across the Group contributing to the reduction. Like-for-like Scope 2 emissions have decreased by 10%. Reductions in Scope 2 emissions has been across the Group, with the impact of the COVID-19 pandemic being a factor in the emission reduction in UK Bus (regional operations). Supertram and UK Bus (London) both replaced older lighting with LED alternatives, resulting in reduced electricity consumption. Like-for-like scope 3 emissions have decreased by 4%. These emissions are driven by the same activities as Scope 1 and 2 emissions, so reflect the changes in total Scope 1 and 2 emissions.

The Group has chosen to use a revenue intensity metric and as such, the emissions are quoted as kilograms of carbon dioxide equivalent per total revenue (kgCO<sub>2</sub>e/£ of revenue).

| Group metrics  | 2019/20        | 2018/19<br>(restated) |
|--|----------------|-----------------------|
| Revenue (£m)   | <b>1,271.2</b> | 1,310.3               |
| Totals Scope 1 & 2 emissions<br>tonnes (tCO <sub>2</sub> e)                          | <b>493,112</b> | 512,242               |
| Intensity ratio<br>Total Scope 1 & 2 emissions<br>(kgCO <sub>2</sub> e/£ of revenue) | <b>0.39</b>    | 0.39                  |

# 1. Strategic report (continued)

## 1.8.7.2 Climate change risks

As explained in section 1.8.7.1, public transport can play a major role in addressing climate change, poor air quality and crippling road congestion. Positive political action in tackling these threats should also be positive for the future development, performance and position of the Group.

At the same time, climate change presents a number of risks to the Group, including:

- **Regulatory changes.** The broader risk of regulatory changes is explained in the summary of the Group's principal risks and uncertainties in section 1.4.5 of this Annual Report. Regulatory changes could be a response to climate change concerns. For example, requirements restricting the use of certain vehicle types or adding to the cost of operating certain vehicle types (for example, requiring payments for diesel buses to operate in city centres) could result in increased costs for the Group.
- **Changing customer habits.** The risk of changing customer habits is also explained in the summary of the Group's principal risks and uncertainties in section 1.4.5 of this Annual Report. Customer habits could change in response to climate change concerns. For example, people may seek to reduce their carbon footprint by travelling less by say, working more from home, shopping more from home and/or shopping more locally. Actions by environmentally conscious corporates and other organisations could add to a trend of increased working from home. The COVID-19 situation could have a lasting effect on travel patterns accelerating a trend of increased working from home, shopping from home, telemedicine and home learning.
- **Weather patterns.** We have clear evidence that demand for our bus and tram services is influenced by weather. Demand drops during periods of particularly poor weather such as heavy rainfall, snow and strong winds. Extreme weather can also impair our ability to reliably operate all of our services. Accordingly, there is a risk that both our revenue and operating costs are adversely affected by climate change causing an increased frequency of more extreme, bad weather. There is also a risk that we incur additional costs or experience disruption to our services from such factors – for example, as a result of bus depots flooding.
- **Effect of public policy.** There is a risk that public policies that are intended to tackle climate change, or be seen to tackle climate change, or have other motives but the justification given is climate change, have an adverse effect on the Group. For example, requiring payment for certain types of buses to enter a city centre while not requiring payment for any types of private car, is unlikely to materially mitigate climate change but could adversely affect public transport operators.

We seek to manage these risks by:

- Monitoring public policy proposals, seeking to influence decision makers to avoid tokenistic policies and implement transport policies that can meaningfully and affordably help reduce emissions.
- Lobbying Government and others to promote public transport as part of the solution to climate change within an objective to reduce car journeys by promoting the alternative of public transport.
- Encouraging positive public policies that discourage car use such as funding to improve public transport, car congestion charging etc.
- Promoting the environmental benefits of public transport versus car to the general public.
- Developing our corporate sales offering, leveraging the environmental benefits of bus and tram travel versus car travel.
- Reducing the emissions per vehicle mile of our vehicle fleet over time by increasing the percentage of Euro 6 and non-diesel vehicles in the fleet.
- Continuing our programme to reduce our own carbon emissions.
- Considering climate change factors (e.g. flood risk) in decision making on our property portfolio.

## 1.8.7.3 Environmental policy

We are committed to making continuing progress in improving the environmental management of our operations and to help 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.

## 1.8.7.4 Actions we are taking to reduce our impact on the environment

Stagecoach has invested more than £1 billion in new greener vehicles in the past decade. New Euro 6 buses emit fewer emissions overall than a Euro 6 car, as well as having up to 20 times the carrying capacity. Almost all of our vehicles are Euro 3 or above, and around 41% (as at June 2019: 33%) are Euro 6, ultra-low emission or zero emission.

The Confederation of Passenger Transport ("CPT"), which we are a member of, has set out a vision for every new bus in the UK from 2025 to be ultra-low or zero emission. CPT's vision is also for all new buses in large urban areas to be ultra-low or zero emission from 2023, with both goals to be supported by funding from government.

## 1.8.7.5 Effectiveness of environmental policies

Stagecoach Group's most recent environmental targets were set to reduce carbon emissions, cut water consumption and increase the proportion of waste diverted from landfill. These targets covered our wholly owned bus operations in the UK and the rail businesses prior to franchise ends. We have continued to improve our performance in the majority of environmental areas.

Now, more than ever, public transport has a key role in providing an accessible, affordable and attractive alternative to single person car journeys, which we believe is the transport equivalent to single use plastic bags. The Group continues to actively promote the use of public transport by providing safe, reliable, good quality and customer focused services. COVID-19 has shown us what a vital role public transport plays in making sure essential services can continue to keep the community working and that is possible, through changed behaviours to have a cleaner, greener future. This was articulated in our six-point plan issued in May 2020 calling for targeted investment in decarbonisation, including sustainable transport and infrastructure and to put Britain at the forefront of the green revolution.

Work has been undertaken with Carbon Trust to set a new sustainability strategy. COVID-19 has presented us with opportunities to review and reset our targets for the post pandemic world. We have set short-term improvement targets prior to publication of our new strategy.

# 1. Strategic report (continued)

## 1.8.8 Social and community matters

Stagecoach is a major connector of communities across the UK, helping millions of people make a positive contribution to society and also directly supporting thousands of jobs. Our transport services are critical to individuals throughout the different stages of their lives: from their foundation years in education, through to entering the workplace, helping them spend leisure time with their families and enjoying their golden years.

### 1.8.8.1 Social and community policies

Since we were founded in 1980, we have sought to play an active part in the communities we serve and have continued to invest part of our profits in good causes. In running our business, we engage extensively with our stakeholders, looking for their insight and an understanding of their priorities to help shape our policies and develop our transport services. We also seek to help the next generation build their skills and use our unique role to help them access new opportunities.

### 1.8.8.2 Effectiveness of social and community policies

During the year ended 2 May 2020, we donated £0.5m (2019: £0.6m) to help a number of community projects, support the services of charitable organisations, and to extend the fundraising efforts of our own people for a variety of good causes. In addition, both nationally and through our regional operating companies, we have also provided extensive in-kind support, such as complimentary travel or the use of our vehicles for events.

We have leveraged our position as the UK's largest bus and coach operator to play a crucial role in the country's response to the COVID-19 outbreak. We have delivered dedicated shuttle services and on demand bus services to help support NHS and other key workers. In many areas, we have also provided free travel for NHS workers and made donations to the NHS Charities COVID-19 Appeal.

We recently completed our three-year collaboration with the Diana Award Charity, the leading anti-bullying campaign in the UK and Ireland. The partnership project reached more than 11,000 young people at more than 150 schools across the country. The country's first and only #BeNiceBus spread its anti-cyber bullying message and encouraged young people to be kind online. As part of the project, a Stagecoach bus was transformed into a classroom for interactive sessions to encourage positive online behaviour.

During the year, we launched a new partnership with Greggs Foundation to support breakfast clubs for young schoolchildren. Stagecoach support enables the provision of morning meals and refrigeration for food. Hundreds of young people, including in Greater Manchester, are getting the positive start to the day they need in order to stay concentrated, hydrated and healthy. The breakfast clubs also provide children with access to a safe environment in the morning, allowing parents to get to work.

For many years, we have backed a variety of health and wellbeing initiatives, including cancer research, awareness and support. Specially liveried Stagecoach buses were used as part of Breast Cancer Awareness month in October 2019 to help promote the benefits of regular breast checks and examinations. We partnered with television presenter, Lorraine Kelly's, ground-breaking Change + Check breast cancer awareness campaign and also the Prevent Breast Cancer initiative in Greater Manchester.

We continue to offer a range of initiatives to help young people develop their skills for the workplace and provide them with pathways into work. Stagecoach companies in Scotland are supporting the Scottish Government's Developing Our Young Workforce initiative by providing employee mentors, work experience and workplace visits.

As part of our commitment to the UK Armed Forces, we continue to support Armed Forces Day. During the year, all of our bus companies offered free travel to help armed forces personnel and veterans travel to events in their local communities. We also provided free travel on our Supertram services for participants at the Invictus UK Trials in Sheffield for British wounded, injured and sick veterans and personnel. The event was delivered in partnership between Help for Heroes, The Royal British Legion, the Ministry of Defence and Sheffield City Council.

Stagecoach worked with local charities and community centres in Manchester as part of its Bringing People Together campaign to combat loneliness and social isolation. The four-week campaign included a series of indoor events to support retirees living in Greater Manchester. As well as helping them to attend community get-togethers, and meet with friends using the city's transport links, the initiative also offered activities such as indoor curling and exercise classes.

Homeless men and women benefited from free bus travel from Stagecoach during the year as part of a partnership with the Turning Tides charity. The initiative, involving Stagecoach South, helped individuals attend vital appointments such as job interviews, or visiting a GP or hospital.

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

# 1. Strategic report (continued)

## 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 of eliminating slavery and human trafficking. We have provided a statement on these matters at: <https://www.stagecoachgroup.com/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 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 policies

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 2 May 2020 that were material. The whistleblowing policy provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

### 1.8.10.3 Anti-corruption and anti-bribery procedures

A Group Compliance Committee is in place to monitor compliance with laws and regulations and to monitor the effectiveness of the anti-corruption framework, policies and procedures. The Group Compliance Committee assesses the nature and extent of the risks relating to bribery and corruption to which the Group is exposed. The Committee considers not only bribery and corruption risks within the Group itself but also within the Group's supply chain. Our procurement group considers anti-corruption and anti-bribery risks in the supply chain and what steps should be taken to reduce those risks. We generally consider such risks to be low given the countries in which we operate and the countries in which the majority of our suppliers are based. Supplier due diligence is undertaken as considered appropriate. All centrally contracted suppliers 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 periodically review the Group's anti-corruption framework every three years and report their findings to the Group's Audit Committee. A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's Code of Conduct that contains the Group's anti-corruption policy.

## 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.



# 1. Strategic report (continued)

## 1.9 Section 172 statement

The Directors believe that in the decisions taken during the year ended 2 May 2020, they have acted, both individually and together, in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors have had regard to, amongst other things, the matters set out in section 172(1)(a–f) of the Companies Act 2006.

This Board's general approach to decision making and stakeholder engagement is set out below.

### Our approach to decision making

#### Strategy

- We refreshed our strategy during the year – the Group's revised strategy is set out in section 1.4.2.
- The Board's decision making is undertaken in the context of that strategy.

#### Culture and values

- We have a business culture reflecting a commitment to conduct business in a socially responsible way – this is described further in section 1.4.1.
- Our culture is supported by our corporate values, which were refreshed during the year – more information is provided in section 1.8.2.
- Our culture and values are supported by our Code of Conduct and whistleblowing arrangements – see section 1.8.2.
- The Board's decision making reflects our culture and values.
- The Board monitors the Group's culture through the results of staff surveys, reports from the whistleblowing process and activity outside of "the Boardroom" such as meetings with various staff from across the Group and visits to operational locations.

#### Delegated authorities

- Clear delegated authorities are in place to provide clarity as to where in the Group decision making responsibility lies.
- The Group Authorisation Policy, which sets out delegated authorities, includes a reminder of directors' duties, including under section 172. That serves as a reminder not only to directors of the Company but to directors of all of the Company's direct and indirect subsidiaries, and to other decision makers.
- As explained in section 4.6, certain matters are reserved for decision making by the Board.
- Each committee of the Board has clear, written terms of reference.

Recognising their duty to have regard to stakeholders, the Board engages with, and receives updates from various stakeholders as explained elsewhere in this annual report, including:

### Stakeholder Engagement

| Stakeholder Group  | Example sources of information and engagement   | Section(s) in this Annual Report |
|--|---|----------------------------------|
| Employees  | <ul style="list-style-type: none"> <li>• Staff survey</li> <li>• Whistleblowing process</li> <li>• Annual Board dinner with "emerging talent"</li> <li>• Stagecoach Colleague forums</li> <li>• Other meetings and events outside "the Boardroom" with staff from across the Group</li> </ul>   | 1.4.4, 1.8.4, 1.8.5              |
| Suppliers  | <ul style="list-style-type: none"> <li>• Reports from management on its engagement with suppliers</li> <li>• Reserved responsibility on major expenditure such as vehicle purchases</li> <li>• Board attendance at events where suppliers are represented</li> </ul>  | 1.4.4                            |
| Customers  | <ul style="list-style-type: none"> <li>• Customer satisfaction surveys</li> <li>• Other bespoke customer surveys</li> <li>• Regular summaries of media reports</li> </ul>   | 1.4.4                            |
| Government and regulatory bodies   | <ul style="list-style-type: none"> <li>• Reports from management on its engagement with various governmental and regulatory bodies</li> <li>• Regular summaries of media reports</li> </ul>   | 1.4.4                            |
| The financial community (including shareholders, analysts, lenders and credit rating agencies) | <ul style="list-style-type: none"> <li>• Annual presentation from broker</li> <li>• Reports from brokers on investor feedback</li> <li>• Reports from financial PR advisors on analyst feedback</li> <li>• Reports from management on lender and rating agency feedback</li> <li>• Regular summaries of media reports</li> <li>• Copies of analyst reports</li> </ul> | 1.4.4, 4.11                      |
| Pension scheme members   | <ul style="list-style-type: none"> <li>• Presentation to Board from Pensions Director</li> <li>• Presentation to Board from independent actuaries</li> </ul>  | 4.16                             |
| The community  | <ul style="list-style-type: none"> <li>• Regular summaries of media reports</li> </ul>  | 1.8.8                            |

## 1. Strategic report (continued)

The Board considers the impact of the Group's operation on the environment through reports from its Health, Safety and Environmental Committee. Section 1.8.7 of this Annual Report provides more detail on environmental matters and climate change.

Section 4.6 of this Annual Report includes a list of notable matters that the Board considered during the year ended 2 May 2020. As an example, the Group's response to the COVID-19 pandemic provides a case study of how the Directors discharge their duties under section 172:

- As the extent of the effect of the COVID-19 pandemic emerged, it became clear that the decisions the Board made would have consequences for the long-term. The Board determined that the long-term success of the Company would be dependent on taking action to reduce the adverse effect of the pandemic on the Group's liquidity and financial position.
- The COVID-19 situation has had a severe, negative effect on the Group's commercial passenger revenue. To promote the long-term success of the Company, the Board determined it necessary to take action to reduce costs to partly offset the reduction in revenue. Over half of the Group's operating costs are staff costs. To meaningfully reduce costs required a reduction in staff costs. The Board was mindful of the interests of the Group's employees in its decision making. It therefore decided to take advantage of the Government's Coronavirus Job Retention Scheme ("CJRS") to furlough staff and avoid making significant redundancies in the short-term. After reflecting on the interests of the Group's employees, the Group decided to pay 80% of all furloughed employees' normal pay even where that resulted in a cost in excess of that covered by the CJRS. The Board also sought to balance the interests of employees with the long-term success of the Group in balancing protecting jobs with decisions on pay awards, temporary pay reductions for senior managers and decisions on bonuses.
- The COVID-19 situation has had a severe, negative impact on many of the Group's suppliers. In the short-term, the Group's financial position might have been best served by taking a robust position with suppliers. Mindful of the need to continue to foster supplier relationships for the longer term, the Group sought to take a balanced position with suppliers, seeking to reduce the Group's capital and operating expenditure while trying to accommodate suppliers' perspectives to some extent.
- The Board was mindful of the importance of the value of effective public transport to a range of stakeholders during the COVID-19 situation, including to facilitate travel by key workers and to access essential supplies. The Board sought to balance maintaining some services with the need to reduce costs to protect the long-term health of the Group.
- The Group's customer relationships have remained in focus during the COVID-19 situation. Reflecting the need to foster those relationships, the Group has paid cash refunds on the unused portion of season tickets where requested while taking steps to protect the health and wellbeing of passengers still using our services. Our policy on refunds balanced the success of the Group, the interest of customers and the desirability of the Group maintaining a reputation for high standards of business conduct. In places where agreed with the relevant authorities, we have provided free travel for NHS workers.
- We have engaged with various parts of government during the COVID-19 situation to ensure our services operated safely, best served local needs and were appropriately funded.
- Management has been in discussions with investors, analysts, banks and credit rating agencies to maintain relationships with the financial community while seeking to maintain strong liquidity. Some of the decisions we made may not have been popular with all investors, such as suspending dividend payments, but we felt were necessary taking account of the consequences of our decisions on the long-term. In taking such decisions, we sought to act fairly between all members of the Company.
- In reducing service levels at the UK peak of the COVID-19 pandemic, the Group was mindful of the impact of its operations on the environment. So, for example, while we were operating fewer vehicles than usual, we deployed those vehicles that were least polluting.
- We also remained mindful of our impact on the community, helping with the national effort to deal with the COVID-19 crisis where we could, in addition to following government and public health advice across our operations. Examples include providing an evening demand responsive transport service for NHS staff in Inverness; providing depot space to the London Ambulance service for commissioning new and recommissioning restored ambulances; operating NHS shuttle services in Mansfield, Hull and Grimsby; providing additional bus services to key distribution and food manufacturing sites.

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

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



**Mike Vaux**  
Company Secretary  
22 July 2020

## 2. Board of Directors

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### Executive Directors

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**Martin Griffiths**  
Chief Executive

Appointment to the Board: 2000  
Age: 54

Committee membership: Health, Safety and Environmental.

**Executive responsibilities:** Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for Group health, safety and environmental matters, overall strategy and management of all of the Group's operations.

**Skills, 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 and Chair of the Audit Committee at each of A.G. Barr plc and 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. His significant experience and expertise of business, public transport, public companies and finance position him well to lead the executive team and to contribute to the Group's long-term success.

**External appointments:** Virgin Rail Group Holdings Limited (Co-Chairman).

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**Ross Paterson**  
Finance Director

Appointment to the Board: 2013  
Age: 48

Committee membership: None.

**Executive responsibilities:** Ross Paterson is responsible for the Group's overall financial policy, taxation, treasury, corporate finance, City relations, financial reporting, business development and employee benefits. He supports the Chief Executive in the management of the Group's operations.

**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.

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### Non-Executive Directors

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**Ray O'Toole**  
Chairman

Appointment to the Board: 2016  
Age: 64

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

**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 chair the Board. In this role, he ensures that the agenda for 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. 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, although he will shortly step down from that committee.

**External appointments:** Yorkshire Water Services Limited (Non-Executive Director), Senior Independent Director and Chair of Remuneration Committee.

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## 2. Board of Directors (continued)



**Gregor Alexander**  
Non-Executive Director and Senior Independent Director

Appointment to the Board: 2013

Age: 57

**Committee membership:** Audit (Chair), Nomination (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 company 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**  
Non-Executive Director

Appointment to the Board: 2016

Age: 51

**Committee membership:** Audit and Remuneration.

**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 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), Moneysupermarket.com Group plc (Non-Executive Director).

## 2. Board of Directors (continued)



**Sir Brian Souter**  
Non-Executive Director

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

Age: 66

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Committee membership: Nomination

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**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 and Chairman until 31 December 2019. 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.

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**External appointments:** Chairman, Souter Investments.

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**Karen Thomson**  
Non-Executive Director

Appointment to the Board: 2016

Age: 58

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

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**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 health, safety and environment, executive remuneration and Board composition and succession planning through her Board committee memberships.

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**External appointments:** Outplay Entertainment Limited (Chairman).

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**Lynne Weedall**  
Non-Executive Director

Joining Board: 1 August 2020

Age: 53

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Committee membership: n/a

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**Skills, previous experience and contribution to Group's long-term success:** Lynne Weedall is an experienced director who has worked in a number of major organisations in the retail sector and elsewhere, bringing key expertise in business strategy, organisation design, strategic change management and employee engagement. Up until October 2019, Lynne was a Non-Executive Director and Remuneration Committee Chair of Greene King plc. She is the former HR Director of Selfridges Group, and prior to that Dixons Carphone where she led a major merger integration.

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**External appointments:** William Hill plc (Non-Executive Director), Treatt plc (Non-Executive Director), Truepoint (Director).

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## 3. Directors' report

### 3.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 98.

An interim dividend of 3.8p per ordinary share was paid on 4 March 2020. For the reasons explained in section 1.3 of this Annual Report, the Directors do not recommend a final dividend in respect of the year ended 2 May 2020.

### 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".

|   | <b>Number of ordinary shares (including those held under BAYE scheme)</b> |                   |              |               |
|---|---|-------------------|--------------|---------------|
|   | <b>21 July 2020</b>   | <b>2 May 2020</b> | 25 June 2019 | 27 April 2019 |
| Ray O'Toole   | –   | –                 | –            | –             |
| Martin Griffiths  | 644,206   | 644,206           | 596,574      | 596,313       |
| Ross Paterson   | 364,647   | 364,647           | 332,264      | 332,003       |
| Gregor Alexander  | 10,406  | 10,406            | 10,406       | 10,406        |
| James Bilefield   | –   | –                 | –            | –             |
| Sir Ewan Brown (resigned 31 December 2019)                                | n/a   | n/a               | See below    | See below     |
| Dame Jayne-Anne Gadhia (appointed 1 March 2019 and resigned 31 July 2019) | n/a   | n/a               | –            | –             |
| Dame Ann Gloag (resigned 31 December 2019)                                | n/a   | n/a               | 62,501,721   | 62,501,721    |
| Sir Brian Souter  | 86,900,445  | 86,900,445        | 86,900,445   | 86,900,445    |
| Karen Thomson   | 11,071  | 11,071            | –            | –             |
| Will Whitehorn (resigned 30 June 2020)                                    | n/a   | 72,288            | 72,288       | 72,288        |

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 determined in accordance with the Disclosure Guidance and Transparency Rules as at 2 May 2020 were 86,896,413 ordinary shares (2019: 86,896,413) of which 86,896,009 (2019: 86,896,009) are held via HGT Finance B Limited. Dame Ann Gloag stepped down from the Board on 31 December 2019. Dame Ann Gloag's voting rights determined in accordance with the Disclosure Guidance and Transparency Rules at 31 December 2019 were 62,501,721 ordinary shares (2019: 62,501,721), of which 62,501,721 (2019: 62,501,721) were 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 27 April 2019, 25 June 2019, 2 May 2020 or 21 July 2020.

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 2 May 2020 and 21 July 2020 (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):

|  | 21 July 2020 | 2 May 2020 |
|--|--------------|------------|
| Ameriprise Financial, Inc. and its Group | 18.3%        | 19.0%      |
| Dame Ann Gloag and HGT Finance A Limited | 11.4%        | 11.4%      |

### 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 prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and elected to prepare the parent company financial statements 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.

### 3. Directors' report (continued)

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.stagecoachgroup.com](http://www.stagecoachgroup.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors, whose names and functions are listed in section 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 28 April 2019 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 2 May 2020, there were 576,099,960 ordinary shares (2019: 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 2 May 2020, 25,912,949 (2019: 3,458,907) ordinary shares representing 4.7% (2019: 0.6%) 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. Sir Brian Souter was interested in 15.8% of the ordinary shares in issue as at 2 May 2020, excluding shares held by the Company in treasury (2019: 15.2%). Sir Brian Souter's sister, Dame Ann Gloag, stepped down as a director on 31 December 2019. She was interested in 11.4% of the ordinary shares in issue as at 2 May 2020, excluding shares held by the Company in treasury (2019: 10.9%). The other directors of the Company held 0.2% of the ordinary shares in issue as at 2 May 2020 (2019: 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.

### 3. Directors' report (continued)

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:

- 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 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 |
|---|----------------------|-------------------------|---|---|
| <b>As at 28 April 2018</b>                  | 576,099,960          | 2,756,662               | 573,343,298                                     | 50,000,000  |
| Transfer of treasury shares                 | –                    | (50,134)                | 50,134  | –   |
| <b>Prior to 2018 Annual General Meeting</b> | 576,099,960          | 2,706,528               | 573,393,432                                     | 50,000,000  |
| Shares purchased into treasury              | –                    | 860,940                 | (860,940)                                       | (860,940)   |
| Transfer of treasury shares                 | –                    | (108,561)               | 108,561   | –   |
| <b>As at 27 April 2019</b>                  | 576,099,960          | 3,458,907               | 572,641,053                                     | 49,139,060  |
| Shares purchased into treasury              | –                    | 17,840,903              | (17,840,903)                                    | (17,840,903)                                      |
| Transfer of treasury shares                 | –                    | (466,214)               | 466,214   | –   |
| <b>Prior to 2019 Annual General Meeting</b> | 576,099,960          | 20,833,596              | 555,266,364                                     | 31,298,157  |
| Renewal of buy-back authority               | –                    | –                       | –   | 13,701,843  |
| Shares purchased into treasury              | –                    | 5,079,353               | (5,079,353)                                     | (5,079,353)                                       |
| <b>As at 2 May 2020</b>                     | 576,099,960          | 25,912,949              | 550,187,011                                     | 39,920,647  |

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 Company 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 Company 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. The Company continued its buyback programme and purchased a further 17,840,903 shares at a cost of £23.4m (inclusive of commission and stamp duty) prior to the 2019 Annual General Meeting. This represented a further 3.2% of the Company's called up capital (excluding treasury shares) on 30 August 2019.

At the 2019 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 45,000,000 of its ordinary shares. The Company continued its buyback programme until 9 October 2019 and purchased a further 5,079,353 shares at a cost of £6.8m (inclusive of commission and stamp duty) representing 0.9% of the Company's called up capital (excluding treasury shares) on 9 October 2019. Under the existing authority, the Company may therefore repurchase up to a further 39,920,647 ordinary shares. This authority will expire at the conclusion of the 2020 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be proposed at the 2020 Annual General Meeting that the Company be authorised to repurchase up to 40,000,000 of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2019 Annual General Meeting and will lapse at the conclusion of the 2021 Annual General Meeting.



## 3. Directors' report (continued)

### 3.11 Going concern and longer term viability

The UK Corporate Governance Code requires the Board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and to identify any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. The financial statements for the year ended 2 May 2020 were approved by the Board on 22 July 2020. Section 3.11.1 explains our assessment of going concern.

We also have responsibilities in relation to going concern under UK legislation, the Financial Conduct Authority's Listing Rules and International Accounting Standard 1, Presentation of Financial Statements.

The Code further suggests that the Board should state whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a longer period of assessment, drawing attention to any qualifications or assumptions as necessary. It suggests that taking account of the Company's current position and principal risks, the Board should explain how it has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate. Section 3.11.2 explains our assessment of longer term viability.

As the future performance of the Group as a whole will significantly influence the Company's ability to continue as a going concern and remain viable, we consider going concern and viability for the Group, including the Company.

#### 3.11.1 Going concern

##### 3.11.1.1 Impact of COVID-19

The COVID-19 situation has had a significant impact on the business of the Group. In the short-term, the actions we have taken, and the continuing support of government should ensure we continue to generate positive EBITDA (earnings before interest, tax, depreciation and amortisation) and avoid significant operating losses, and we are working to re-build profitability over time.

In response to COVID-19, we have taken decisive action to reduce our cost base, reduce our capital expenditure and reduce the effect of the revenue downturn on our cash flow. More details on the actions we have taken are set out in section 1.5.5 of this Annual Report.

The Group was in a good financial position pre-COVID-19 and we have taken action to ensure it is well positioned to manage during this period of increased uncertainty. More details on the actions we have taken in relation to liquidity, funding and financial risk management are set out in section 1.6.10 of this Annual Report, which also sets out our latest consolidated liquidity position. Section 3.11.1.4 includes comments on forecast liquidity.

##### 3.11.1.2 Going concern assessment

The Board considered the liquidity position in the Group's financial forecasts, recognising the challenges around reliably estimating and forecasting the effects of COVID-19 on our regional bus business. The key areas of forecasting uncertainty include:

- The extent and duration of COVID-19 restrictions in the UK;
- The duration and scale of government support measures to the bus sector, including the COVID-19 Bus Services Support Grant for eligible local bus services in England;
- Recovery in passenger demand; and
- Size of network (mileage) to support that level of passenger demand.

In reaching its conclusion on the going concern assessment, the Board also considered the findings of the work performed to support the statement on the long-term viability of the Company and the Group. As noted in section 3.11.2, this included assessing forecasts of severe but plausible downside scenarios related to our principal risks, notably the extent to which the recovery in passenger demand and levels of government support are less favourable than assumed in our base case forecasts.

Our base case forecast assumes that regional bus vehicle mileage is consistent with pre-COVID levels by October 2020. It also assumes that regional bus commercial revenue returns to 90% of pre-COVID levels later in the year ending 1 May 2021, is 95% of pre-COVID levels in the year ending 30 April 2022, with concessionary revenue remaining at or above 95% of pre-COVID levels throughout the forecasting period. During the pandemic, governments have confirmed additional COVID-related measures to support the continuity of bus services. Our base case forecasts assume these additional measures continue until the middle of October 2020, although we see potential for government to extend support beyond that to support the continuity of bus services and/or to foster the return of economic activity.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue and vehicle mileage over the forecast period, in addition to more cautious assumptions around levels of government support measures. The range of downside scenarios considered cover:

- commercial revenue at between 50% and 80% of pre-COVID levels by 1 May 2021;
- commercial revenue at between 75% and 85% of pre-COVID levels in the year ending 30 April 2022;
- concessionary revenue at between 70% and 85% of pre-COVID levels by 1 May 2021;
- concessionary revenue at between 75% and 90% of pre-COVID levels in the year ending 30 April 2022;
- vehicle mileage at between 80% and 90% of pre-COVID levels by 1 May 2021 and in the year ending 30 April 2022;
- additional COVID-related government measures ending between July 2020 and October 2020.

##### 3.11.1.3 Mitigating actions

As explained in section 1.6.10 of this Annual Report, we have secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our £325m of committed bank facilities entered into in March 2020. The waivers cover the years ending 31 October 2020 and 1 May 2021. As things stand, the next testing of those covenants will be in respect of the year ending 30 October 2021. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity. The minimum liquidity thresholds are £400m as at 31 October 2020 and £150m (plus the amount of any commercial paper outstanding under the COVID-19 Corporate Financing Facility) as at 1 May 2021. To the extent any severe downside scenarios materialised, we consider that the Group would have sufficient controllable, mitigating actions to avoid a breach of the liquidity thresholds.

The key mitigation available would be to further reduce the Group's cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings and the reduction of capital expenditure.

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment: further extensions to the period of time covered by COVID-19 Bus Services Support Grant Restart beyond October 2020; issuing further commercial paper under the Bank of England's COVID-19 Corporate Financing Facility beyond the maturities of our existing £300m commercial paper in February/March 2021; issuing new share capital for cash; asset sale and leasebacks; and obtaining further covenant waivers and utilising the £140m facilities (expiring in October 2021) that are excluded in the going concern assessment.

## 3. Directors' report (continued)

### 3.11.1.4 Liquidity headroom

Under all of the modelled scenarios, positive liquidity headroom exists throughout the going concern period and the Group remains in compliance with the minimum liquidity thresholds it has agreed with banks (see section 3.11.1.3). In the most severe of the downside scenarios modelled (the reverse stress test scenario), liquidity headroom exists and the minimum liquidity thresholds are achieved throughout the going concern period after taking account of controllable, mitigating actions.

Liquidity headroom in the modelled scenarios excludes the £300m of commercial paper issued under the Bank of England's COVID-19 Corporate Financing Facility (as it is assumed this will be repaid in February and March 2021) and the £140m loan facility (expiring October 2021). The available liquidity comprises the Group's undrawn committed facilities having a maturity date of 2025, and cash balances.

### 3.11.1.5 Going concern conclusion

Accordingly, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements, with no material uncertainties identified. The Board has a reasonable expectation that the Company and the Group will each continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.

## 3.11.2 Longer term viability

### 3.11.2.1 Longer term outlook

As Britain's biggest bus and coach operator, we have clear opportunities to grow our business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the public transport services our customers want.

We expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our public transport services returns to pre-COVID levels and we are planning for a number of scenarios. However, we continue to see positive long-term prospects for public transport. There is a large market opportunity to lock in the reduced volume of car traffic and lower carbon emissions seen during the COVID-19 pandemic and secure long-term economic, social, health and environmental benefits for the country. We foresee an opportunity for modal shift from private cars to active travel and more sustainable public transport, which can support a return to pre-COVID levels of demand over time. Taking account of those factors, our base case forecast assumes that our regional bus commercial revenue remains below pre-COVID levels in the years ending 1 May 2021 and 30 April 2022, and reaches 100% of pre-COVID levels in the year ending 29 April 2023.

We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for our business. Public transport can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

### 3.11.2.2 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 updated 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 29 April 2023. 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 29 April 2023 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 29 April 2023. The first year of the financial forecasts would usually represent the Group's budget for the year ahead, adjusted for any known, material changes since the budget was approved. Due to the fast moving and extreme effects of the COVID-19 pandemic, we paused our normal budget process and developed separate, dynamic financial forecasts in response to the situation, to better reflect the impact of continual changes in passenger demand and vehicle mileage operated. The period to 29 April 2023 was chosen because the Board considers this to be a reasonable period over which to assess the financial position and performance of the Group, although it recognises the increased challenge in forecasting accuracy when developing financial forecasts in the middle of the COVID-19 pandemic. Beyond three years, forecasts may be affected by factors such as changes in government transport policy and/or major contract wins and losses.

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 assume we are a UK-focused operator of bus, coach and tram services. Although our forecasts assume ongoing costs of bidding for various overseas contract opportunities, no benefits are assumed of overseas contract wins. Our base case assumption is that regional bus commercial revenue does not return to pre-COVID levels until the year ending 29 April 2023, taking account of the factors explained in section 3.11.2.1.

As we are assuming that regional bus commercial revenue will eventually recover to pre-COVID levels by the end of the forecast period, we have assumed the bus network remains largely intact, with vehicle mileage consistent with pre-COVID levels by October 2020.

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 Group currently has significant availability liquidity, as explained in section 1.6.10 of this Annual Report. The Group has committed bank facilities in place for the period to March 2025. As also explained in section 1.6.10, we have secured covenant waivers on those facilities. The waivers cover the years ending 31 October 2020 and 1 May 2021. As things stand, the next testing of those covenants will be in respect of the year ending 30 October 2021. To the extent that we required further waivers in later periods, we would be engaging with our banks early to seek to negotiate covenant waivers. The majority of our debt is represented by the £325m of above bank facilities and the £400m of bonds that are not due to mature until 2025. Furthermore, the Group has two investment grade credit ratings from independent credit rating agencies. We engaged with the credit rating agencies on the effect of the COVID-19 situation on our business. Moody's (Baa3) and S&P (BBB-) have since reaffirmed our investment grade credit ratings, whilst also revising the rating outlooks to negative from stable.

Stress testing of the financial forecasts has been undertaken with reference to a number of severe but plausible scenarios involving our principal risks, where we have adopted more cautious assumptions around the recovery in passenger demand and levels of government support. 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. Our reverse test assumes our regional bus commercial revenue is at 30% or less of pre-COVID levels until October 2020, at 50% from 18 October 2020 to 1 May 2021, at 75% for the year ending 30 April 2022 and at 80% for the year ending 29 April 2023. It assumes that regional concessionary revenue as a percentage of pre-COVID levels is 70%, 75% and 80% respectively in each of the three years ending 29 April 2023. It also assumes that the additional COVID-related support from government ends on 25 July 2020, although we now see that as very unlikely.

### 3. Directors' report (continued)

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 changing travel patterns, levels of government support, GDP, population, fuel prices, inflation, consumer confidence, competition and terrorism risks were considered. While the Board concluded, based on its assessment of viability, that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due, the result of this stress testing illustrated that although the Group faces little short-term risk to its liquidity, it is conceivable that severe scenarios could result in breaches of bank covenants and threaten the viability of the Group over the three-year period, in the absence of mitigating actions to adjust our operating plans. Of course, in common with other businesses, 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.

#### 3.11.2.3 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 Company and the Group will be able to continue in operation and meet their liabilities as they fall due over the period to 29 April 2023.

#### 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 – see section 1.8.4.2;
- Employee engagement – see section 1.8.4.5;
- Fostering relationships with suppliers, customers and others – see sections 1.4.4 and 1.9;
- Future developments in the business – see, amongst others, sections 1.3 and 1.7; and
- Greenhouse gas emissions – see section 1.8.7.1.

### 3. Directors' report (continued)

#### 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 8.5.3 of this Annual Report explains arrangements under which all of the Directors waived certain emoluments in 2020.<br>Section 8.5.9 of this Annual Report explains arrangements under which Sir Brian Souter waived emoluments in prior financial years, when he was Chief Executive. |
| (6)                | Details of any agreements by a director to waive future emoluments.  | Section 8.5.14.1.1 of this Annual Report explains arrangements under which all of the Directors have waived certain emoluments for the time being.   |
| (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:<br>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<br>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.<br><br>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  
22 July 2020

## 4. Corporate governance report

### 4.1 Introduction from Ray O'Toole, Chairman

The Stagecoach Group is committed to operating with the high standards of corporate governance expected of a group with shares traded on the London Stock Exchange. I became Chairman on 1 January 2020 and I am pleased by the progress that has been made during 2019/20 with the governance of the Group. I am looking to continue that progress through the remainder of 2020/21 and beyond.

As the Chairman, it is my responsibility to promote the highest standards of corporate governance throughout the Group and particularly at Board level. In doing so, I look to promote a culture of openness and debate. 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.

In December 2019, Sir Brian Souter indicated that he felt the time was right to step down as Chairman. Also at that time, Dame Ann Gloag and Sir Ewan Brown decided to retire from the Board. I was appointed Chairman and Sir Brian Souter continues as a non-executive director. Will Whitehorn stepped down from the Board and as Deputy Chairman on 30 June 2020. I am delighted that Gregor Alexander agreed to succeed Will as Senior Independent Director.

I believe that our current Board is well equipped to promote the success of the Company and I look forward to welcoming Lynne Weedall to the Board from 1 August 2020, Lynne brings a wealth of experience. Of the last six directors appointed to our Board (including Lynne), four were women. Furthermore, throughout its life as a listed company, the Company has always had female representation on its Board and for almost all of the time from May 2001, at least two female directors. It is perhaps indicative of the quality of our directors that, over the last five years, three women resigned from the Board to enable them to accept offers to take up senior roles in other, usually larger, organisations. In addition, Dame Ann Gloag retired from the Board at the end of 2019. It remains our aspiration to have at least 25% female representation on the Board and with Lynne's appointment, we will return to that level.

Martin Griffiths and Ross Paterson continue in their roles as Chief Executive and Finance Director respectively. As Chairman, I am responsible for the conduct of the Board as a whole. We created the role of Deputy Chairman in 2013 when Sir Brian Souter was appointed Chairman in order to strengthen the independence of the Board. I was independent on my appointment to the Board and the Board agreed that it was appropriate to discontinue the role of Deputy Chairman following Will Whitehorn's departure from the Board on 30 June 2020.

Our Board structure comprises experienced executive directors managing the business, with non-executive directors with the skills and experience both to bring new ideas to the Board and to challenge the Executive Directors. Our co-founder and former Chief Executive, Sir Brian Souter, continues to serve as a non-executive director. 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 our revised governance structure and 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.

Our work in recent months has been dominated by the actions necessary to deal with the effects of the COVID-19 outbreak, to safeguard our people and to manage the financial consequences for the Group.

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



**Ray O'Toole**  
Chairman  
22 July 2020

### 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 July 2018 applied to the Company's financial year from 28 April 2019 to 2 May 2020. The Directors believe that throughout the year ended 2 May 2020 the Group complied with all of the provisions of the Code other than in the following respects:

- Provision 21 of the Code states that FTSE350 companies should have an externally facilitated board evaluation at least every three years. The Company's last such externally facilitated evaluation was performed in the year ended 29 April 2017. An externally facilitated review was in progress when the COVID-19 outbreak occurred and was paused as a result of that outbreak. The Board intends to complete the process in the year ending 1 May 2021.
- Ray O'Toole is Chairman of our Remuneration Committee and was appointed Chairman of the Board from 1 January 2020. In accordance with Provision 32 of the Code, the Chair of the Board should not chair the Remuneration Committee. The Board considers it appropriate for Ray O'Toole to continue to chair the Remuneration Committee on an interim basis as the Committee finalises its proposed new Remuneration Policy. The new policy will be tabled for approval at the Annual General Meeting in September 2020. The Board intends that Lynne Weedall, who joins the Board on 1 August 2020, will become Chairman of the Remuneration Committee from 1 October 2020.
- Provision 20 of the Code suggests that open advertising and/or an external search consultancy should generally be used for the appointment of the chair. That was not the case for Ray O'Toole's appointment as Chairman because the Board considered Ray to be a strong candidate for the role and saw merit in concluding an appointment quickly. External search consultancies are generally used for new appointments to the Board.
- Sir Brian Souter has served on the Board since the incorporation of the Company and was not independent on his appointment as Chairman in 2013. Sir Brian stepped down as Chairman on 31 December 2019, and since then, the Company has had an independent, non-executive Chairman.

A copy of the Code is available at:

<https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

## 4. Corporate governance report (continued)

The 2018 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 Code has placed a stronger emphasis on engagement, culture, diversity and inclusion. In light of this, 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 |
|--|----------|-------------------------------------|----------------|
| <b>Ray O'Toole</b> Chairman  | ✓        |                                     |                |
| <b>Gregor Alexander</b> Non-Executive Director and Senior Independent Director |          | ✓                                   |                |
| <b>James Bilefield</b> Non-Executive Director                                  |          | ✓                                   |                |
| <b>Karen Thomson</b> Non-Executive Director                                    |          | ✓                                   |                |
| <b>Sir Brian Souter</b> Non-Executive Director                                 |          |                                     | ✓              |
| <b>Martin Griffiths</b> Chief Executive  |          |                                     | ✓              |
| <b>Ross Paterson</b> Finance Director  |          |                                     | ✓              |

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

The Board comprises the Chairman and six other directors. Three of the six other directors meet the criteria suggested by the Code for determining director independence. Following Lynne Weedall's appointment from 1 August 2020, four of the seven directors, excluding the Chairman, 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. Following the appointment of Ray O'Toole as Chairman, the Deputy Chairman's role was discontinued when Will Whitehorn stepped down from the Board on 30 June 2020. Ray O'Toole was independent on his appointment to the Board and on his appointment as Chairman. Sir Brian Souter continues to serve as a non-executive director.

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 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.

From 1 July 2020, Gregor Alexander became 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 28 April 2019 to 2 May 2020, 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.

A director may only take on additional external appointments with the prior approval of the Board. Where the Board permits a significant new appointment, the reasons for permitting significant appointments are explained in the annual report. An executive director is not permitted to take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.

During the year ended 2 May 2020, the Board permitted the appointment of Will Whitehorn from 1 January 2020 as Chairman of Craneware plc, an AIM-listed medical software provider. The Board permitted that because it considered that Will's appointment would not materially impact on his time available for the Company's business and would not give rise to a conflict of interest. The Board also noted that Will was due to step down from the Board on 30 June 2020 and the period of overlap between his role at Craneware and his role with the Company would be limited to six months.

Also during the year, the Board permitted the appointment of James Bilefield as a non-executive director of Moneysupermarket.com Group, a FTSE250-listed provider of financial information and support to consumers. The Board permitted that because it considered that James' appointment would not materially impact on his time available for the Company's business and would not give rise to a conflict of interest.

## 4. Corporate governance report (continued)

### 4.6 Operation of the Board

The Board generally meets at least six times each year. In light of the COVID-19 situation, greater use of video meetings has been used for meetings of the Board and its Committees since March 2020. 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, 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. During the year, the Health, Safety and Environmental Committee met at the Sheffield Supertram business and was briefed on a number of safety-related initiatives, including: planning for, and lessons learned from, the Sheffield to Rotherham tram/ train project; flooding issues at Supertram and actions to address these; actions to address findings from the Rail Accident Investigations Branch investigation into the overturning of a tram at Sandilands junction, Croydon (operated by Tram Operations Ltd, which is not part of the Group); briefing on safety culture initiatives at the Group's Yorkshire bus operations; and a briefing on an incident in Devon in which a vehicle had overturned while carrying passengers in service.

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 2 May 2020 included:

- Monitoring the share buyback programme and deciding on the appropriate point to end the programme
- Funding of the Stagecoach Group Pension Scheme
- The effect of macro-economic trends on the Group's bus and coach operations
- Political developments, including the increasing consideration of bus franchising models in the city regions
- Opportunities to bid for public transport contracts overseas
- Refinancing of the Group's bilateral banking facilities
- Improvements to the Group's whistleblowing channels
- Consideration of the Group's current and future strategy for participation in UK Rail and the commencement and continuation of litigation against the Secretary of State for Transport relating to his decision to disqualify three UK rail franchise bids involving the Group
- The effects of the COVID-19 outbreak on the Group and its financial performance, actions taken and information to be provided in regulatory announcements
- Decision not to propose a final dividend for the year 2019/20
- Board and Committee changes
- Adoption of a new brand strategy and vehicle livery

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 if a director had any concerns that led to his or her resignation, the director should provide a written statement to the Chairman of those concerns for circulation to the Board.

### 4.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-Board senior management. Following the cessation of further participation in UK rail franchises, the Group is no longer divided into operating divisions. Each operating company managing director reports to one of four regional directors and is supported by his or her own management teams. The regional directors report to the UK Managing Director.

Scottish Citylink Coaches Limited, a trading joint venture in which the Group has an interest, 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 Senior Independent Director. 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 Senior Independent Director 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 Code recommends that the board performance evaluation should be externally facilitated at least every three years. The Board appointed Independent Audit Limited to facilitate its evaluation in the year ended 2 May 2020. This process had commenced when the COVID-19 outbreak occurred. The Board and Independent Audit Limited agreed to pause the process. The Board expects to continue the external facilitation of its performance evaluation in the year ending 1 May 2021 and no less frequently than every third year thereafter.

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. Corporate governance report (continued)

### 4.9 Composition of Committees

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

|   |   |  |   |
|---|---|--|---|
| Audit Committee   |   | Remuneration Committee   |   |
| Number of members of Committee:   | 3 | Number of members of Committee:  | 4 |
| All members are independent non-executive directors.                                |   | All members are independent non-executive directors.   |   |
| <b>Chairman and designated member with recent and relevant financial experience</b> |   | <b>Chairman</b>  |   |
| Gregor Alexander  |   | Ray O'Toole (Lynne Weedall joining Committee on 1 August 2020 and succeeding Ray as Chair from 1 October 2020) |   |
| <b>Other members</b>  |   | <b>Other members</b>   |   |
| James Bilefield<br>Karen Thomson  |   | Gregor Alexander<br>James Bilefield<br>Karen Thomson   |   |
| Nomination Committee  |   | Health, Safety and Environmental Committee   |   |
| Number of members of Committee:   | 3 | Number of members of Committee:  | 3 |
| <b>Chairman</b>   |   | <b>Chairman</b>  |   |
| Gregor Alexander  |   | Ray O'Toole  |   |
| <b>Other members</b>  |   | <b>Other members</b>   |   |
| Sir Brian Souter<br>Karen Thomson<br>Lynne Weedall (joining 1 August 2020)          |   | Martin Griffiths<br>Karen Thomson<br>Lynne Weedall (joining 1 August 2020)                                     |   |

### 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 2 May 2020:

| PARTICIPATION IN MEETINGS | Full Board meetings |          | Audit Committee |          | Remuneration Committee |          |
|---------------------------|---------------------|----------|-----------------|----------|------------------------|----------|
|                           | Actual              | Possible | Actual          | Possible | Actual                 | Possible |
| Ray O'Toole               | 6                   | 6        | 2               | 2        | 5                      | 5        |
| Martin Griffiths          | 6                   | 6        | n/a             | n/a      | n/a                    | n/a      |
| Ross Paterson             | 6                   | 6        | n/a             | n/a      | n/a                    | n/a      |
| Gregor Alexander          | 6                   | 6        | 3               | 3        | 5                      | 5        |
| James Bilefield           | 6                   | 6        | 1               | 1        | 5                      | 5        |
| Sir Ewan Brown            | 4                   | 4        | n/a             | n/a      | n/a                    | n/a      |
| Dame Jayne-Anne Gadhia    | 1                   | 1        | n/a             | n/a      | n/a                    | n/a      |
| Dame Ann Gloag            | 4                   | 4        | n/a             | n/a      | n/a                    | n/a      |
| Sir Brian Souter          | 6                   | 6        | n/a             | n/a      | n/a                    | n/a      |
| Karen Thomson             | 6                   | 6        | 2               | 2        | 4                      | 4        |
| Will Whitehorn            | 6                   | 6        | 1               | 1        | n/a                    | n/a      |

| PARTICIPATION IN MEETINGS | Health, Safety and Environmental Committee |          | Nomination Committee |          | Annual General Meeting |          |
|---------------------------|--|----------|----------------------|----------|------------------------|----------|
|                           | Actual                                     | Possible | Actual               | Possible | Actual                 | Possible |
| Ray O'Toole               | 4  | 4        | 2                    | 2        | 1                      | 1        |
| Martin Griffiths          | 4  | 4        | n/a                  | n/a      | 1                      | 1        |
| Ross Paterson             | n/a  | n/a      | 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      | 2                    | 2        | 1                      | 1        |
| Dame Jayne-Anne Gadhia    | n/a  | n/a      | n/a                  | n/a      | n/a                    | n/a      |
| Dame Ann Gloag            | 2  | 2        | n/a                  | n/a      | 1                      | 1        |
| Sir Brian Souter          | n/a  | n/a      | 2                    | 2        | 1                      | 1        |
| Karen Thomson             | 4  | 4        | 1                    | 1        | 1                      | 1        |
| Will Whitehorn            | n/a  | n/a      | 2                    | 2        | 1                      | 1        |



## 4. Corporate governance report (continued)

### 4.11 Engagement with stakeholders

Section 1.9 of this Annual Report includes information on how the Board has engaged with the Group's stakeholders, with cross-references to detail elsewhere in this Annual Report. Information on our engagement with shareholders is provided below.

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 and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants.

All shareholders are generally welcome to attend and participate at the Annual General Meeting and any other general meetings, although arrangements for the 2020 Annual General Meeting will be tailored for the COVID-19 situation and will take account of Government advice. The Group generally aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting usually 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 2019 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 2019 Annual General Meeting were published on the Group's website at <https://www.stagecoachgroup.com/investors/shareholder-services/aggm.aspx>

The Group intends to undertake a poll on each resolution put to the 2020 Annual General Meeting. All votes cast for or against each resolution, 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, although as explained in section 3.11.2 of this Annual Report, the COVID-19 pandemic has increased the level of uncertainty facing the Group. 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 1.8.2 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 1.6.11.3 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 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.

## 4. Corporate governance report (continued)

### 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 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.

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 2 May 2020, 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.

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.

### 4.12.3 Principal risks and uncertainties

The Board has undertaken a robust assessment of the Group's emerging and principal risks, 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 3.11.2 and 5.5 of this Annual Report for further information on the Group's viability), the Board has considered the principal risks.

The Group's principal risks and uncertainties, including emerging risks, 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. The annual budget for the year ending 1 May 2021 was in the process of being finalised when the COVID-19 pandemic reached the UK. As the economic situation changed significantly from March 2020 onwards, the budget has not been approved as the underlying assumptions in the budget no longer reflect the environment in which the Group operates. The Group has since produced a revised rolling forecast. This rolling forecast has been used for work on going concern (section 3.11.1), the viability statement (section 3.11.2) and asset impairment reviews.
- reporting of financial information to the Board. 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, claims 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, 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 2 May 2020.

## 4. Corporate governance report (continued)

### 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 apprised 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 6.5 of this Annual Report.

### 4.16 Pension schemes

The assets of the pension schemes in which the Group participates are generally 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.

The Board periodically considers matters affecting the Group's pension schemes from the perspective of the Group's shareholders and other stakeholders. The Board and/or its Committees reviews pension scheme funding, investment strategy, risk management and internal controls surrounding pension matters.

By order of the Board



**Mike Vaux**  
Company Secretary  
22 July 2020

## 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 2 May 2020 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.

The COVID-19 situation has resulted in a number of new matters for the Committee to consider. I am hugely appreciative of the efforts of the Committee, our finance team and our auditors in giving these matters due consideration and attention within a relatively short time period. Amongst the matters set out in this Audit Committee report are the significant issues and judgements considered by the Committee, and we have included COVID-19 related items as appropriate.



**Gregor Alexander**

Chairman of the Audit Committee  
22 July 2020

### 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.

### 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.

The Chairman of the Company and the Chief Executive each attend meetings of the Committee from time to time.

In addition, the Group Tax Director and a representative of the Group Treasury team 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.stagecoachgroup.com/terms-of-reference-audit-committee.pdf>

The sections that follow set out the areas that the Committee focused on during and in respect of the year ended 2 May 2020.

#### 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 2 May 2020, of which it considered the most significant to be those set out in the table on the following pages.

In addition to the significant issues and judgements set out in the table that follows, the Committee also considered other accounting and reporting matters in respect of the year ended 2 May 2020, including the following:

- New accounting standards – The Committee received updates over the course of the year in relation to the implementation of new accounting standard, IFRS 16.

The Audit Committee also reviewed the evidence that supported the conclusions 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 29 April 2023, noting it was consistent with the disclosure given in section 3.11 of this Annual Report. The Committee reviewed and challenged management on its financial modelling and scenario analysis, reflecting the disruption to the Group's operation caused by the COVID-19 pandemic.

## 5. Audit Committee report (continued)

| Significant issues or judgements considered by Audit Committee  | Work and conclusion of Audit Committee  | Quantification  | Relevant notes to the consolidated financial statements |
|---|---|---|---|
| <b>CURRENT YEAR ISSUES</b>  |   |   |   |
| <b>Going concern</b>  |   |   |   |
| <p>The uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern.</p>  | <p>The Committee considered the work performed by management in assessing the Group's ability to continue as a going concern. In particular, the Committee reviewed the impact of COVID-19 on the Group and the steps taken to manage liquidity risks.</p> <p>The Committee considered financial forecasts for a range of scenarios, including severe but plausible downside scenarios.</p> <p>The Committee also considered the adequacy and accuracy of the disclosures in the Annual Report in respect of the Group's ability to continue as a going concern.</p> <p>The Committee concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements, and that the disclosure in the Annual Report was appropriate.</p> | Not applicable.   | 1   |
| <b>COVID-19 related grant income</b>  |   |   |   |
| <p>The COVID-19 pandemic has had a significant impact on the operations and financial performance of the Group. Passenger revenue decreased significantly from March 2020 as the public followed UK Government advice to avoid all but essential travel.</p> <p>The Group has access to various forms of government support for organisations affected by COVID-19, some specific to the sectors in which the Group operates and some available more broadly.</p> <p>In particular, the Group has claimed COVID-19 Bus Services Support Grant ("CBSSG"), which is available to operators of local bus services in England. Other forms of government support have also been made available to bus operators across the UK.</p> <p>The Group has also claimed grant income under the Coronavirus Job Retention Scheme ("CJRS") whereby the UK Government provides support for the cost of furloughed workers.</p> <p>Determining the amount of grant income that the Group is entitled to involves some judgement. The grants are generally subject to conditions, and the extent to which the Group has complied with those conditions requires judgement. The calculation of the amounts due involve interpreting the guidance provided by government and making some assumptions. The Department for Transport reserves the right to change the CBSSG calculation methodology at any time during the scheme period.</p> <p>CBSSG receivable is a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p> | <p>The Committee considered and challenged the judgements made by management in determining the amount of grant income recognised for the year ended 2 May 2020.</p> <p>The Committee challenged management's assessment of the likelihood of grant claims being successful.</p> <p>The Committee agreed that the amount of grant income recognised by the Group was reasonable.</p> <p>The Committee considered the adequacy and accuracy of the disclosures in the financial statements in respect of grant income.</p>   | <p>In the year ended 2 May 2020, grant income of £37.6m (2019: £Nil) was recognised in respect of CBSSG and CJRS.</p> <p>As at 2 May 2020, receivables of £27.8m (2019: £Nil) and deferred income of £1.5m (2019: £Nil) were included in the consolidated balance sheet in respect of CBSSG and CJRS.</p> | 1, 3  |

## 5. Audit Committee report (continued)

| Significant issues or judgements considered by Audit Committee   | Work and conclusion of Audit Committee  | Quantification  | Relevant notes to the consolidated financial statements |
|--|---|---|---|
| <b>CURRENT YEAR ISSUES</b> (continued)   |   |   |   |
| <b>Impairment and onerous contracts</b>  |   |   |   |
| <p>In assessing its assets for impairment and considering the appropriateness of onerous contract provisions, the Group took account of the effects of the COVID-19 situation. That involved an increased level of judgement in forecasting the future profitability of the relevant businesses.</p> <p>Onerous contract provisions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p>   | <p>The Committee considered and challenged the judgements made in assessing impairment of assets and onerous contract provisions.</p> <p>The Committee challenged and concurred with the decision to present the 2019/20 expense in respect of impairment losses and onerous contract provisions for Sheffield Supertram as a separately disclosed item.</p> <p>The Committee concluded that the impairment losses and onerous contract provisions had been appropriately determined. It was satisfied with the presentation and disclosure of such items in the consolidated financial statements.</p> | <p>An expense of £16.5m (2019: £Nil) was separately disclosed for the year ended 2 May 2020 in respect of impairment losses and onerous contract provisions for the Sheffield Supertram concession. Other impairment and onerous contract expenses in the year were not material.</p> | 1, 4, 23  |
| <b>Fuel derivatives</b>  |   |   |   |
| <p>The Group is exposed to fuel price risk. It manages the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby financial derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption.</p> <p>The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed UK Government advice to avoid all but essential travel. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable. Certain of the fuel hedges for the period from March 2020 to April 2021 were accordingly assessed as being no longer effective.</p> <p>Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur.</p> <p>Forecasting both the level of highly probable fuel consumption and the level of expected fuel consumption involves judgement.</p> | <p>The Committee considered management's assessment of the fuel hedge relationships. In particular, the Committee challenged management's forecasts of highly probable future fuel consumption and expected fuel consumption, agreeing that the forecasts were reasonable.</p> <p>The Committee challenged and concurred with the decision to present the expense in respect of discontinued fuel hedges as a separately disclosed item.</p>  | <p>In the year ended 2 May 2020, the Group recognised an expense of £12.9m (2019: £Nil) in respect of discontinued fuel hedges.</p>   | 1, 4, 25(g)   |
| <b>Separately disclosed items</b>  |   |   |   |
| <p>The Group has presented a number of separately disclosed items in the consolidated financial statements, some in relation to the COVID-19 pandemic.</p> <p>Separately disclosed items have been highlighted by the Financial Reporting Council as an area for challenge and the Group's auditors have also explained that they will scrutinise any items presented as such to ensure their agreement with the presentation.</p>   | <p>The Committee reviewed the accounting treatment of each of the individual separately disclosed items and also considered the treatment of the pre-separately disclosed items to assess whether any further items should be disclosed separately, including items affected by COVID-19.</p> <p>The Committee confirmed their agreement with the treatment of the separately disclosed items as set out in the consolidated financial statements.</p>  | <p>A pre-tax loss of £51.6m (2019: £125.3m), has been presented for separately disclosed items.</p>   | 1, 4  |

## 5. Audit Committee report (continued)

| Significant issues or judgements considered by Audit Committee  | Work and conclusion of Audit Committee  | Quantification  | Relevant notes to the consolidated financial statements |
|---|---|---|---|
| <b>RECURRING AGENDA ISSUES</b>  |   |   |   |
| <b>Valuation of Deferred Payment Instrument</b>   |   |   |   |
| <p>The Group holds a Deferred Payment Instrument as the outstanding consideration for the sale of its North American business in the year ended 27 April 2019.</p> <p>The Instrument is accounted for as fair value through profit or loss ("FVTPL"). Determining its fair value at any given time involves significant judgement. The COVID-19 situation presents particular challenges to estimating the Instrument's fair value.</p> <p>The valuation assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p> | <p>The Committee reviewed and challenged management's fair value estimate of the Deferred Payment Instrument.</p> <p>The Committee considered the work undertaken by management in assessing the carrying value of the Deferred Payment Instrument, including the assumptions made by management and the range of possible values.</p> <p>The Committee reviewed the auditor's assessment of the valuation and agreed with the auditor's conclusion that the instrument had been recorded at an appropriate value.</p> <p>The Committee challenged and concurred with the presentation of the movement in the fair value of the Deferred Payment Instrument as a separately disclosed item.</p> <p>The Committee also considered the appropriateness of the accounting and disclosures of other credit risks that the Group has in respect of its former North American business. The Committee concluded that the accounting and disclosure of such items was appropriate.</p> | <p>As at 2 May 2020, the Deferred Payment Instrument has been recorded with a carrying value of £4.5m (2019: £22.3m). The movement of £17.8m recognised in the year to 2 May 2020 has been presented as a separately disclosed item.</p>  | 1, 4, 25(b)   |
| <b>Pensions assumptions</b>   |   |   |   |
| <p>The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and life expectancies.</p> <p>Pensions assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p>  | <p>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.</p>   | <p>The total pensions expense recognised in the consolidated income statement for the year ended 2 May 2020 was £63.4m (2019: £96.3m) and the net retirement benefit liability as at 2 May 2020 was £413.1m (2019: £197.7m). In note 24 to the consolidated financial statements, analysis is provided that shows the sensitivity of pension amounts to changes in key assumptions.</p> | 1, 7, 24  |

## 5. Audit Committee report (continued)

| Significant issues or judgements considered by Audit Committee  | Work and conclusion of Audit Committee   | Quantification  | Relevant notes to the consolidated financial statements |
|---|--|---|---|
| <b>RECURRING AGENDA ISSUES (continued)</b>  |  |   |   |
| <b>Claims provisions</b>  |  |   |   |
| <p>The estimation of the claims provisions 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 payments 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.</p> <p>Claims provision assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p>   | <p>The Committee discussed with management the key judgements made in determining the claims provisions, 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 claims provisions and after challenge, concluded that the amount of the claims provision was at an appropriate point within that range.</p>   | <p>The claims provisions in the consolidated balance sheet as at 2 May 2020 were £106.8m (2019: £97.0m).</p>  | 1,23  |
| <b>Uncertain tax positions</b>  |  |   |   |
| <p>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.</p> <p>Judgement is required in evaluating the recoverability of deferred tax assets.</p> <p>Uncertain tax positions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.</p>  | <p>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 in April 2020. 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.</p> | <p>Liabilities of £10.7m are held as at 2 May 2020 (2019: £13.3m) in respect of uncertain tax positions. Further information on uncertain tax estimates is provided in section 1.6.8 of this Annual Report.</p>   | 1, 8, 22  |
| <b>Rail contractual positions</b>   |  |   |   |
| <p>The Group's 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, rolling stock lessors and other train operators.</p> <p>These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements.</p> <p>The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include rail contractual positions.</p> | <p>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.</p> <p>The Committee agreed that management's estimates of contractual receivables and payables in relation to former train operating companies were appropriate.</p>   | <p>As at 2 May 2020, the UK Rail net liabilities shown in note 2(d) to the consolidated financial statements were £133.3m (2019: £157.0m). The Directors estimate that these could require adjustment by up to £10.0m in the year ending 1 May 2021, as a result of the reassessment of rail contractual positions.</p> | 1   |

### 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, stepped down as the audit engagement partner following the completion of the audit for the year ended 27 April 2019. Kevin Weston is the current audit engagement partner, and under partner rotation rules, a new lead audit partner will be required in 2025. 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 2 May 2020, the most significant risks identified were in relation to the impact of the COVID-19 pandemic on the Group's going concern assessment, provisioning for claims, valuation of the Deferred Payment Instrument, valuation of pension liabilities, and management override of controls in relation to revenue recognition and government assistance receivable. 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.



## 5. Audit Committee report (continued)

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 2 May 2020, 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 £0.1m (2019: £0.4m), which equate to 10.0% (2019: 39.9%) of the audit fee and further details of which can be found in note 3 to the consolidated financial statements. The decrease in non-audit fees from the prior year related principally to additional assurance services provided to the Group in the year to 27 April 2019 regarding the Group's disposal of the North America business.

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.

### 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 during the year ended 2 May 2020 and since, 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.

Over the past year, the internal auditors' work has involved visits to several operating companies as well as reviews in respect of vehicle engineering and maintenance; technology cloud risk and governance; defined benefit pension governance; accounts payable; information security awareness, behaviour and event management; software development and change.

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 the Board oversees use of the Group's "Speak Up" 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 Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice.

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. Audit Committee report (continued)

### 5.4.6 Other activities

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

- A presentation was received from the Group Tax Director on the Group's tax affairs and related accounting judgements and risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance.
- The Committee considered reports from the Audit Committee of Virgin Rail Group on matters relevant to that joint venture. The Group's Finance Director is Chairman of the Virgin Rail Group Audit Committee.

### 5.4.7 Fair, Balanced and Understandable

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

In advising the Board, the Audit Committee noted that:

- The Board considers the key risks facing the Group and the Audit Committee considered how these link to the description of principal risks and uncertainties in the Annual Report;
- The Board considers the strategy of the Group and its short and long-term objectives;
- The Board receives regular updates on the actual financial performance of the Group and significant developments affecting the Group;
- The Board receives summaries of significant media coverage relevant to the Group;
- The Board ordinarily reviews and approves the Group's budget each year 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 business unit management validating the appropriateness of the material relating to the relevant business unit. 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 July 2020 for review and finalisation.

## 5.6 Committee evaluation

The Committee's activities will be reviewed as part of the overall Board effectiveness review process, details of which are provided in section 4.8. Audit Committee members 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 Gregor Alexander, Chairman of the Nomination Committee

During the year ended 2 May 2020, I succeeded Sir Brian Souter as Chairman of the Nomination Committee. I extend my thanks to Sir Brian for his chairmanship and I am pleased he remains a member of the Committee.

The Nomination Committee has an important place in the governance structure of the 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.

Over the course of the year ended 2 May 2020, we had some significant changes to the Board. Dame Jayne-Anne Gadhia stepped down from the Board on 31 July 2019. We had announced in June 2019 that our Deputy Chairman, Will Whitehorn, would step down from the Board on 30 June 2020, when he would have served for nine years and be regarded as non-independent based on the criteria for independence stated in the UK Corporate Governance Code. We stated our intention to appoint Ray O'Toole as his successor as Deputy Chairman.

In December 2019, we announced that Sir Brian Souter would step down as Chairman and that Dame Ann Gloag and Sir Ewan Brown would retire from the Board with effect from 31 December 2019. Sir Brian would continue as a non-executive director. The Board and its Nomination Committee discussed and agreed these proposed changes. We agreed that Ray O'Toole was the appropriate candidate to take over the chair and that the Deputy Chairman position would no longer be required once the chair had passed to Ray O'Toole, who was independent on appointment to the Board. We agreed that a brief handover period was appropriate and that Will Whitehorn would continue as Deputy Chairman until he stepped down from the Board. I took over the position of Senior Independent Director from Will with effect from 1 July 2020.

While the independent voice on the Board has been strengthened by these changes, the remaining Board members were very aware that the Board's gender diversity was adversely affected by Dame Jayne-Anne Gadhia and Dame Ann Gloag stepping down from the Board. We currently have one female Board member and Lynne Weedall will join the Board from 1 August 2020. Lynne's appointment will mean that 25% of the Board are women, in line with our minimum aspiration.

We have reviewed the performance and length of service of our executive and non-executive directors and are pleased to be able to recommend all of the Directors for re-election at the 2020 Annual General Meeting.



**Gregor Alexander**

Chairman of the Nomination Committee  
22 July 2020

### 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 Company engaged the services of the executive search firm, Sam Allen Associates, to assist with the search that led to the appointment of Lynne Weedall to the Board. There is no other connection between Sam Allen Associates and the Group.

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.

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.stagecoachgroup.com/terms-of-reference-nomination-committee.pdf>

### 6.4 Appointments of Chairman and Chief Executive

The Chairman of the Company is responsible for leading any appointment for the post of Chief Executive.

Will Whitehorn, the then Deputy Chairman, chaired the Committee during the year ended 2 May 2020 when considering succession for the Chairman and the appointment of Ray O'Toole as Chairman. The Chairman of the Committee, who is also the Senior Independent Director, is now responsible for the succession planning process for the Chairman.

## 6. Nomination Committee report (continued)

### 6.5 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, social and ethnic backgrounds, cognitive and personal strengths. 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 2 May 2020. 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. 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. During the year ended 2 May 2020, Dame Ann Gloag and Dame Jayne-Anne Gadhia stepped down from the Board. Karen Thomson remains on the Board and Lynne Weedall joins the Board on 1 August 2020. From then, 25% of the Board will be women. That is consistent with the Board's previously set aspiration for female representation on the Board of at least 25% and this aspiration will remain a factor in recruiting new members of the Board. 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.

### 6.6 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 centralised People Team to lead on further enhancing 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 and Sir Brian Souter bring considerable experience of bus, rail and the broader transport sector to the Board.
- 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 is a qualified accountant, 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 publicly 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, Ray O'Toole and Karen Thomson serve or have served on the boards of other publicly listed companies.
- Regulatory – The Group operates in regulated markets and the risk of regulatory change is a principal risk. The Committee therefore values the Non-Executive Directors' insight on regulatory matters. A number of the Directors have significant skills on regulatory matters, including Ray O'Toole (from the transport sector and the regulated water business), Sir Brian Souter (from the transport sector) and Gregor Alexander (from the regulated energy business).

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, Stagecoach Group Chairman and 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 culture and 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 the business through regular site visits. Managers are invited to attend meetings of the Committee and are encouraged to bring more junior members of their management teams to engage with the Committee. By bringing contributors together at its meetings, the Committee aims to share knowledge between the Group's businesses and to challenge its business managers and safety advisers to promote sustained improvement over time.

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



**Ray O'Toole**

Chairman of the Health, Safety and Environmental Committee  
22 July 2020

### 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.stagecoachgroup.com/terms-of-reference-hse.pdf>

### 7.3 Operation of the Health, Safety and Environmental Committee

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

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. Senior managers 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 2019 meeting of the Committee was held at the Sheffield Supertram, Nunnery head office and depot. The Committee received briefings on the challenges involved in the Sheffield to Rotherham Central tram train project and spent time viewing the vehicles and infrastructure necessary for running light rail vehicles on the heavy rail network. The Committee also received briefings on safety culture work carried on by the Yorkshire bus business.

The Committee allocates time in its agendas to detailed briefings and deep dive discussions on areas of specific interest or concern to it. During the year, presentations and deep dive discussions covered a range of topics, including:

- The conviction of the Group subsidiary, Cambus Limited, in respect of health and safety offences arising from the death of Nicola Berridge at Bedford Bus Station in 2015.
- Internal Audit recommendations from a review of health and safety governance.
- Investigations into an incident in which a Stagecoach Gold vehicle operated out of Torquay depot had left the road and overturned, causing injury to a number of passengers.
- Preparations for the operation of a fleet of autonomous buses on a route over the Forth Road Bridge.

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. 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.

## 8. Directors' remuneration report

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

I am pleased to present the Directors' remuneration report for the year ended 2 May 2020.

I had started the process of reviewing the policy and engaging with shareholders in the Autumn of 2019 and followed this up with further formal consultations, including meetings with shareholders and investor representative bodies, over the Spring of this year. I was pleased with the level and the quality of the engagement. As we were in the midst of developing the policy and I was engaging with shareholders, I agreed to retain chairmanship of the Remuneration Committee when I became Chairman of the Company on 1 January 2020. However, I intend to step down as the Committee's Chairman following our Annual General Meeting in September, at which shareholders will vote on the new remuneration policy. Lynne Weedall, who joins our Board on 1 August 2020, brings extensive experience of chairing remuneration committees, and will succeed me as Chairman of the Committee.

#### Proposed remuneration policy and substantial changes to directors' remuneration

Our proposed new remuneration policy will be submitted for approval at the Annual General Meeting in September. A copy of the proposed policy is included in section 8.4.

We have listened carefully to what shareholders have been saying and have incorporated many of their suggestions into the policy, in particular in giving consideration to the use of a restricted share plan to support better long-term alignment, shareholder expectations on pensions and shareholder expectations to moderate executive pay. The Committee appreciates the supportive nature of the discussions with the Executive Directors on the changes, particularly on the proposals to align pension arrangements over the term of the new policy, and it does not underestimate the significant reduction in remuneration that the proposals, if agreed by shareholders, would represent. Our review and consultation was at an advanced stage when the impact of the crisis caused by the COVID-19 global pandemic started to impact all of us. The Board understood the seriousness of the developing situation, and all of the Board agreed to reduce their basic pay by 50% for all of April, May and June 2020, and all directors have agreed a further waiver of 20% of basic pay from July 2020 and continuing for the time being.

The Committee has reflected on the potential implications of COVID-19 on our business as we go forward. We appreciate the challenges faced by our people and our renewed focus and pride in serving our customers in this new environment. We recognise the greater uncertainty and range of potential outcomes faced by all, and have taken this, and the consultation, into account in developing the final proposal for the new policy. Of course, views can differ between shareholders but we have tried to reflect shareholders' views in the proposed policy while maintaining remuneration arrangements designed to support the long-term success of the Company.

I welcome further engagement with shareholders on remuneration matters and I would be pleased to engage and seek to address any investors' concerns early while we have the opportunity, rather than as a reactive response just before votes are cast for an annual general meeting. With that in mind, I can be contacted via the Company Secretary.

The principal changes we are proposing to the policy are:

- A reduction in the Executive Directors' maximum annual bonus percentage from 150% to 130% of basic pay;
- A reduction in the Executive Directors' pension entitlements over the life of the policy to align with the majority of the workforce;
- The replacement of the Long Term Incentive Plan with a Restricted Share Plan with maximum annual awards reduced from 150% to 75% of basic pay;
- A minimum five-year holding period for awards under the Restricted Share Plan; and
- The introduction of post-employment shareholding requirements.

I have further summarised those changes below.

#### Reduction in bonus opportunity

The maximum annual bonus that the remuneration policy allows as payable to the Executive Directors will be reduced from 150% to 130% of basic salary. There will be no change to the requirement that at least half of any actual bonus be deferred in shares for three years. In setting bonus objectives and determining bonus amounts, we will continue to consider environmental, social, governance, and health and safety matters.

#### Reduction in pension entitlements

The Corporate Governance Code suggests that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. We have sought to balance that aspiration with the contractual positions of existing directors and employees, recognising investor feedback suggesting investors would not support increases in other elements of executive director remuneration to compensate for reductions in directors' pension entitlements.

We propose that for any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. That would entitle the director to participate in defined contribution pension arrangements whereby the employer would match the employee's pension contributions up to a maximum of 10% of basic salary. Alternatively, any director or employee who is subject to annual or lifetime savings limits may receive a cash allowance in lieu of pension up to a maximum of 10% of basic salary.

For existing executive directors and other senior employees, we propose that pension entitlements are aligned with the majority of the Group's workforce by the end of the period of the new remuneration policy in 2023 to be in line with that explained above for new executive directors. For the Executive Directors, that means that the current cash alternative to pensions entitlement will be reduced from 33% of basic salary to 10% of basic salary over that period. The ongoing defined benefit pension arrangement, in which the Executive Directors and certain other senior managers participate, will be closed to future accrual by the end of that period.

#### Replacement of Long Term Incentive Plan with Restricted Share Plan

We propose to replace the Long Term Incentive Plan ("LTIP") with a Restricted Share Plan ("RSP"). The maximum annual face value of awards permitted by the remuneration policy would be reduced from 150% of basic salary to 75%. Having been suggested to us by some shareholders, we consulted and discussed in detail with shareholders the use of the RSP. We agreed it is appropriate as it simplifies the remuneration arrangements and encourages alignment with shareholders through share ownership.

## 8. Directors' remuneration report (continued)

### Extension of holding period to support long-term shareholdings

The Corporate Governance Code suggests that remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. It suggests that share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more.

Previously under the LTIP, any amounts due to participants were payable at the end of the three-year vesting period. The Committee decided in 2019 that, for new LTIP awards, there would be a two-year holding period in addition to the three-year vesting period, meaning that any amounts due to participants would only be payable at the end of the combined five year vesting and holding period. The LTIP awards made in June 2019 reflected this new approach.

The proposed new RSP would see awards vest between four and six years of award but with a requirement for the recipient of any shares vesting in year four to retain those shares (net of tax) for at least a further year. The length of the period from grant to release for RSP awards, therefore, is a minimum of five years.

### Introduction of post-employment holding requirements

The Corporate Governance Code suggests that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

An executive director will be required to retain shares in the Company for at least two years from the date he/she steps down as a director of the Company. Details of the arrangements are set out in section 8.4.4.

### Major decisions on directors' remuneration

As explained elsewhere in this Annual Report, the Group took swift and decisive action this year in response to the COVID-19 pandemic. That was also reflected in major decisions on directors' remuneration.

### Basic pay

The Directors and the Committee agreed that there would be no increase in the Directors' pay for 2020/21.

As mentioned above, all of the Directors have waived an element of basic pay. Other managers also agreed to waive part of their basic pay.

### 2019/20 annual bonuses

The Executive Directors and the Committee agreed that no bonuses would be payable in respect of 2019/20, notwithstanding that the Executive Directors achieved certain of their objectives for the year.

### Conclusions

I have enjoyed the consultation and meeting with shareholders during the year, and I hope to meet more of you over the coming year. I fully appreciate the challenges that our business, in common with many others, is facing as we all look to re-establish a sense of normality, return to some kind of business as usual and support people throughout the country in re-creating vital connections. I feel confident that the proposed policy should provide the Committee with the right mix on pay and incentives to help us attract, retain and incentivise the talent needed to guide our business through these challenging times and beyond. I would hope the policy meets with shareholders' approval.



### Ray O'Toole

Chairman of the Remuneration Committee  
22 July 2020

## 8.2 Compliance statement

This Directors' remuneration report covers the year from 28 April 2019 to 2 May 2020 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 2020 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 2 May 2020, 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 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.

The terms of reference of the Committee are available on our website at:

<https://www.stagecoachgroup.com/terms-of-reference-remuneration-committee.pdf>

## 8. Directors' remuneration report (continued)

### 8.4 Directors' remuneration policy

This section of the report sets out Stagecoach Group's revised proposed Directors' remuneration policy (the "2020 Policy"). The 2020 Policy is subject to a binding shareholder vote at the Company's Annual General Meeting in September 2020, and subject to approval, will apply from that date. The current remuneration policy was approved on 25 August 2017 and will continue to apply until a new policy is approved. A complete copy of the approved 2017 remuneration policy is available on the Company's website at: <https://www.stagecoachgroup.com/directors-remuneration-policy-25-august-2017.pdf>

#### 8.4.1 Key principles of the remuneration policy

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive and will attract, retain and motivate high quality executives capable of achieving the Group's objectives. The Committee also aims to ensure that the Executive Directors 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 with the interests of shareholders.

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

The Remuneration Committee regularly reviews the existing remuneration of the Executive Directors, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals are then discussed in the light of the prospects for the Group as a whole. The Remuneration Committee also reviews and sets the remuneration arrangements of other senior executives employed by the Group. The approach is consistent with that applied for the workforce in that we look to pay competitively with reference to the market rate for a job. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations, and under the proposed 2020 Policy, the defined benefit pension arrangements for the Executive Directors would be phased out by the end of the term of the 2020 Policy in 2023.

We consult our major shareholders in developing remuneration policy.

#### 8.4.1.1 Proposed changes to the Directors' Remuneration Policy

In developing the proposed 2020 Policy, the Committee consulted with major shareholders and proxy and shareholder advisory bodies, and debated the merits of proceeding with a consistent approach with only minor amendments to the current policy, compared against considering more significant changes that involved reductions in the potential remuneration and re-shaping the profile of the benefits and share incentives. In line with discussions during the consultation, the Committee decided to propose the more meaningful changes to the Policy. The key changes to the policy therefore include using restricted shares awards rather than the current LTIP, giving a better alignment with the corporate strategy of the business which is now simpler and more focused, and also confirmation of the phasing out of the legacy defined benefit arrangements by the end of the term of the 2020 Policy. Taken together, the changes produce a material reduction in both the fixed and total potential remuneration.

The Committee has ensured that the Directors' Remuneration Policy and practices are consistent with the six factors set out in Provision 40 of the Corporate Governance Code:

**Clarity** – Our Directors' Remuneration Policy is well understood by our senior management team and has been clearly articulated to our shareholders and representative bodies. The Company invited its principal shareholders and shareholder representative groups to comment on the 2020 Policy and received good feedback.

**Simplicity** – The Committee is mindful of the need to avoid overly complex remuneration structures that can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Directors' Remuneration Policy and practices are straightforward to communicate and operate. The Committee feels, for example, that the proposals to phase out defined benefit pension arrangements and to replace the LTIP with restricted shares, would improve both the clarity and simplicity of the policy.

**Risk** – Our Directors' Remuneration Policy has been designed to ensure that inappropriate risk-taking is discouraged. The maximum share awards under the 2020 Policy are significantly reduced ensuring that such awards do not become excessive due to share price volatility.

**Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. Examples of the range of outcomes under the Policy are shown within the scenario charts in section 8.4.8. The use of shares within our incentive plans means that actual pay outcomes are aligned to the experience of our shareholders.

**Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive-based pay helps ensure that poor performance is not rewarded.

**Alignment to culture** – The Committee is confident that the incentive schemes that would operate under the 2020 Policy are aligned with the Company's purpose, values and strategy.



## 8. Directors' remuneration report (continued)

The main changes to the current Policy for the proposed 2020 Policy are set out in table below:

|   |   | Current Policy   | Proposed 2020 Policy  | Reasons for Change  |
|---|---|--|---|---|
| <b>Fixed pay</b>                          | <b>Pensions</b>   | Legacy arrangements designed to provide pension benefits on retirement of up to two-thirds final pensionable pay, which may be met through any combination of defined benefit ("DB") schemes, or defined contribution ("DC") schemes or cash allowances of up to one-third of basic salary.  | <p>The aim to deliver two-thirds pensionable pay on retirement will be removed.</p> <p>For any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. That would entitle the director to participate in defined contribution pension arrangements whereby the employer would match the employee's pension contributions up to a maximum of 10% of basic salary. Alternatively, the director may receive a cash allowance in lieu of pension up to a maximum of 10% of basic salary.</p> <p>For existing executive directors, pension entitlements will be aligned with the majority of the Group's workforce by the end of the period of the new remuneration policy in 2023, to be consistent with the arrangements for new executive directors.</p> <p>That means that the current cash alternative to pensions entitlement will be reduced from one-third of basic salary to 10% of basic salary over that period. The ongoing defined benefit pension arrangement, in which the Executive Directors and certain other senior managers participate, will be closed to future accrual by the end of that period.</p> | To reflect the recommendations of the Corporate Governance Code by aligning pension contribution rates for executive directors, or payments in lieu, with those available to the majority of the workforce.   |
| <b>Variable pay – Annual</b>              | <b>Annual bonus</b>   | <p>The current policy permits annual bonuses of up to 150% of salary, based on a combination of financial and personal targets. The maximum has in practice been 130% of salary, of which personal targets have been allocated 30%, with 100% of salary for financial performance.</p> <p>Awards are satisfied 50% in cash, and 50% in Deferred Bonus Shares (deferred for three years).</p> | <p>The maximum annual bonus will be set at 130% of salary. The weighting of personal and/or strategic objectives may be up to 40% of the maximum amount. Bonus awards earned will continue to be split 50% in cash and 50% in shares, deferred for three years.</p> <p>Deferred Bonus Shares will continue to be subject to the malus and claw-back provisions, and to new post-employment holding obligations (see Governance changes).</p>  | Reduces the maximum potential available under annual bonus awards.  |
| <b>Variable pay – Long-term incentive</b> | <b>Long Term Incentive Plan to be replaced by Restricted Stock Plan</b> | The maximum annual award under the current LTIP is 150% of salary. Awards have a three-year performance period, with performance conditions being split with half based on a profit measure and the other half on relative Total Shareholder Return. Awards made, from 2019, once vested are subject to a further two-year holding period.   | <p>Restricted Share Awards ("RSA") will be issued under the RSP with a maximum nominal value in any year of 75% of basic pay.</p> <p>Awards will vest one-third each year from the end of year four. The shares that vest at year four must additionally be held for five years from date of grant, ensuring that all RSAs provide at least a five year lock-in and alignment.</p> <p>All RSAs are subject to performance underpins under which the Committee may reduce an award in whole or in part if it is not satisfied with the management of the business considering factors such as:</p> <ul style="list-style-type: none"> <li>financial performance and status of the Group;</li> <li>further enhancing environmental credentials and innovation; and</li> <li>employee engagement, welfare and working culture, including overall safety performance.</li> </ul> <p>RSAs will be subject to malus and claw-back provisions</p>  | <p>The RSP simplifies and increases long-term alignment with shareholders and encourages greater alignment through increased share ownership.</p> <p>The use of the Restricted Share Plan is consistent with a long-term approach to reward and encourages the creation of shareholder value through steady and sustainable growth.</p> |

## 8. Directors' remuneration report (continued)

|                   |                                      | Current Policy   | Proposed 2020 Policy   | Reasons for Change  |
|-------------------|--------------------------------------|--|--|---|
| <b>Governance</b> | <b>Post-employment shareholdings</b> | Current shareholding guideline is that each executive director should hold two times salary in shares while in service. On retirement in respect of un-vested Deferred Bonus Shares under the EPP, awards must be retained and vest on their normal due dates subject to confidentiality and employment restrictions. The holding period is also applied to any awards which vest after the date of leaving. | Any deferred annual bonus shares released (three year deferral) will be retained by the executive during executive employment and for a period of two years post-cessation of such employment, subject to a maximum holding requirement of two times salary.<br><br>The annual award of Restricted Shares issued under the RSP will have a vesting period of four, five and six years, with no early vesting for good leaver status. Vesting of such awards following employment will also be subject to the minimum two year post-employment holding requirement, subject to a maximum holding requirement of two times salary. | To reflect the recommendations of the Corporate Governance Code.<br><br>We listened to shareholders' views and want to further support long-term commitment, alignment and stewardship. |

### 8.4.2 Remuneration policy table for the Executive Directors

This section of our report sets out the key components of the proposed 2020 Policy and the elements 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. 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.

##### Performance metrics

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

Salary levels set effective from 1 May 2020 are set out in section 8.5.14.1.1 of the Annual Report on Remuneration.

## 8. Directors' remuneration report (continued)

### Pensions and life assurance arrangements

#### Purpose and link to strategy objectives

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

#### Operation

The legacy 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 a defined benefit pension may not be drawn before age 55.

Freedom and Choice regulations introduced by the United Kingdom Government in 2015 impacted the flexibility and rights for pension scheme members in transferring benefits out of pension schemes. Consistent with the type of arrangements and rights for other members of relevant pension schemes, accrued defined benefits pensions may be transferred out to the beneficiary in accordance with the transfer arrangements established by the trustees, and in the case of the employer funded retirement benefits scheme ("EFURBS"), members are entitled to receive a transfer in settlement of all obligations at the amount accrued in the Group financial statements in respect of such benefits at the point of transfer.

Defined benefit accrual under legacy pension arrangements will cease by the end of the term of 2020 Policy in 2023 and will be replaced by a choice of cash allowance or defined contribution arrangements. The objective of delivering two-thirds pensionable pay on retirement will also cease by the end of the term of the 2020 Policy. The legacy defined benefit arrangements are accrued under an HMRC approved pension scheme (closed to future accrual since 2017), and for ongoing accrual through the EFURBS since 2012. Following cessation of ongoing accrual, accrued benefits will be frozen, subject only to increases for inflation as provided under the relevant scheme rules. On cessation of accrual under the EFURBS, the employer may wind up and eliminate its ongoing exposure to the arrangements by procuring for the accrued obligations to be provided by an insurer, or failing that, if requested, by payment of an equivalent amount to a member to settle and extinguish all obligations. Where the Company chooses to wind up the EFURBS, it would also be liable for any related expenses and national insurance costs resulting from the transfer or settlement of the EFURBS obligations. The employees are responsible for settling any income taxes due. There are no arrangements for any gross-up of employee income taxes.

For any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. For any existing executive director as at 1 August 2020, the pension entitlement will be changed to be consistent with the majority of the Group's workforce by the end of the period covered by the 2020 Policy.

### 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:

- Healthcare 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, such as paying reasonable legal fees or other costs related to recruitment, relocation or any proposed changes to terms and conditions of employment.

Executive Directors are entitled to participate in any all-employee HMRC approved share incentive plans on the same terms as all other employees, consistent with requirements of HMRC approved schemes.

#### Maximum value

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

For any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. For any existing executive director as at 1 August 2020, the pension entitlement will be changed to be consistent with the majority of the Group's workforce by the end of the period covered by the 2020 Policy. That will entitle the director to participate in defined contribution pension arrangements whereby the employer would match the employee's pension contributions up to a maximum of 10% of basic salary (or such other amount as is available to the majority of the Group's workforce). Alternatively, any director or employee who is subject to annual or lifetime savings limits may receive a cash allowance in lieu of pension up to a maximum of 10% of basic salary (or such other amount as is available to the majority of the Group's workforce).

For existing executive directors, the defined benefit arrangements will be phased out over the term of the 2020 Policy, and the defined contributions or cash allowance elements will be reduced in steps from the current rate of a third of basic salary down to 10% of basic salary by the end of the term of the 2020 Policy as follows:

- reduced to 23% on approval of the Policy in September 2020,
- reduced to 18% from September 2021,
- reduced to 13% from September 2022,
- reduced to 10% by September 2023, or such amount in line with the general workforce entitlements as at the end of term of the term of the 2020 Policy.

Life assurance arrangements provide a lump sum of four times salary on death in service, and pension benefits are provided under the defined benefit arrangements.

#### Performance metrics

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

#### Maximum value

Benefits vary by role, and are reviewed periodically to ensure they are reasonable relative to market.

Participation in the BAYE scheme is subject to HMRC limits.

Other than one-off relocation allowances and excluding any pension benefits or allowances set out elsewhere in this Policy, the value of an executive director's benefits in kind and other allowances may not exceed £50,000 per annum.

#### Performance metrics

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

## 8. Directors' remuneration report (continued)

### 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.

The part deferral in shares is designed to align managers' and shareholders' interests, and incentivise managers to remain with the Group.

#### 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 award will be satisfied in Deferred Bonus Shares subject to a three-year deferral. Deferred Bonus Shares are subject to the malus and claw-back provisions (see section 8.4.3), and to post-employment holding obligations (see section 8.4.4).

It is an important part of this Policy that the level of bonuses paid, including for any personal or non-financial elements, are considered and are subject to the overall discretion of the Committee after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant executive director. The Committee will also retain the flexibility to change the number and the nature of the financial performance measures in the annual performance and bonus plan at the start of each financial year, or over the course of a year, depending on the financial priorities of the Group and other relevant economic or business factors.

The Deferred Bonus Shares awarded under the EPP may 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.

The value of the Deferred Bonus Shares at vesting will reflect the market value of the shares on vesting and additional shares allocated in respect of dividends payable by the Company during the relevant period.

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

#### Maximum value

The potential annual bonus that can be earned by an executive director in respect of any financial year will be capped at 130% of basic salary, of which no more than half of any actual bonus award in the year will be settled in cash, with the balance of any award satisfied in Deferred Bonus Shares under the EPP (further three year deferral).

#### Performance metrics

The performance conditions for the annual bonus awards are subject to a combination of financial objectives, and personal and/or strategic business related objectives.

Around the start of each financial year, the Committee will set one or more financial measures that will apply for bonus purposes for that year along with a range of personal and/or strategic objectives which may include objectives linked to safety, environmental and governance. 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 measure.

The maximum potential bonus amount across the personal and/or strategic objectives will be up to 40% of the total potential annual bonus, with the remainder being allocated to the financial objectives.

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 satisfactory performance that needs to be achieved to earn any bonus in respect of that measure. The payout for only achieving the threshold amount shall not be more than 20% of the maximum potential bonus attributable to the relevant measure. The Maximum amount is the maximum potential bonus in respect of that measure.

A number of personal and/or strategic objectives may be set and to the extent the Committee is satisfied that a particular objective is satisfied then there would be a payout in respect of that objective in whole or in part as appropriate.

In assessing the level of bonuses that will be paid, including in respect of personal and/or strategic 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.

## 8. Directors' remuneration report (continued)

### Restricted share plan

#### Purpose and link to strategy objectives

Aims to create a strong and less volatile alignment of the interests of shareholders and management in focussing on the long-term prospects of the Group through the use of restricted share awards.

#### Operation

Participants are granted RSP awards, each in the form of ordinary shares in the Company, which will be held in trust or as treasury shares to be released to participants on vesting. Additional shares are allocated in respect of dividends payable during the relevant period.

Awards plus related dividend equivalent shares will vest:

- one-third of the award at the end of year four;
- one-third of the award at the end of year five;
- one-third of the award at the end of year six, so that the average vesting period of the award is five years, and furthermore, the shares that vest at year four (net of taxes) must additionally be held until five years from date of grant, ensuring that all RSP awards provide at least a five year lock-in and alignment.

Restricted share awards are subject to the malus and claw-back provisions (see section 8.4.3), and to post-employment holding obligations (see section 8.4.4).

The RSP will provide an effective alignment and promote a long-term perspective in that participants would lose part or all of their entitlement to the Restricted Shares if they left of their own volition during the six-year vesting period. This will be subject to provisions for standard 'good leaver' categories, but these will not trigger an early vesting.

#### Maximum value

The maximum awards granted in relation to any financial year for an individual is limited to RSP awards with an aggregate face value at the time of award of 75% of basic salary. The actual value of the awards on vesting or release will reflect the market value of the award released plus any additional shares representing dividend equivalents paid by the Company over the vesting period.

#### Performance metrics

All RSPs are subject to underpins under which the Committee retains discretion to reduce an award in whole or in part if it is not satisfied with the management of the business considering factors such as:

- financial performance and status of the Group;
- further enhancing environmental credentials and innovation;
- employee engagement, welfare and working culture, including overall safety performance.

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 Malus and claw-back

For the purposes of this remuneration policy, "Malus" refers to the withholding, cancellation or reduction of amounts of remuneration otherwise payable to a director.

Malus may apply to unvested awards where stated in the policy table shown above. Under the malus provisions, the Remuneration Committee can reduce (to nil if appropriate) awards that have not yet vested. The circumstances in which the malus provisions may apply are set out below:

- If a participant has deliberately misled the management of the Group, the market or the Company's shareholders regarding the financial performance of any Group Company or the participant's business unit;
- If a participant's actions or inactions have caused either the Group or the participant's business unit material reputational damage;
- If a participant's actions or inactions amount to serious misconduct or conduct which causes significant financial loss for the Group or the participant's business unit;
- If a participant's actions or inactions have caused a serious failure of risk management by the Group or the participant's business unit; or
- Other similar circumstances, where the Committee determines that the malus provisions should apply.

Claw-back arrangements apply to share awards granted after 25 August 2017. Under claw-back arrangements, the Remuneration Committee may require a participant to repay the following elements of variable pay:

- the cash part of the annual bonus will be subject to potential claw-back for a period of two years following payment;
- the cash received or the cash equivalent value on vesting of shares received under the LTIP or the RSP will be subject to claw-back arrangements for a period of two years from the vesting of an LTIP or RSP award.

The circumstances in which the Remuneration Committee may claw-back awards are set out below:

- If a participant's actions or inactions amount to serious misconduct which causes:
  - significant financial loss for the Group; or
  - a material restatement of the previously published financial statements for the Group (other than in respect of a change in accounting policy); or
- Where and to the extent that there has been an error in the calculation of any payout under an award.

### 8.4.4 Share ownership guidelines and post-employment holding periods for share incentive awards

The share ownership guidelines encourage executive directors to build or maintain (as appropriate) a shareholding in the Company equal to 200% of annual basic salary.

If any executive director does not meet the guidelines, they will be expected to retain up to the net of tax number of shares vesting under any of the Company's discretionary share incentive arrangements (including any Deferred Bonus Shares) until the guideline is met, after which they are expected to retain these levels as a minimum.

An executive director will be required to retain shares in the Company for a period of at least two years from the date he/she steps down as a director of the Company. The minimum number of shares to be retained will be the number equivalent in market value, at the date of stepping down, to 200% of the director's annual basic salary, or if lower, the director's relevant shareholding. A director's relevant shareholding will be valued at the date of stepping down, and will comprise the number of actual shares held from any of the Company's discretionary share incentive arrangements from awards granted after 2 May 2020, and for awards granted after 2 May 2020 that have not vested as at the date of stepping down, the number of shares that vest, net of taxes.

## 8. Directors' remuneration report (continued)

### 8.4.5 Payments from outstanding awards

The Executive Directors remain eligible to receive payment under any contractual arrangement agreed under the 2017 or earlier remuneration policy, including the vesting of awards granted prior to the 2020 Policy taking effect on 25 August 2017.

### 8.4.6 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 to provide effective leadership for the Board.

#### Operation

Fee levels for non-executive directors are generally reviewed 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 and a director may be entitled to an additional fee if required to perform any specific and additional services.

Remuneration for the Chairman is determined by the Remuneration Committee and comprises an annual fee for acting as Chairman. Other non-executives' remuneration is determined by the Board.

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 attend 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.

A non-executive director's annual fees for acting as a director of the Company may not exceed £300,000.

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.

#### Performance metrics

Continued good performance.

### 8.4.7 Approach to the remuneration of newly appointed directors

The Group's approach to remuneration for newly appointed directors is generally the same as that for existing directors. As a matter of practicality, it is recognised that it may be necessary to pay within the market top quartile salaries in order to attract candidates of the quality the business needs. Equally, a new recruit may be appointed on a lower than market rate salary with phased increases to bring it to the market level. New executive directors will be invited to participate in incentive plans on the same basis as existing executive directors. Where appropriate, the Company will offer to pay reasonable relocation and expatriate expenses for new executive directors in line with the Company's policies described above. It is not generally the Company's policy to offer "golden hellos" or sign-on payments, but where the Remuneration Committee considers it is necessary to do so in order to recruit a particular individual, it may offer compensation for amounts of variable remuneration under previous employment being forfeited, including granting RSP awards on recruitment in replacement for awards forfeited. Any such compensation for variable remuneration forfeited would be subject to a maximum of the value of the unvested awards taking account of the time to vesting, delivery vehicle (e.g. cash, shares, or share options), any performance conditions attached to the awards and the likelihood of the conditions being met. The Remuneration Committee reserves the discretion to put in place a plan under Listing Rule 9.4.2R without seeking shareholders' approval in order to facilitate such an arrangement. The maximum compensation for variable remuneration forfeited (as set out above) will be applied even where Listing Rule 9.4.2R would permit higher amounts to be paid.

Where the Company is considering the promotion of a senior manager to the Board, the Remuneration Committee may, at its discretion, agree that any commitments (including in respect of loss of office payments) made before promotion will continue to be honoured whether or not otherwise consistent with the policy prevailing at the time the commitment is fulfilled.

In recruiting a new non-executive director, the Remuneration Committee will apply the policy as set out in the table in section 8.4.6.

### 8.4.8 Pay for performance: scenario analysis

The potential remuneration of executive directors under the 2020 Policy is significantly reduced from that under the 2017 Policy due to:

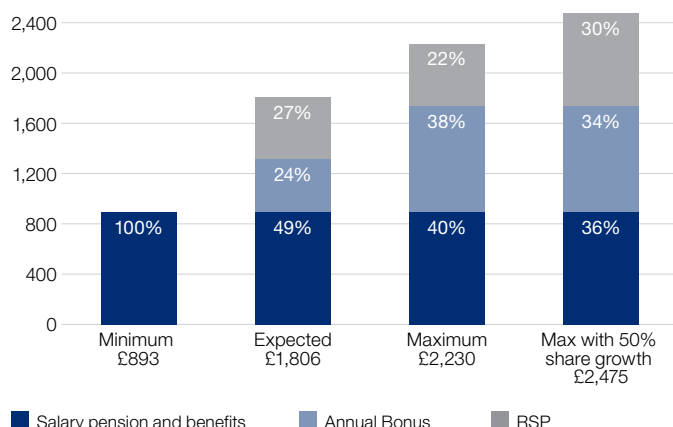
- The reduction in the maximum annual bonus potential from 150% of basic salary to 130% of basic salary;
- The reduction in the maximum annual face value of awards under the LTIP of 150% of basic salary to a maximum under the RSP of 75%;
- The reduction in pension entitlements.

The graphs below provide estimates of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: "Minimum", "Expected", "Maximum" and "Maximum, with share price growth". We have shown for each director the position at the start and at the end of the term of the 2020 Policy to illustrate the effect of the reduction in pension entitlements over the term of the 2020 Policy.

## 8. Directors' remuneration report (continued)

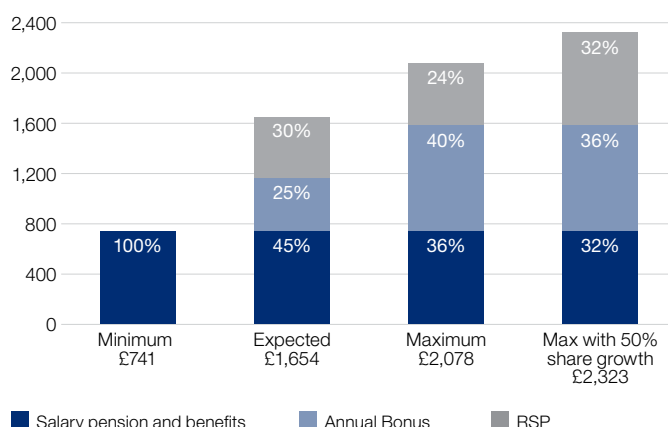
### Chief Executive (potential annual outcomes):

#### Start of policy



All values in £000

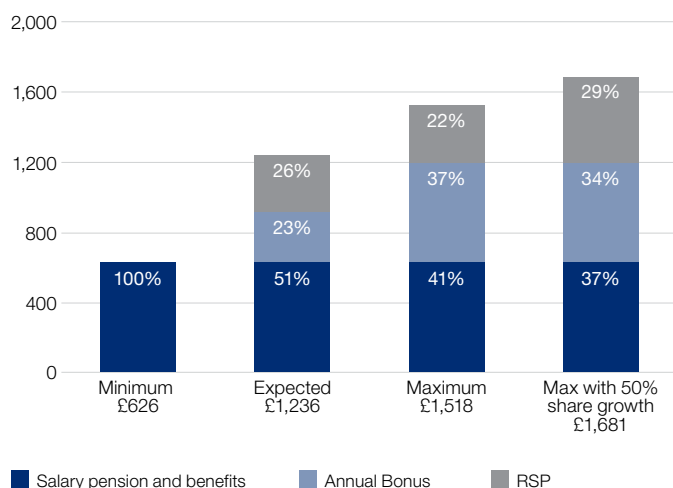
#### End of policy



All values in £000

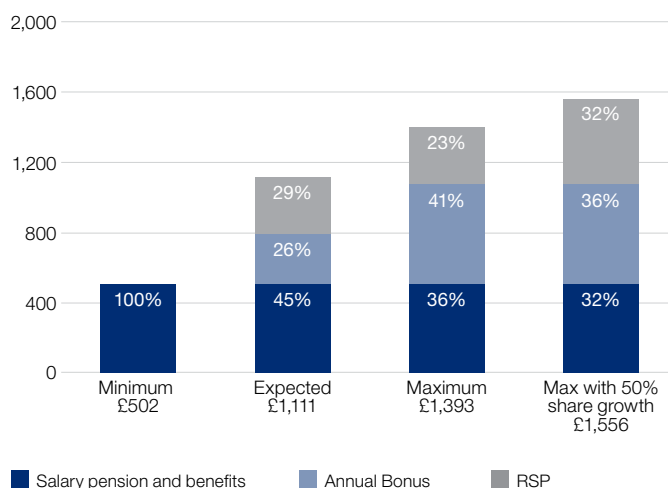
### Finance Director (potential annual outcomes):

#### Start of policy



All values in £000

#### End of policy



All values in £000

Potential reward opportunities illustrated above are based on the proposed new remuneration policy, applied to the basic salary in force at 1 May 2020. For the annual bonus, the amounts illustrated are based on the maximums potentially receivable in respect of performance for 2020/21 on the basis of a maximum annual bonus potential of 130% of basic pay. It should be noted that the RSP awards granted in a year would not normally vest until years four, five and six after the date of grant. In illustrating potential reward opportunities, the following assumptions are made:

|                                 | Annual Bonus and Deferred Bonus Share Awards | RSP Awards   | Pension – start of 2020 Policy | Pension – end of 2020 Policy |
|---------------------------------|--|--|--------------------------------|------------------------------|
| Minimum                         | No annual bonus payable                      | No vesting – nil payment   | 33.3% of basic salary          | 10% of basic salary          |
| Expected                        | 50% of the maximum annual bonus award        | Full vesting of award, spread over years 4, 5 and 6                                  | 33.3% of basic salary          | 10% of basic salary          |
| Maximum                         | 100% of the maximum annual bonus award       | Full vesting of award, spread over years 4, 5 and 6                                  | 33.3% of basic salary          | 10% of basic salary          |
| Maximum with Share Price Growth | 100% of the maximum annual bonus award       | Full vesting of award, spread over years 4, 5 and 6 including 50% share price growth | 33.3% of basic salary          | 10% of basic salary          |

Pension amounts at the start of the Policy are included at 33.3% of basic salary which is equivalent to the money purchase or cash allowance alternative available under the Policy, and at the end of the term of the Policy this is reduced to 10%. This differs from how pension amounts shown in Table 1 in section 8.5.3 are calculated, which have to be shown in accordance with the provisions of paragraph 13 of the 2013 Regulations.

It should be noted that the value of EPP Deferred Bonus Shares and RSP awards can grow due to increases in the Company's share price and/or payments of dividends by the Company, and accordingly, there is theoretically no absolute maximum value of such awards.

## 8. Directors' remuneration report (continued)

### 8.4.9 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 pay of the Executive Directors and the senior executive salaries, the Committee considers the increases to pay levels across the broader employee population.

### 8.4.10 Details of directors' service contracts

The Executive Directors are employed under contracts of employment. It is the Group's policy that executive directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants.

The principal terms of the Executive Directors' service contracts (which have no fixed term) effective during the year were as follows:

#### Executive Directors' service contracts

| Name of director | Date of contract | Notice period |
|------------------|------------------|---------------|
| Martin Griffiths | 22 February 2013 | 12 months     |
| Ross Paterson    | 11 February 2013 | 12 months     |

The contract for the Chairman provides for a six months' notice period. Other non-executive directors are appointed by a letter, which provide for one month's notice. The letters of appointment do not contain any contractual entitlement to a termination payment and a non-executive director can be removed in accordance with the Company's Articles of Association.

All notice periods apply to both the director and the Company.

### 8.4.11 Loss of office payment policy

It is the Group's policy to provide for 12 months' notice for termination of employment for executive directors, to be given by either party, and to make severance payments on termination in line with any pre-established contractual arrangements.

Service contracts provide that an executive director shall give and shall receive 12 months' notice on termination and contain standard garden leave provisions which the Group can enforce in order to protect the Group's interests during a period of notice. An executive director would continue to be paid his or her basic salary and contractual benefits during any period of garden leave in the usual way save that he/she will not be entitled to be granted awards under the EPP, LTIP, RSP or similar. Any annual bonus in respect of any period of garden leave would be at the discretion of the Remuneration Committee considering the specific circumstances but would not exceed the annual maximum bonus that may be paid in accordance with the Policy set out in section 8.4.2. This bonus potential on loss of office is the effect of legacy contractual positions and will not be incorporated into contracts for new appointments. In any event, the Remuneration Committee can decide that no such bonus will be payable if and to the extent it reasonably considers that the payment of a bonus could be perceived as a reward for failure.

There are no arrangements that require the enhancement or acceleration of pension benefits on termination or early retirement. Consistent with HMRC regulations, a defined benefit pension may only be drawn from age 55, and if drawn before normal retirement age (of 60 for executive directors) benefits are discounted for early payment in accordance with the rules of the relevant scheme and as determined by the trustees of the schemes.

In the case of gross misconduct by an executive director, a provision is included in the executive's contract for immediate dismissal with no compensation payable. In other cases where an executive director's employment is terminated with immediate effect, the Committee's policy would be that any compensating payments would not exceed any amounts due under the contractual arrangements as summarised above.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, retirement with the agreement of the Group, or his employing company ceasing to be a member of the Group or other such event as the Remuneration Committee determines, then LTIP awards will be pro-rated for time and will vest based on performance over the performance period as determined by the rules of the LTIP. For all other leavers, outstanding LTIP awards will lapse at the end of the director's period of employment.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, or his employing company ceasing to be a member of the Group, then awards of EPP Deferred Bonus Shares will vest at the date of leaving for the benefit of the director. If an executive director retires with the agreement of the Company, retirement is not a vesting event for the EPP and so the awards will vest on their original vesting date. For all other leavers, outstanding EPP awards will lapse at the end of the director's period of employment.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, retirement, or his employing company ceasing to be a member of the Group, then shares held under any BAYE awards will vest in accordance with the HMRC approved rules of the BAYE Scheme. For all other leavers, outstanding BAYE matching share awards will lapse.

In the event an executive director leaves for reasons of death, ill-health, injury, redundancy, retirement with the agreement of the Group, or his employing company ceasing to be a member of the Group or other such event as the Remuneration Committee determines, then RSP awards will be pro-rated for time and will vest based on performance over the performance period as determined by the rules of the RSP. For all other leavers, outstanding RSP awards will lapse at the end of the director's period of employment.

Payments for loss of office may only be made to directors or former directors if such payments are consistent with the approved remuneration policy or are otherwise approved by an ordinary resolution of the members of the Company.



## 8. Directors' remuneration report (continued)

### 8.4.12 Change of control

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

- Each executive director is entitled to normal termination benefits as outlined above, except where the director is offered and has refused employment on terms and conditions that were no less favourable to those in place prior to the change of control, in which case the director will have no claim against the Group in respect of termination of employment;
- Under the EPP, Deferred Bonus Shares would automatically vest on a change of control;
- Under the LTIP, Incentive Units would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired and the applicable performance conditions;
- Under the BAYE, awards will vest in full or, alternatively, the acquiring company may offer to roll-over the awards into awards over shares in the acquiring company;
- Under the RSP, restricted share awards would vest on a pro-rata basis taking account of the proportion of the vesting period that had expired.

### 8.4.13 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.

### 8.4.14 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, so long as the time commitments do not have any detrimental impact on the ability of the director to fulfil his duties. It is considered this will broaden and enrich the business skills of directors. 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 existing 2017 remuneration policy was implemented during the year ended 2 May 2020.

### 8.5.1 Committee members and main activities of the Committee

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

The members who served on the Committee during the year ended 2 May 2020 were:

- Ray O'Toole (Chair)
- Gregor Alexander
- James Bilefield
- Karen Thomson

The Group Taxation and Pensions Director 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 all 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 main activities of the Committee during the year ended 2 May were:

- Consulted with major shareholders and drafted the proposed new remuneration policy.
- Reviewed the performance and approved the Executive Directors' bonuses for the year ended 27 April 2019, including granting Deferred Bonus Share awards under the Executive Participation Plan ('EPP') in June 2019.
- Set annual performance targets for the Executive Directors' bonuses for the year ended 2 May 2020.
- Reviewed performance targets of the 2016 awards under the LTIP, in June and December 2019, and in each case, no amounts were payable on vesting.
- Reviewed and approved targets for LTIP awards made in the year ended 2 May 2020. Those awards included the introduction of an additional two-year holding period, and so extended the vesting and holding period to five years.
- Reviewed and approved the vesting of 2016 Deferred Bonus Share awards under the EPP in June 2019.
- As part of the Group's initial response to COVID-19:
  - Considered and approved a temporary reduction of 50% in basic salary for the Chairman and Executive Directors for the three months of April, May and June 2020.
  - Considered and approved a temporary reduction in basic salary for the other senior managers for the three months of April, May and June 2020.
  - Cancelled all bonus awards for 2019/20 for Executive Directors and managers.
- Decided on levels of pay and benefit 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 2020/21.
- Reviewed and decided on levels of remuneration for the senior executive management team.

Other than giving effect to the salary waivers listed above, and the cancelling of bonus awards, the Committee exercised no other discretions during the year. The remuneration of executive directors was not considered by any other Committee or group of directors during the year.

### 8.5.2 Advisers

Following a competitive tendering process, the Committee appointed FIT Remuneration Consultants LLP ("FIT") on 16 October 2019 as its primary remuneration consultant to provide independent research and advice, and support on shareholder engagement. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct. During the year, FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. £40,731 was payable to FIT in respect of work it carried out in the year ended 2 May 2020. During the year, the Committee also received remuneration related services from Osborne Clarke LLP and paid fees of £10,800 (2019: £15,674). The fees payable to FIT and Osborne Clarke LLP were determined 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 either FIT or Osborne Clarke LLP.

## 8. Directors' remuneration report (continued)

### 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. Although the Company's financial year was the 53 weeks from 28 April 2019 to 2 May 2020, certain amounts are shown in this section 8.5 for the years ended 30 April 2019 and 30 April 2020 to improve year-on-year comparability.

Directors' remuneration and the single figure total for the year ended 30 April 2020 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

**TABLE 1 – DIRECTOR'S REMUNERATION – YEAR ENDED 30 APRIL**

|  | Basic Salary/Fees |              | Benefits in kind |              | Short-term Incentives (performance related bonus) |              | Long-term Incentives vested (LTIP) |              | Pension related benefits |              | Total        |              |
|--|-------------------|--------------|------------------|--------------|---|--------------|------------------------------------|--------------|--------------------------|--------------|--------------|--------------|
|  | 2020<br>£000      | 2019<br>£000 | 2020<br>£000     | 2019<br>£000 | 2020<br>£000                                      | 2019<br>£000 | 2020<br>£000                       | 2019<br>£000 | 2020<br>£000             | 2019<br>£000 | 2020<br>£000 | 2019<br>£000 |
| <b>Executive directors</b>   |                   |              |                  |              |   |              |                                    |              |                          |              |              |              |
| Martin Griffiths   | 625               | 652          | 24               | 24           | –   | 848          | –                                  | –            | 300                      | 279          | 949          | 1,803        |
| Ross Paterson  | 417               | 435          | 23               | 23           | –   | 565          | –                                  | –            | 204                      | 197          | 644          | 1,220        |
| <b>Non-executive directors</b>   |                   |              |                  |              |   |              |                                    |              |                          |              |              |              |
| Gregor Alexander   | 58                | 61           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 58           | 61           |
| James Bilefield  | 58                | 61           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 58           | 61           |
| Sir Ewan Brown (resigned 31 December 2019)                             | 35                | 53           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 35           | 53           |
| Dame Jayne-Anne Gadhia (appointed 1 March 2019; resigned 31 July 2019) | 14                | 5            | –                | –            | –   | –            | –                                  | –            | –                        | –            | 14           | 5            |
| Dame Ann Gloag (resigned 31 December 2019)                             | 37                | 56           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 37           | 56           |
| Ray O'Toole  | 99                | 61           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 99           | 61           |
| Sir Brian Souter   | 163               | 217          | –                | –            | –   | –            | –                                  | –            | –                        | –            | 163          | 217          |
| Julie Southern (resigned 31 August 2018)                               | –                 | 20           | –                | –            | –   | –            | –                                  | –            | –                        | –            | –            | 20           |
| Karen Thomson  | 58                | 61           | –                | –            | –   | –            | –                                  | –            | –                        | –            | 58           | 61           |
| Will Whitehorn   | 147               | 153          | –                | –            | –   | –            | –                                  | –            | –                        | –            | 147          | 153          |
| <b>Total</b>   | <b>1,711</b>      | <b>1,835</b> | <b>47</b>        | <b>47</b>    | <b>–</b>  | <b>1,413</b> | <b>–</b>                           | <b>–</b>     | <b>504</b>               | <b>476</b>   | <b>2,262</b> | <b>3,771</b> |

#### 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.

In the context of the COVID-19 situation, all of the Directors agreed to waive 50% of their basic pay for the three months of April to June 2020. The amounts shown in the basic salary/fees column in Table 1 are the reduced amounts, after taking account of the effect of those waivers for the month of April. The amounts of the waivers for the month falling within the year ended 30 April 2020 were, rounded to the nearest thousand, £27,000 for Martin Griffiths, £18,000 for Ross Paterson, £8,000 for Ray O'Toole, £6,000 for Will Whitehorn and £3,000 for each of Gregor Alexander, James Bilefield, Karen Thomson and Sir Brian Souter.

##### ii. Benefits in kind and other allowance

**TABLE 2 – BENEFITS IN KIND AND OTHER ALLOWANCES – YEAR ENDED 30 APRIL**

|                  | Cash allowance in lieu of company car |           | Healthcare benefits |           | Reimbursement of home telephone expenses |           | Employer BAYE contributions |           | Total     |           |
|------------------|---------------------------------------|-----------|---------------------|-----------|--|-----------|-----------------------------|-----------|-----------|-----------|
|                  | 2020<br>£                             | 2019<br>£ | 2020<br>£           | 2019<br>£ | 2020<br>£                                | 2019<br>£ | 2020<br>£                   | 2019<br>£ | 2020<br>£ | 2019<br>£ |
| Martin Griffiths | 22,000                                | 22,000    | 1,158               | 1,084     | 151                                      | 886       | 227                         | 226       | 23,536    | 24,196    |
| Ross Paterson    | 22,000                                | 22,000    | 1,158               | 1,084     | –  | –         | 227                         | 226       | 23,385    | 23,310    |
| Sir Brian Souter | –                                     | –         | –                   | –         | 146                                      | 304       | –                           | –         | 146       | 304       |

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. In light of the COVID-19 situation and in order to ensure fairness for all employees on the CJRS, from 6 April 2020, the Group has suspended share investments under the BAYE plan for the time being. 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 11.

##### iii. Performance-related bonus

In the context of the COVID-19 situation, the Executive Directors agreed to forego any bonus for 2019/20 and therefore the following notes in this section are to provide information in accordance with paragraph 12(2) of the 2013 Regulations. Around the start of each financial year, the Committee agrees specific objectives comprising both key financial and individual business related objectives for each director. For each executive director, the Group financial objectives for the year ended 2 May 2020 were with respect to adjusted measures of profit before interest and taxation, earnings per share, and net debt. For the year ended 2 May 2020, Martin Griffiths and Ross Paterson each had a maximum potential bonus of up to 130% of basic salary, which would have been made up of 100% from a range of key financial objectives and 30% for meeting individual business related objectives. As a result the maximum potential awards and the amounts awarded in respect of the year ended 2 May 2020 are summarised in Table 3:

## 8. Directors' remuneration report (continued)

**TABLE 3 – EXECUTIVE DIRECTORS' ANNUAL BONUSES FOR THE YEAR ENDED 2 MAY 2020**

|   | Chief Executive                   |             | Finance Director                  |             |
|---|-----------------------------------|-------------|-----------------------------------|-------------|
|   | Maximum bonus (% of basic salary) | Bonus award | Maximum bonus (% of basic salary) | Bonus award |
| Annual bonus in respect of financial objectives | 100.0%                            | N/A         | 100.0%                            | N/A         |
| Annual bonus in respect of personal objectives  | 30.0%                             | N/A         | 30.0%                             | N/A         |
| Bonus potential and awards for 2019/2020        | 130.0%                            | N/A         | 130.0%                            | N/A         |

Under the Policy, one-half of any bonus award would be paid in cash and the other half by an award of Deferred Bonus Shares under the EPP.

The financial targets set at the start of the year were as follows:

**TABLE 4 – DIRECTORS' FINANCIAL OBJECTIVES FOR THE YEAR ENDED 2 MAY 2020**

| Proportion of maximum potential achievable:   | Threshold 35% | Target 67% | Maximum 100% | Maximum Potential Bonus (% of basic salary) | Award |
|---|---------------|------------|--------------|---|-------|
| Consolidated adjusted profit before interest and taxation ("PBIT") from Group companies | £108.1m       | £120.0m    | £131.9m      | 33.4%                                       | N/A   |
| Consolidated adjusted earnings per share ("EPS")  | 13.6p         | 15.1p      | 16.6p        | 33.3%                                       | N/A   |
| Consolidated net debt ("Net Debt")  | £470.5m       | £450.5m    | £430.5m      | 33.3%                                       | N/A   |
| Element of bonus related to Group financial objectives                                  |               |            |              | 100.0%                                      |       |

A range of individual business related objectives for each director accounting for a bonus potential of 30% were set for each director at the start of the year. While good progress was being made during the year, the COVID-19 outbreak and resulting business responses eclipsed all of the objectives that had been set. The Directors and the Committee therefore agreed that no bonuses would be paid for 2019/20.

### iv. LTIP

No amount is shown in Table 1 in respect of the LTIP vestings. The December 2016 award achieved a TSR ranking of 185 out of the 224 companies in the comparator group over the performance period, and so did not pay out. Similarly, no amount is included for the August 2017 awards as it is considered unlikely they will pay out.

**TABLE 5 – LTIP AWARDS (treated as vested for inclusion in Table 1)**

| Grant date              | As at 27 April 2019 (Incentive Units) | Dividends in year (Incentive Units) | Lapsed during year (Incentive Units) | Vested during year (Incentive Units) | Price per incentive unit achieved on vesting | As at 2 May 2020 (Incentive Units) | Amounts included in Table 1 including dividend amounts £ | Vesting Date |
|-------------------------|---------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--|------------------------------------|--|--------------|
| <b>Martin Griffiths</b> |                                       |                                     |                                      |                                      |  |                                    |  |              |
| 8 Dec 16                | 261,200                               | 7,734                               | (268,934)                            | –                                    | n/a  | –                                  | –  | 8 Dec 19     |
| 25 Aug 17               | 316,235                               | 19,778                              | –                                    | –                                    | –  | 336,013                            | –  | 25 Aug 20    |
| <b>Ross Paterson</b>    |                                       |                                     |                                      |                                      |  |                                    |  |              |
| 8 Dec 16                | 174,160                               | 5,157                               | (179,317)                            | –                                    | n/a  | –                                  | –  | 8 Dec 19     |
| 25 Aug 17               | 210,839                               | 13,186                              | –                                    | –                                    | –  | 224,025                            | –  | 25 Aug 20    |

In the 2019 Annual Report, an estimate of nil value was included in respect of the June 2016 LTIP awards, and it is confirmed that this was in accordance with the actual vesting as no payment was made on vesting in June 2019.

### 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 any director's contributions.

### vi. External Appointments

Martin Griffiths was a non-executive director of A.G. Barr plc until 19 March 2020, and was permitted to retain the £58,095 fees received from this position in the year ended 30 April 2020 (2019: £58,292). Ross Paterson is a non-executive director of The Unite Group plc and was permitted to retain the £57,086 fees received from this position in the year ended 30 April 2020 (2019: £57,047).

## 8. Directors' remuneration report (continued)

### 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 6 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 2 May 2020 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. Pension benefits drawn before normal retirement age are discounted for early payment to the extent required under the rules of the relevant scheme and as determined by the trustees of the schemes.

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

**TABLE 6 – DIRECTORS' PENSION BENEFITS**

| Director name    | Normal Retirement date | Contributions paid by the director for the year ended 2 May 2020<br>£000 | Accrued cash entitlement at 27 April 2019<br>£000 | Accrued annual pension entitlement at 27 April 2019<br>£000 | Accrued cash entitlement at 2 May 2020<br>£000 | Accrued annual pension entitlement at 2 May 2020<br>£000 |
|------------------|------------------------|--|---|---|--|--|
| Martin Griffiths | 31 March 26            | 59   | 178   | 197   | 182  | 219  |
| Ross Paterson    | 29 July 31             | 39   | 145   | 116   | 148  | 130  |

The totals above include pension benefits accrued for service prior to appointment as a director of the Company. Directors' contributions to pension schemes as shown in Table 6 above are made by way of salary sacrifice arrangements.

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

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

Tables 7 and 9 set out the awards to the Executive Directors under the Company's share schemes during the year ended 2 May 2020.

**TABLE 7 – LTIP AWARDS IN YEAR**

| Award date              | Type of interest awarded | Share price at time of award<br>£ | Basis of award (% of basic salary) | Awards granted in year (Incentive Units) | Expected total value of award at time of grant<br>£ | Face value of awards at time of award<br>£ | Vesting date     | Performance period (approximate)   |
|-------------------------|--------------------------|-----------------------------------|------------------------------------|--|---|--|------------------|------------------------------------|
| <b>Martin Griffiths</b> |                          |                                   |                                    |  |   |  |                  |                                    |
| 27 June 2019            | Incentive Units          | 1.2100                            | 150%                               | 404,132                                  | 334,561   | 489,000                                    | 27 June 2022     | 1 May 2019 to 30 April 2022        |
| 12 December 2019        | Incentive Units          | 1.3680                            | 150%                               | 357,456                                  | 334,561   | 489,000                                    | 12 December 2022 | 1 November 2019 to 31 October 2022 |
| <b>Ross Paterson</b>    |                          |                                   |                                    |  |   |  |                  |                                    |
| 27 June 2019            | Incentive Units          | 1.2100                            | 150%                               | 269,442                                  | 223,058   | 326,025                                    | 27 June 2022     | 1 May 2019 to 30 April 2022        |
| 12 December 2019        | Incentive Units          | 1.3680                            | 150%                               | 238,322                                  | 223,057   | 326,024                                    | 12 December 2022 | 1 November 2019 to 31 October 2022 |

Each Incentive Unit shown in Table 7 has a notional face value equal to one of the Company's ordinary shares and was granted as a cash-settled award. The closing price on the preceding dealing day was used to determine the number of Incentive Units.

For each LTIP award, the Committee considers the prevailing share price and the number of Incentive Units that should be awarded. For 2018/19, due to ongoing corporate activity, only a single tranche of awards was granted in December 2018 (which also covered the expected usual June 2018 awards which were not made). The average share price was higher and, the number of Incentive Units awarded was lower, than they would have been had the awards been made as usual in June and December. Taking into account further share price movements, the Committee was satisfied that the number of Incentive Units granted in 2019/20 was appropriate.

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 Total Shareholder Return ("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 earnings per share over a three-year performance period. The threshold and upper performance targets for the awards over the three-year performance period are as follows:

**TABLE 8 – EARNINGS PER SHARE PERFORMANCE CRITERIA**

| Award date       | Threshold | Maximum |
|------------------|-----------|---------|
| 27 June 2019     | 12.7p     | 14.3p   |
| 12 December 2019 | 12.1p     | 13.6p   |

## 8. Directors' remuneration report (continued)

**TABLE 9 – EPP AWARDS IN YEAR**

| Award date              | Type of interest awarded | Share price at time of award<br>£ | Basis of award (% of basic salary) | Awards granted in year (Deferred Bonus Shares) | Maximum and expected total value of award at time of grant<br>£ | Vesting date | Performance period |
|-------------------------|--------------------------|-----------------------------------|------------------------------------|--|---|--------------|--------------------|
| <b>Martin Griffiths</b> |                          |                                   |                                    |  |   |              |                    |
| 27 June 2019            | Deferred Bonus Shares    | 1.2100                            | 50%                                | 350,247  | 423,799   | 27 June 2022 | n/a                |
| <b>Ross Paterson</b>    |                          |                                   |                                    |  |   |              |                    |
| 27 June 2019            | Deferred Bonus Shares    | 1.2100                            | 50%                                | 233,516  | 282,554   | 27 June 2022 | n/a                |

Each Deferred Bonus Share shown in Table 9 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 Bonus Shares because the annual bonus is already subject to performance conditions.

### 8.5.6 Payments to past directors (audited)

Other than in respect of pension entitlements accrued during employment with the Group, there have been no payments (2019: £Nil) in excess of the de minimis threshold to former directors during the year ended 2 May 2020 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 2 May 2020 (2019: £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 Company with a value of at least 200% of basic salary. For these purposes, EPP Deferred Bonus 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. Unvested LTIP Incentive Units and RSP awards are not included in this measurement. The percentage share interests that follow are on that basis. The Committee noted that both directors again increased their interest in the number of shares held outright during the year and that there was no divestment in the year by either director. Consistent with the experience of many companies, the Company's share price has been subject to much volatility over the COVID-19 period reflecting market turbulence and uncertainty and this affected the value of the directors' shareholding interest as at 2 May 2020. Despite the increases in holdings over the year, Martin Griffiths had an interest in shares equivalent to 98% (2019: 141%) of his basic salary (before the effect of waivers) and Ross Paterson an interest in shares equivalent to 98% (2019: 139%) of his basic salary (before the effect of waivers). As such, they are below the intended target because of the fall in the Company's share price. The Committee appreciates that each director has continually invested in the shares over a prolonged period of time, and notes that on a cost basis their interest in the shares are nearer three times their basic salaries on a post-tax basis, and so in effect reflects an investment in shares of nearly six years' basic salary on a pre-tax basis. Each director has also undertaken to further increase their holdings by retaining shares received from the vestings of the share incentive schemes. As such, the Committee remains fully satisfied that both directors have built and retain 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 2 May 2020 were:

**TABLE 10 – DIRECTORS' INTEREST IN SHARES OF THE COMPANY AS AT 2 MAY 2020**

|                                | Interests as at<br>2 May 2020 |   |   |  | Vested during year<br>ended 2 May 2020                                     |
|--------------------------------|-------------------------------|---|---|--|--|
|                                | Shares held<br>outright       | LTIP Incentive Units<br>(subject to<br>performance<br>conditions) | EPP Deferred<br>Bonus Shares<br>(not subject to<br>performance<br>conditions) | BAYE Shares<br>(not subject to<br>performance<br>conditions) | EPP Deferred Bonus<br>Shares (not subject to<br>performance<br>conditions) |
| <b>Executive Directors</b>     |                               |   |   |  |  |
| Martin Griffiths               | 635,164                       | 2,098,275   | 467,106   | 9,042  | 87,972   |
| Ross Paterson                  | 355,605                       | 1,398,954   | 431,191   | 9,042  | 58,648   |
| <b>Non-Executive Directors</b> |                               |   |   |  |  |
| Gregor Alexander               | 10,406                        | –   | –   | –  | –  |
| James Bilefield                | –                             | –   | –   | –  | –  |
| Ray O'Toole                    | –                             | –   | –   | –  | –  |
| Sir Brian Souter               | 86,900,445                    | –   | –   | –  | –  |
| Karen Thomson                  | 11,071                        | –   | –   | –  | –  |
| Will Whitehorn                 | 72,888                        | –   | –   | –  | –  |

## 8. Directors' remuneration report (continued)

Further details of directors' interests in the LTIP, EPP and BAYE schemes are shown in Table 11 below.

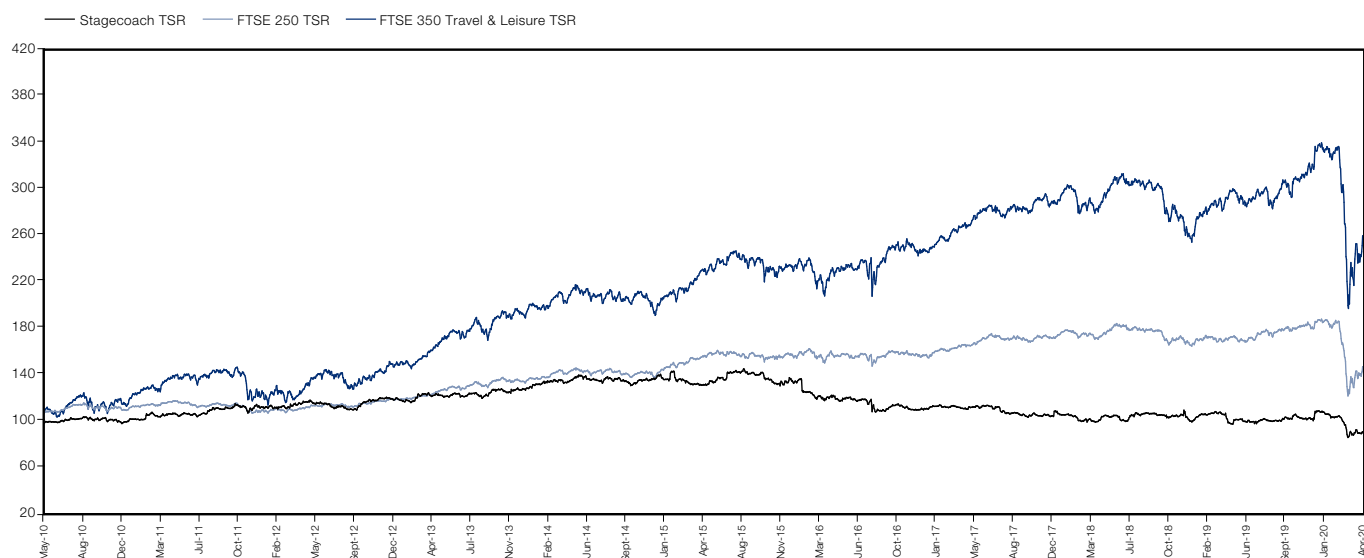
**TABLE 11 – SUMMARY OF INTERESTS IN THE LTIP, EPP AND BAYE SCHEMES**

|                                     | As at<br>27 April 2019 | Granted in year | Dividends in year | Lapsed<br>during year | Vested<br>during year | As at<br>2 May 2020 | Vesting Date |
|-------------------------------------|------------------------|-----------------|-------------------|-----------------------|-----------------------|---------------------|--------------|
| <b>Long Term Investment Plan</b>    |                        |                 |                   |                       |                       |                     |              |
| Martin Griffiths                    | 252,484                | –               | –                 | (252,484)             | –                     | –                   | 25 Jun 19    |
|                                     | 261,200                | –               | 7,734             | (268,934)             | –                     | –                   | 8 Dec 19     |
|                                     | 316,235                | –               | 19,778            | –                     | –                     | 336,013             | 25 Aug 20    |
|                                     | 295,774                | –               | 18,498            | –                     | –                     | 314,272             | 7 Dec 20     |
|                                     | 611,450                | –               | 38,243            | –                     | –                     | 649,693             | 7 Dec 21     |
|                                     | –                      | 404,132         | 25,276            | –                     | –                     | 429,408             | 27 Jun 22    |
|                                     | –                      | 357,456         | 11,433            | –                     | –                     | 368,889             | 12 Dec 22    |
|                                     | 1,737,143              | 761,588         | 120,962           | (521,418)             | –                     | 2,098,275           |              |
| Ross Paterson                       | 168,347                | –               | –                 | (168,347)             | –                     | –                   | 30 Jun 19    |
|                                     | 174,160                | –               | 5,157             | (179,317)             | –                     | –                   | 8 Dec 19     |
|                                     | 210,839                | –               | 13,186            | –                     | –                     | 224,025             | 25 Aug 20    |
|                                     | 197,197                | –               | 12,333            | –                     | –                     | 209,530             | 7 Dec 20     |
|                                     | 407,664                | –               | 25,497            | –                     | –                     | 433,161             | 7 Dec 21     |
|                                     | –                      | 269,442         | 16,851            | –                     | –                     | 286,293             | 27 Jun 22    |
|                                     | –                      | 238,322         | 7,623             | –                     | –                     | 245,945             | 12 Dec 22    |
|                                     | 1,158,207              | 507,764         | 80,647            | (347,664)             | –                     | 1,398,954           |              |
| <b>Executive Participation Plan</b> |                        |                 |                   |                       |                       |                     |              |
| Martin Griffiths                    | 87,972                 | –               | –                 | –                     | (87,972)              | –                   | 30 Jun 19    |
|                                     | 89,279                 | –               | 5,601             | –                     | –                     | 94,880              | 29 Jun 20    |
|                                     | –                      | 350,247         | 21,979            | –                     | –                     | 372,226             | 27 Jun 22    |
|                                     | 177,251                | 350,247         | 27,580            | –                     | (87,972)              | 467,106             |              |
| Ross Paterson                       | 58,648                 | –               | –                 | –                     | (58,648)              | –                   | 30 Jun 19    |
|                                     | 57,640                 | –               | 3,616             | –                     | –                     | 61,256              | 29 Jun 20    |
|                                     | 114,577                | –               | 7,189             | –                     | –                     | 121,766             | 6 Dec 21     |
|                                     | –                      | 233,516         | 14,653            | –                     | –                     | 248,169             | 27 Jun 22    |
|                                     | 230,865                | 233,516         | 25,458            | –                     | (58,648)              | 431,191             |              |
| <b>Buy as you Earn Scheme</b>       |                        |                 |                   |                       |                       |                     |              |
| Martin Griffiths                    | 6,894                  | 1,637           | 511               | –                     | –                     | 9,042               | n/a          |
| Ross Paterson                       | 6,894                  | 1,637           | 511               | –                     | –                     | 9,042               | 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 the end of April 2020 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 the end of April 2020:



Source: Datastream

Note: TSR shows a theoretical growth in value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. For unit trusts, the closing bid price is used.

## 8. Directors' remuneration report (continued)

For comparative purposes, the pay for the role of Chief Executive over time is shown in Table 12 below.

**TABLE 12 – PAY FOR THE ROLE OF CHIEF EXECUTIVE – YEAR ENDED 30 APRIL**

| Year ended April:                              | Sir Brian Souter* |       |       | Martin Griffiths |       |       |       |      |       |      |
|--|-------------------|-------|-------|------------------|-------|-------|-------|------|-------|------|
|  | 2011              | 2012  | 2013  | 2014             | 2015  | 2016  | 2017  | 2018 | 2019  | 2020 |
| Bonus (percentage of maximum)*                 | 46%               | 47%   | 64%   | 100%             | 65%   | 53%   | 47%   | 0%   | 100%  | 0%   |
| LTIP vesting rates against maximum opportunity | 0%                | n/a   | 61%   | 56%              | 10%   | 0%    | 0%    | 0%   | 0%    | 0%   |
| Single figure of total remuneration (£000)     | 1,269             | 1,227 | 3,443 | 2,212            | 1,451 | 1,316 | 1,313 | 987  | 1,803 | 949  |

\* 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 businesses. Therefore the bonus percentages shown in Table 12 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 13 below.

**TABLE 13 – BONUS AWARDED TO CHIEF EXECUTIVE (BEFORE WAIVERS)**

| (before waivers)              | Year ended April: | Sir Brian Souter |      |      |
|-------------------------------|-------------------|------------------|------|------|
|                               |                   | 2011             | 2012 | 2013 |
| Bonus (percentage of maximum) |                   | 90%              | 90%  | 90%  |

The total remuneration figures in Table 12 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 Remuneration pay ratio

The table below shows the ratio of the Chief Executive's pay to the 25th ("P25"), median ("P50") and 75th ("P75") percentile total remuneration of full time equivalent UK employees in accordance with legislation which came into effect for financial years starting on or after 1 January 2019.

The Company has used its gender pay gap data (Option B in the Directors' Reporting Regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions across the UK workforce. This option was chosen given the size and complexity of the exercise required to produce these ratios using other means and on the basis that the Company has already completed comprehensive data collation and analysis for the purposes of gender pay gap reporting. We have calculated the annual remuneration relating to 2019/20 for the three identified employees on the same basis as the Chief Executive's total remuneration in Table 1 to produce the ratios below:

**TABLE 14 – PAY RATIO TABLE**

| Method   | Financial year | 25th percentile        | 50th percentile | 75th percentile |            |
|--|----------------|------------------------|-----------------|-----------------|------------|
| Option B – ratio of Chief Executive total pay to relevant employee's total pay | 2019/20        | 40:1                   | 39:1            | 38:1            |            |
|  |                | <b>Chief Executive</b> | <b>P25</b>      | <b>P50</b>      | <b>P75</b> |
| Total pay (£)  | 949,000        | 23,452                 | 24,265          | 24,869          |            |
| Base salary (£)  | 625,000        | 22,653                 | 23,696          | 24,796          |            |

Notes to Table 14:

- Total pay for the percentile employees include the following pay elements: base salary, overtime pay, bonus and employer pension contributions. No other benefits or long-term incentive award was payable to the employees at the above percentiles.
- For weekly paid employees whose pay is based on actual hours worked, we have pro-rated pay accordingly to calculate full time equivalent total pay on an annualised basis.
- The information used excludes any employees on reduced pay in the data list.
- The Remuneration Committee is satisfied that using this population and methodology delivers a representative Chief Executive pay ratio relative to the general employee workforce.

Staff costs are a substantial proportion of the Group's costs. To ensure we continue to support the success of the Group and remain competitive in the transport markets in which we operate, the Group endeavours to offer remuneration that attracts and retains high quality employees but does not result in the Group's cost base being uncompetitive in the relevant markets. Remuneration for the vast majority of the Group's employees is therefore driven by the particular markets in which we operate. In attracting and retaining directors and senior managers, we compete with organisations from a range of sectors and for those employees, remuneration is less affected by the particular transport markets we operate in and more by pay rates for the relevant roles more generally.

## 8. Directors' remuneration report (continued)

### 8.5.11 Chief Executive percentage change in remuneration (audited)

The change in the Chief Executive's remuneration from 2018/19 to 2019/20 in comparison to a comparator group of employees is shown in Table 15 below.

**TABLE 15 – PERCENTAGE CHANGE IN REMUNERATION FOR THE ROLE OF CHIEF EXECUTIVE**

|                        | Chief Executive<br>% change | Comparator group<br>% change |
|------------------------|-----------------------------|------------------------------|
| Salary (net of waiver) | (4.1)%                      | 4.7%                         |
| Benefits               | (2.7)%                      | 7.4%                         |
| Bonus*                 | n/a                         | n/a                          |

\* In light of COVID-19, no bonuses are payable for 2019/2020 to the Chief Executive or the relevant staff so the % change is not applicable.

The comparator group used comprises over 300 employees including the senior management team, the corporate head office employees 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 for the broader workforce.

### 8.5.12 Relative importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 2 May 2020 and the year ended 27 April 2019. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

**TABLE 16 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS**

|  | 2020<br>£ | 2019<br>£ | Percentage<br>change |
|--|-----------|-----------|----------------------|
| Profit distributed by way of dividends to shareholders | 42.6      | 44.1      | (3.4)%               |
| Overall spend on pay for employees                     | 815.3     | 1,124.0   | (27.5)%              |

The fall in the overall spend on pay for employees reflects the sale of the North American Division in April 2019 and the expiry of the Group's East Midlands Trains franchise in August 2019.

### 8.5.13 Shareholder voting at general meetings

The following table shows the results of the vote on the 2019 remuneration report at the 2019 Annual General Meeting, along with the last vote on the policy from the 2017 Annual General Meeting.

**TABLE 17 – SHAREHOLDER VOTES**

|   | Directors' 2019<br>Remuneration Report |                 | Directors' 2017<br>Remuneration Policy |                 |
|---|--|-----------------|--|-----------------|
|   | Total number of votes                  | % of votes cast | Total number of votes                  | % of votes cast |
| For+  | 364,967,243                            | 82.46%          | 435,077,565                            | 94.70%          |
| Against                                     | 77,615,692                             | 17.54%          | 24,354,070                             | 5.30%           |
| Total votes cast (excluding withheld votes) | 442,582,935                            | 100.00%         | 459,431,635                            | 100.00%         |
| Votes withheld*                             | 117,389                                |                 | 215,151                                |                 |
| Total votes cast (including withheld votes) | 442,700,324                            |                 | 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.

The Committee noted the percentage of votes cast against the Directors' 2019 Remuneration Report. The shareholders with the largest shareholdings in the Company voted in favour of the resolution, and the Committee understands that the votes against mainly reflected concerns around the Executive Directors' bonuses and the related disclosures. The Committee has since consulted extensively with shareholders and feedback has informed the decisions made as part of the remuneration policy review.

### 8.5.14 Implementation of remuneration policy in the financial year ending 1 May 2021

In the year ending 1 May 2021, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

#### 8.5.14.1 Implementation of Executive Directors' remuneration policy

##### 8.5.14.1.1 Fixed elements – basic salary

In response to the COVID-19 crisis, all of the Directors agreed to waive 50% of their basic pay for the three months from 1 April 2020, to waive 20% of their basic pay from 1 July, and to instigate a pay freeze for directors and managers for 2020/21. This represented the third consecutive year of a freeze in basic pay for the Executive Directors. The percentage change in Table 18 is based on the annual salary levels before the impact of the COVID-related waivers of basic pay. For information, the actual salaries paid for 2019/20 reflecting the impact of the COVID-related waivers is shown in the rightmost column.



## 8. Directors' remuneration report (continued)

**TABLE 18 – CHANGE IN BASIC SALARY – YEAR ENDING/ENDED 30 APRIL**

|                  | 2020/21 salary<br>(before waivers)<br>£ | 2019/20 salary<br>(before waivers)<br>£ | Percentage<br>Change | 2019/20 actual salary<br>(net of waivers)<br>£ |
|------------------|---|---|----------------------|--|
| Martin Griffiths | 652,000                                 | 652,000                                 | 0.0%                 | 624,833  |
| Ross Paterson    | 434,700                                 | 434,700                                 | 0.0%                 | 416,588  |

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

### 8.5.14.1.2 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 1 May 2021 has been retained at 130% of basic salary, and subject to approval of the 2020 Policy, the nominal value of RSP awards will be 75% of basic salary.

### Short-term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the current Directors' remuneration policy and the 2020 Policy. Targets are approved by the Remuneration Committee around the beginning of the year. For 2020/21, each director has a maximum potential bonus of up to 130% of basic salary, with up to 100% of this being based on achieving demanding financial objectives relating to liquidity and financial stability and up to 30% based on achieving specified personal objectives, related to steering the Company through the COVID-19 pandemic. The on-target level of bonus award for financial targets has been set at 67.5% of basic pay, and 15% available for individual business related targets producing a total on-target level of bonus of 82.5% of basic pay. Payout at threshold level on the financial targets under the current policy is set at 35% for 2020/21, and payout for maximum performance on demanding financial targets limited to 100% of basic pay.

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 2020/21 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 1 May 2021 in the 2021 Annual Report. Similarly, the Committee is of the view that the 2020/21 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 2021 Annual Report. 50% of any actual bonus earned in the year would ordinarily be satisfied by an award of Deferred Bonus Shares under the EPP.

### Restricted Share Plan awards

Subject to approval of the 2020 Policy at the 2020 Annual General Meeting, Restricted Share Awards ("RSA") will be issued under the RSP with a maximum nominal value in any year of 75% of basic pay. Awards will vest one-third each year from the end of year four. The shares that vest at year four must additionally be held for five years from date of grant, ensuring that all RSAs provide a minimum five-year lock-in and alignment. All RSAs are subject to underpins as explained in section 8.4.2.2.

A summary of the intended awards during the year ending 1 May 2021 is provided in Table 19 below.

**TABLE 19 – INTENDED RSP AWARDS 2020/21**

|                  | Award Type        | Face value of award<br>(% of salary) | Release schedule – proportion of award |          |          |
|------------------|-------------------|--------------------------------------|--|----------|----------|
|                  |                   |                                      | Oct 2024                               | Oct 2025 | Oct 2026 |
| Martin Griffiths | Restricted Shares | 75%                                  | 33.3%                                  | 33.3%    | 33.3%    |
| Ross Paterson    | Restricted Shares | 75%                                  | 33.3%                                  | 33.3%    | 33.3%    |

### 8.5.14.2 Implementation of Non-Executive Directors' remuneration policy

The implementation of policy in relation to the Non-Executive Directors is in line with the Directors' remuneration policy. The Chairman's fee is set by the Remuneration Committee and each other 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 2019/20, once again there are no increases to the fees for non-executive directors for the 2020/21 financial year. Sir Brian Souter was the Group Chairman until 31 December 2019, with an annualised fee of £217,400. Ray O'Toole took over the role of Group Chairman on an annualised fee of £195,000. In response to the COVID-19 crisis, the Directors agreed to waive 50% of their basic pay for the three months from 1 April 2020 and 20% of their basic pay from 1 July 2020. The figures in Table 20 below show the Directors' fees before any reductions for the COVID-related waivers.

**TABLE 20 – NON-EXECUTIVE DIRECTOR FEES**

| (% of basic salary)                   | 2020/21 Annual fee levels<br>£ | 2019/20 Annual fee levels<br>£ |
|---------------------------------------|--------------------------------|--------------------------------|
| Fees for role of Chairman             | 195,000                        | 217,400                        |
| Deputy chairman*                      | 153,000                        | 153,000                        |
| Other non-executive directors (range) | 60,900                         | 52,500-60,900                  |

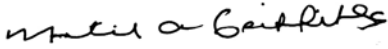
\* The role of Deputy chairman was discontinued following Will Whitehorn's retirement from the Board on 30 June 2020.

## 9. Responsibility statement

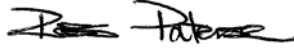
The Directors confirm that to the best of their knowledge:

- 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 22 July 2020 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

### Our unmodified opinion on the financial statements

#### 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 2 May 2020 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.

#### What we audited

We have audited the consolidated and Company financial statements of Stagecoach Group plc for the year ended 2 May 2020, which are included in the Annual Report, and comprise:

| Group  | Parent company   |
|--|--|
| Consolidated income statement for the year ended 2 May 2020  | Company balance sheet as at 2 May 2020                           |
| Consolidated statement of comprehensive income for the year ended 2 May 2020   | Company statement of changes in equity                           |
| Consolidated balance sheet (statement of financial position) as at 2 May 2020  | Related notes 1 to 16 to the parent Company financial statements |
| Consolidated statement of changes in equity  |  |
| Consolidated statement of cash flows for the year ended 2 May 2020   |  |
| Related notes 1 to 34 to the consolidated financial statements, including a summary of significant accounting policies |  |

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 our 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.

#### Our 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) require 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 the Annual Report and financial statements, and their identification of any material uncertainties to the Group's ability to continue as a going concern 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.

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

## Overview of Our Audit Approach

The following table provides an overview of our audit approach:

|                          |  |
|--------------------------|--|
| <b>Key audit matters</b> | <ul style="list-style-type: none"> <li>Valuation of provision for claims</li> <li>Valuation of pension liabilities</li> <li>Valuation of North America deferred payment instrument</li> <li>Management override of controls in relation to revenue recognition and government assistance receivable</li> <li>Impact of COVID-19 on the Group's going concern assessment</li> </ul> |
| <b>Audit scope</b>       | <ul style="list-style-type: none"> <li>We performed an audit of the complete financial information of 12 components and audit procedures on specific balances for a further 23 components</li> <li>The components where we performed full or specific audit procedures accounted for 98% of profit before tax, 99% of revenue and 99% of total assets</li> </ul>                   |
| <b>Materiality</b>       | <ul style="list-style-type: none"> <li>Overall Group materiality of £4.5m represents 5.0% of profit before tax ("PBT") excluding separately disclosed items</li> </ul>   |

## Our assessment of 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  |
|---|---|---|
| <p><b>Valuation of provision for claims</b></p> <p>The bus insurance claims provision is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. The risk is unchanged compared to 2019.</p> <p>Refer to the Audit Committee report (section 5.4.1), accounting policies in note 1, and note 23 to the consolidated financial statements.</p> <p>As at 2 May 2020, the Group recognised total claims provisions amounting to £106.8m (2019: £97.0m), of which £99.9m (2019: £92.9m) relates to amounts payable on individual claims in relation to the bus businesses.</p> <p>The Group protects against the cost of bus claims 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | <p>We gained an understanding of management's key controls and processes in place to assess claims and related provisions.</p> <p>We evaluated the appropriateness of the processes, methodologies and assumptions used by management through performance of our process walkthrough tests.</p> <p>We assessed the terms and conditions within the insurance policy documents to ensure all relevant terms have appropriately been considered in the provision calculation.</p> <p>Through the involvement of our insurance actuarial specialists, we evaluated the independence, competence, capabilities and objectivity of management's external actuarial specialists, and the appropriateness of the processes, methodologies and assumptions used by them.</p> <p>We challenged management's assumptions and methodology in relation to the volatility adjustment by corroborating to comparable benchmarks and considering contra indicators. 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 claims provisions recorded.</p> <p>We corroborated a sample of both open and closed claims, and reserve movements to source documentation.</p> <p>We recalculated the arithmetical accuracy of the model used by management.</p> <p>We assessed the adequacy of disclosures.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY insurance actuarial specialists.</p> | <p>Based on our consideration of management's actuarial experts' report and testing of source claims data, we concluded that the methodology, assumptions and approach used by management's specialists was appropriate.</p> <p>We have also confirmed that management's adjustments to the actuarial central estimate are appropriate and we did not note any material exceptions based on our testing of the claims and settlement information.</p> <p>We concluded that the valuation of the bus insurance claims provision is appropriate and are satisfied with the adequacy of the related disclosures within the financial statements.</p> |

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

| Risk  | Our response to the risk  | Key observations communicated to the Audit Committee   |
|---|---|--|
| <p><b>Valuation of pension liabilities</b></p> <p>The valuation of pension liabilities is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. The risk is unchanged compared to 2019.</p> <p>Refer to the Audit Committee report (section 5.4.1), accounting policies in note 1, and notes 7 and 24 to the consolidated financial statements.</p> <p>At 2 May 2020, the Group recognised a net pension deficit of £413.1m (2019: £197.7m).</p> <p>The significant risk relates to the potential misstatement of the gross pension liabilities of £2,026.1m (2019: £2,439.9m) due to the significant judgements being exercised by management in determining the appropriate underlying actuarial assumptions.</p>  | <p>We understood and walked through management's process and methodology for calculating the pension liability for each of the pension schemes.</p> <p>We evaluated the competence and objectivity of management's external actuarial specialists.</p> <p>Through the involvement of our internal pension actuarial specialists, we corroborated key assumptions (including discount rate, life expectancies of scheme members and inflation rate) 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.</p> <p>We tested a sample of the membership data used by the actuaries to source documentation.</p> <p>We assessed the adequacy of disclosures within the financial statements.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of our actuarial specialists.</p>   | <p>We concluded that management's judgements in relation to the underlying actuarial assumptions are appropriate and that the recorded balances lie within our acceptable range.</p> <p>We are satisfied with the adequacy of the related disclosures within the financial statements.</p> |
| <p><b>Valuation of North America deferred payment instrument</b></p> <p>The fair valuation of the deferred payment instrument is a key source of estimation uncertainty that includes significant management judgement. Following the disposal of the North America Division in April 2019, the only remaining key audit matter relates to the valuation of the North America deferred payment instrument.</p> <p>Refer to the Audit Committee report (section 5.4.1) accounting policies in note 1, and notes 4, 17 and 25 to the consolidated financial statements.</p> <p>On 16 April 2019, the Group completed its disposal of the North American Division. The consideration for the disposal included a non-cash consideration of US\$65m (£49.6m) by way of a deferred payment instrument from the purchaser.</p> <p>The deferred payment instrument is time limited and the fair value is determined by evaluating the probability of certain possible outcomes and default risk, which are not within the control of the Group.</p> <p>The significant risk arises because of the level of judgement applied by management in determining the fair value of the deferred payment instrument at the balance sheet date. The Group has recorded a receivable as at 2 May 2020 of £4.5m (2019: £22.3m).</p> | <p>We gained an understanding of management's key processes and controls in place to determine the fair value of the deferred payment instrument.</p> <p>Through the involvement of our valuation specialists, we assessed the appropriateness of the methodologies used by management to derive the fair value of this deferred payment instrument.</p> <p>We used our valuation specialists to assist us in considering the fair value of the deferred payment instrument and in assessing key assumptions. In doing so, we performed an assessment of cash flow forecasts and discount rate, taking into consideration the probability of various outcomes and possible risks of default.</p> <p>We made direct enquiries of the purchaser of the North American business to challenge the assumptions used in the underlying cashflows that form the basis of the fair value calculation of the deferred payment instrument. This included assessing the impact of COVID-19 on those cashflows.</p> <p>We obtained corroborative evidence for the explanations provided by management by comparing key assumptions to market data.</p> <p>We assessed the adequacy of disclosures within the financial statements.</p> <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our valuation specialists.</p> | <p>We concluded that the fair value of the non-cash consideration has been determined using an appropriate valuation methodology, appropriate judgements and that the deferred payment instrument is appropriately recognised and disclosed in the financial statements.</p>               |

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

| Risk   | Our response to the risk   | Key observations communicated to the Audit Committee  |
|--|--|---|
| <p><b>Management override of controls in relation to revenue recognition and government assistance receivable</b></p> <p>This is a risk of error in revenue due to the non-routine nature of the timing and valuation of certain revenue, as well as the government support that the Group has received in the form of COVID-19 grant income. The risk is elevated compared to 2019.</p> <p>Refer to the Audit Committee report (section 5.4.1) accounting policies in note 1, and notes 2 and 3 to the consolidated financial statements.</p> <p>For the year ended 2 May 2020, the Group recognised revenue from continuing operations of £1,417.6m (2019: £1,878.9m).</p> <p>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 reflect appropriately the timing and valuation of revenue recognised, for example cash received for the sale of season tickets or travel cards.</p> <p>The relevant government bodies have continued to make Bus Service Operator Grant payments, and concession and tender payments close to pre-COVID levels in order to help provide support to operators in order to maintain a level of service required. Additionally, Transport for London ("TfL") has paid contractual revenue amounts at pre-COVID levels, with a variable cost saving mechanism whereby contract revenue amounts are adjusted down by the variable costs saved as a result of running reduced services.</p> <p>For the year ended 2 May 2020, the Group recognised government assistance, in relation to COVID-19 grant income, of £38.3m (2019: £Nil) within other operating income.</p> <p>The Government has provided various sources of support to the Group as part of the wider support to the transport industry in response to COVID-19, and the dependency the Government has on these operators to continue running essential services to transport key workers around the country. As a result, we have included additional considerations around management override risk in relation to government assistance received.</p> <p>The key sources of funding primarily comprise the COVID-19 Bus Services Support Grant ("CBSSG") and the Coronavirus Job Retention Scheme ("CJRS"). Whilst amounts receivable under both schemes are material, there is minimal estimation uncertainty regarding CJRS and therefore our risk relates to CBSSG income recognition.</p> <p>The CBSSG income received is subject to a reconciliation process and potential claw back as part of a Department for Transport ("DfT") reconciliation process. These reconciliations are not expected to be confirmed by the DfT until later in 2020/21. Furthermore, the terms and conditions note that the DfT reserves the right to change the calculation methodology at any time during the scheme period.</p> | <p>We obtained an understanding of the key controls and processes in place over revenue recognition, government assistance receivable and the recording of manual journal entries.</p> <p>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.</p> <p>At full and specific scope locations, we used risk-based filters to test material manual journal entries to revenue through to supporting evidence to confirm that the revenue recognised was appropriate and was in line with the Group's accounting policy.</p> <p>In relation to TfL revenues and UK Bus regional concession and tender revenues, we reviewed correspondence with TfL, DfT and local authorities as appropriate to confirm the terms and conditions of amounts received and receivable, ensuring that revenue was recognised appropriately and in accordance with IFRS 15.</p> <p>In relation to CBSSG income recognised as other operating income, we reviewed management's income recognition estimate and agreed a sample of the costs to supporting records and agreed the nature of the costs to the guidance provided by the DfT in relation to eligible costs. We challenged assumptions particularly where the guidance from the DfT was subject to interpretation and judgement.</p> <p>We sent a letter to the DfT to seek clarification of our understanding of the scheme and the application of the guidance applied by management. The responses from the DfT allowed us to determine that management's estimate was appropriate in accordance with the guidance issued and IAS 20.</p> <p>We assessed the adequacy of disclosures within the financial statements, particularly in relation to the estimation uncertainty of the CBSSG income recognition.</p> | <p>On the basis of the procedures performed, we have concluded that revenue and government assistance have been recognised and disclosed appropriately in the financial statements.</p> |

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

| Risk   | Our response to the risk  | Key observations communicated to the Audit Committee  |
|--|---|---|
| <p><b>Impact of COVID-19 on the Group's going concern assessment</b></p> <p>The COVID-19 pandemic has had a significant impact on the financial performance of the Group and on the sustainability of the Group's operations. This is a new risk.</p> <p>Refer to the Audit Committee Report (section 5.4.1), Directors' report (section 3.11), accounting policies in note 1, and notes 3, 25 and 33 to the consolidated financial statements.</p> <p>The Group's financial statements are prepared on the going concern basis of accounting.</p> <p>Since early 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity, which has led to a significant reduction in passenger numbers across the transport industry and may ultimately impact Stagecoach Group's future performance and asset values.</p> <p>Stagecoach Group plc has been designated by the government as an 'essential' services company, providing critical transport services for key workers and other essential journeys, and has therefore continued to operate a reduced frequency service throughout the pandemic. However, there have been a number of impacts for the business in the current year and also on the short to medium-term forecasts as discussed in the Strategic report in section 1 of the Annual Report.</p> <p>Our audit focus has been on the following key areas:</p> <ul style="list-style-type: none"> <li>• Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect the impact of the COVID-19 pandemic and resulting liquidity and covenant headroom;</li> <li>• The adequacy of the disclosures made in the Annual Report and financial statements.</li> </ul> | <p>We assessed the going concern assumption adopted by the Directors of Stagecoach Group plc, which included:</p> <ul style="list-style-type: none"> <li>• We confirmed our understanding of the going concern process and engaged with management early to ensure all key matters were considered in its assessment;</li> <li>• We obtained management's board approved forecast cash flows and covenant calculation covering the review period from the date of signing to 31 July 2021;</li> <li>• We performed reverse stress testing on management's forecasts to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom or a covenant breach;</li> <li>• We reviewed management's assessment of plausible controllable mitigations available to the Group to reduce cash flow spend in the going concern period in order to determine whether such actions could be affected;</li> <li>• We assessed management's future passenger assumptions by comparing these to an independent report prepared by management's advisors and through considering actual passenger data trends from April 2020 through to June 2020;</li> <li>• We reviewed industry reports and market data for indicators of contradictory evidence to challenge the going concern assessment, including the review of profit warnings within the sector;</li> <li>• We reviewed existing government assistance, COVID-19 Bus Services Support Grant (CBSSG) and CBSSG Restart that continues to support the Group, assessing the impact of the assistance on future cash flows and reviewed correspondence with the DfT in relation to the terms and conditions of the scheme;</li> <li>• We reviewed management's COVID-19 impact assessment on the forecasts, considering past historical accuracy of management's forecasting against the actual impact experienced by the Group;</li> <li>• We performed a detailed review of all the borrowing facilities to assess their continued availability to the Group and to ensure completeness of covenants identified by management. We have engaged with our debt advisory specialists to support this review. We reviewed the accuracy of management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms;</li> <li>• We verified the covenant waivers in place covering the October 2020 and May 2021 measurement dates, which are replaced by the requirement to maintain a minimum level of available liquidity at 31 October 2020 and at 1 May 2021; and</li> <li>• We considered whether management's disclosures, in the Annual Report and financial statements, sufficiently capture the impacts of COVID-19 on the going concern assessment.</li> </ul> | <p>We are satisfied that the Directors' assessment in relation to going concern is appropriate and there is no material uncertainty.</p> <p>We conclude that the disclosure of the impact of COVID-19 on the going concern assessment is appropriate.</p> |
| <p>All audit work in relation to this key audit matter was undertaken by the Group engagement team.</p>  |   |   |

In the prior year, our auditors' report included key audit matters in relation to the accounting for rail contractual positions, the liability for uncertain tax positions and the accounting for the disposal of the North America Division. Taking each matter in order:

- Accounting for rail contractual positions: following the expiry of the Group's East Midlands rail franchise in August 2019, and the resultant continued wind-down of the Group's rail contractual positions, we no longer consider the audit of the accounting for rail contractual positions to be a matter that has the greatest effect on directing the efforts of the engagement team. Accordingly, the accounting for rail contractual positions is not a key audit matter in the current year.
- Liability for uncertain tax positions: following the disposal of the North America Division in April 2019, the significance of the Group's uncertain tax positions has decreased. We do not consider the risk of material misstatement to be significant in this area and therefore it is no longer a key audit matter.
- Accounting for the disposal of the North America Division: following the completion of the disposal in April 2019, the only remaining key audit matter relates to the valuation of the North America deferred payment instrument as outlined above.

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

### 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 35 components covering entities within the UK Rail, UK Bus (regional operations) and UK Bus (London) segments, which represent the principal business units within the Group.

Of the 35 components selected, we performed an audit of the complete financial information of 12 components ("full scope components") which were selected based on their size or risk characteristics and comprised 3 rail operating companies, 8 UK Bus (regional operations) components and the Virgin Rail Group joint venture. For the remaining 23 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 profit before taxation | Percentage of revenue | Percentage of total assets |
|--------------------------------------|------------|--------------------------------------|-----------------------|----------------------------|
| Full Scope                           | 12         | 34%                                  | 48%                   | 37%                        |
| Specific Scope                       | 23         | 36%                                  | 51%                   | 38%                        |
|                                      | 35         | 70%                                  | 99%                   | 75%                        |
| Parent and consolidation adjustments |            | 28%                                  | 0%                    | 24%                        |
| Overall coverage                     |            | 98%                                  | 99%                   | 99%                        |

Of the remaining components, none is individually greater than 1.1% of the Group's profit before tax, excluding separately disclosed items. For these components, we performed other procedures, including analytical review, auditing intercompany eliminations and obtaining audit evidence to respond to any potential risks of material misstatement to the consolidated financial statements.

Management and EY worked proactively to agree a revised timetable to provide sufficient time for the judgements arising from COVID-19 to be considered fully, disclosures adequately assessed, and to reflect the extended time taken for management to complete the financial statement close process and to reflect the incremental time impact on completing our year end external audit fully remotely. This resulted in a four week extension to the publication of results and the finalisation of our audit. Our approach to the audit was adapted to allow for fully remote working and procedures implemented to ensure Partner in Charge oversight throughout.

We have maintained oversight of the audit work performed by our non-EY component team (in respect of Virgin Rail Group) through the use of share screen functionality to allow for the effective review of key audit evidence and also to attend closing meetings via video call.

#### Changes from the Prior Year

The North America Division was sold on 16 April 2019 and therefore is no longer in scope. As a result, one rail operating company (Sheffield Supertram), three UK Bus (regional operations) companies and two head office companies were added to specific scope.

#### 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 April 2020, 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 £4.5m (2019: £6.6m), which is 5.0% of profit before tax excluding separately disclosed items (see note 4 to the consolidated financial statements for separately disclosed items). We believe that profit before tax excluding separately disclosed items provides us with a consistent measure of underlying year-on-year performance, as it excludes the impact of non-recurring items and reflects our understanding of the common financial information needs of the members of Stagecoach Group plc as a group.

We determined materiality for the Company to be restricted to £4.5m (2019: £6.6m), 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 planning materiality and have revised materiality downwards to reflect the full year results to 2 May 2020 which were below initial forecasts as a result of the impact of COVID-19.



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

## 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% (2019: 75%) of our planning materiality, namely £3.38m (2019: £4.95m). 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 £0.7m to £1.9m (2019: £1.0m to £2.7m).

## 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 £225k (2019: £300k), 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 179 to 180, 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 are fair, balanced and understandable and provide 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 the Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

### 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 auditors' 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 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 auditors' report.

### Other matters we are required to address

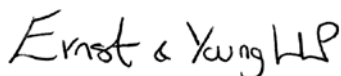
Following the recommendation of the Audit Committee, we were appointed as auditors and signed an engagement letter on 28 April 2020. We were appointed by the Company at the Annual General Meeting in 2016 to audit the financial statements for the year ended 29 April 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ended 29 April 2017 to 2 May 2020.

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 our 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.



### Kevin Weston

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

22 July 2020

### Notes:

The maintenance and integrity of the Stagecoach Group plc website 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 website. 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 2 May 2020

|  | Notes | 2020   |  |                            | 2019   |  |                            |
|--|-------|--|--|----------------------------|--|--|----------------------------|
|  |       | Performance excluding separately disclosed items<br>£m | Separately disclosed items<br>(note 4)<br>£m | Results for the year<br>£m | Performance excluding separately disclosed items<br>£m | Separately disclosed items<br>(note 4)<br>£m | Results for the year<br>£m |
| <b>CONTINUING OPERATIONS</b>   |       |  |  |                            |  |  |                            |
| Revenue  | 2(a)  | 1,417.6  | –  | 1,417.6                    | 1,878.9  | –  | 1,878.9                    |
| Operating costs and other operating income   | 3     | (1,315.5)  | (32.5)                                       | (1,348.0)                  | (1,740.9)  | (25.6)                                       | (1,766.5)                  |
| <b>Operating profit of Group companies</b>   | 2(b)  | <b>102.1</b>   | <b>(32.5)</b>                                | <b>69.6</b>                | 138.0  | (25.6)                                       | 112.4                      |
| Share of profit of joint ventures after finance costs, finance income and taxation                       | 2(c)  | 17.6   | –  | 17.6                       | 23.3   | –  | 23.3                       |
| <b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b> | 2(b)  | <b>119.7</b>   | <b>(32.5)</b>                                | <b>87.2</b>                | 161.3  | (25.6)                                       | 135.7                      |
| Finance income   | 6     | 0.9  | –  | 0.9                        | 1.5  | –  | 1.5                        |
| Finance costs  | 6     | (29.7)   | (17.8)                                       | (47.5)                     | (29.9)   | (6.1)  | (36.0)                     |
| <b>Profit before taxation</b>  |       | <b>90.9</b>  | <b>(50.3)</b>                                | <b>40.6</b>                | 132.9  | (31.7)                                       | 101.2                      |
| Taxation   | 8     | (16.0)   | 12.8   | (3.2)                      | (22.0)   | 22.5   | 0.5                        |
| <b>Profit from continuing operations</b>   |       | <b>74.9</b>  | <b>(37.5)</b>                                | <b>37.4</b>                | 110.9  | (9.2)  | 101.7                      |
| <b>DISCONTINUED OPERATIONS</b>   |       |  |  |                            |  |  |                            |
| (Loss)/profit after tax for the year from discontinued operations  | 5     | –  | (1.3)  | (1.3)                      | 15.5   | (93.6)                                       | (78.1)                     |
| <b>TOTAL OPERATIONS</b>  |       |  |  |                            |  |  |                            |
| <b>Total profit for the year</b>   |       | <b>74.9</b>  | <b>(38.8)</b>                                | <b>36.1</b>                | 126.4  | (102.8)                                      | 23.6                       |
| <b>Attributable to:</b>  |       |  |  |                            |  |  |                            |
| Equity holders of the parent   |       | 74.9   | (39.1)                                       | 35.8                       | 126.4  | (104.8)                                      | 21.6                       |
| Non-controlling interest   |       | –  | 0.3  | 0.3                        | –  | 2.0  | 2.0                        |
|  |       | 74.9   | (38.8)                                       | 36.1                       | 126.4  | (102.8)                                      | 23.6                       |
| <b>Earnings per share</b>  |       |  |  |                            |  |  |                            |
| <b>Continuing operations</b>   |       |  |  |                            |  |  |                            |
| Adjusted basic/Basic   | 10    | 13.5p  |  | 6.7p                       | 19.3p  |  | 17.4p                      |
| Adjusted diluted/Diluted   | 10    | 13.4p  |  | 6.6p                       | 19.2p  |  | 17.3p                      |
| <b>Discontinued operations</b>   |       |  |  |                            |  |  |                            |
| Adjusted basic/Basic   | 10    | –  |  | (0.2)p                     | 2.7p   |  | (13.6)p                    |
| Adjusted diluted/Diluted   | 10    | –  |  | (0.2)p                     | 2.7p   |  | (13.5)p                    |
| <b>Total operations</b>  |       |  |  |                            |  |  |                            |
| Adjusted basic/Basic   | 10    | 13.5p  |  | 6.4p                       | 22.1p  |  | 3.8p                       |
| Adjusted diluted/Diluted   | 10    | 13.4p  |  | 6.4p                       | 21.9p  |  | 3.7p                       |

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

## 11. Consolidated financial statements (continued)

### Consolidated statement of comprehensive income For the year ended 2 May 2020

|  | 2020<br>£m     | 2019<br>£m |
|--|----------------|------------|
| <b>Profit for the year</b>   | <b>36.1</b>    | 23.6       |
| <b>Items that may be reclassified to profit or loss</b>  |                |            |
| <b>Continuing operations</b>   |                |            |
| Cash flow hedges:  |                |            |
| – Net fair value (losses)/gains on cash flow hedges  | (71.0)         | 16.6       |
| – Reclassified and reported in profit for the year   | 4.9            | (27.3)     |
| – Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax           | (0.2)          | (0.4)      |
| – Tax effect of cash flow hedges   | 12.4           | 2.1        |
| <b>Discontinued operations</b>   |                |            |
| Cash flow hedges:  |                |            |
| – Net fair value losses on cash flow hedges  | –              | (0.1)      |
| – Reclassified and reported in profit for the year   | –              | (3.2)      |
| – Tax effect of cash flow hedges   | –              | 0.6        |
| Foreign exchange differences on translation of foreign operations (net of hedging)               |                |            |
| – Foreign exchange differences arising in year   | –              | 5.7        |
| – Reclassified and reported in profit for the year   | –              | (8.6)      |
| <b>Total items that may be reclassified to profit or loss</b>                                    | <b>(53.9)</b>  | (14.6)     |
| <b>Items that will not be reclassified to profit or loss</b>                                     |                |            |
| <b>Continuing operations</b>   |                |            |
| Actuarial losses on Group defined benefit pension schemes  | (220.1)        | (36.0)     |
| Tax effect of actuarial losses on Group defined benefit pension schemes                          | 45.7           | 6.2        |
| Share of actuarial gains/(losses) on joint ventures' defined benefit pension schemes, net of tax | 6.3            | (2.8)      |
| Net loss on equity instruments designated at fair value through other comprehensive income       | –              | (2.7)      |
| <b>Discontinued operations</b>   |                |            |
| Actuarial losses on Group defined benefit pension schemes  | –              | (0.2)      |
| <b>Total items that will not be reclassified to profit or loss</b>                               | <b>(168.1)</b> | (35.5)     |
| <b>Other comprehensive expense for the year</b>  | <b>(222.0)</b> | (50.1)     |
| <b>Total comprehensive expense for the year</b>  | <b>(185.9)</b> | (26.5)     |
| <b>Attributable to:</b>  |                |            |
| Equity holders of the parent   | (186.2)        | (28.5)     |
| Non-controlling interest   | 0.3            | 2.0        |
|  | <b>(185.9)</b> | (26.5)     |


## 11. Consolidated financial statements (continued)

### Consolidated balance sheet (statement of financial position)

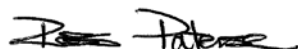
As at 2 May 2020

|  | Notes | 2020<br>£m     | 2019<br>£m |
|--|-------|----------------|------------|
| <b>ASSETS</b>                                  |       |                |            |
| <b>Non-current assets</b>                      |       |                |            |
| Goodwill                                       | 11    | 51.9           | 51.2       |
| Other intangible assets                        | 12    | 9.5            | 9.7        |
| Property, plant and equipment                  | 13    | 914.9          | 834.0      |
| Interests in joint ventures                    | 14    | 16.3           | 19.9       |
| Deferred tax asset                             | 22    | 33.3           | –          |
| Derivative instruments at fair value           | 25(g) | –              | 14.2       |
| Retirement benefit asset                       | 24    | –              | 1.8        |
| Other receivables                              | 17    | 24.8           | 34.6       |
|  |       | <b>1,050.7</b> | 965.4      |
| <b>Current assets</b>                          |       |                |            |
| Inventories                                    | 16    | 8.8            | 14.3       |
| Trade and other receivables                    | 17    | 106.4          | 133.3      |
| Derivative instruments at fair value           | 25(g) | 2.9            | 13.5       |
| Cash and cash equivalents                      | 19    | 348.3          | 170.4      |
|  |       | <b>466.4</b>   | 331.5      |
| <b>Total assets</b>                            | 2(d)  | <b>1,517.1</b> | 1,296.9    |
| <b>LIABILITIES</b>                             |       |                |            |
| <b>Current liabilities</b>                     |       |                |            |
| Trade and other payables                       | 20    | 303.7          | 392.6      |
| Current tax liabilities                        |       | 11.0           | 19.0       |
| Borrowings                                     | 21    | 42.5           | 21.8       |
| Derivative instruments at fair value           | 25(g) | 38.6           | 0.2        |
| Deferred tax liabilities                       | 22    | –              | 0.2        |
| Provisions                                     | 23    | 51.9           | 36.8       |
|  |       | <b>447.7</b>   | 470.6      |
| <b>Non-current liabilities</b>                 |       |                |            |
| Other payables                                 | 20    | 10.0           | 4.5        |
| Borrowings                                     | 21    | 667.5          | 411.2      |
| Derivative instruments at fair value           | 25(g) | 26.6           | 1.8        |
| Deferred tax liabilities                       | 22    | –              | 13.7       |
| Provisions                                     | 23    | 82.4           | 67.2       |
| Retirement benefit obligations                 | 24    | 413.1          | 199.5      |
|  |       | <b>1,199.6</b> | 697.9      |
| <b>Total liabilities</b>                       | 2(d)  | <b>1,647.3</b> | 1,168.5    |
| <b>Net (liabilities)/assets</b>                | 2(d)  | <b>(130.2)</b> | 128.4      |
| <b>EQUITY</b>                                  |       |                |            |
| Ordinary share capital                         | 26    | 3.2            | 3.2        |
| Share premium account                          | 28    | 8.4            | 8.4        |
| Retained earnings                              | 28    | (460.1)        | (285.4)    |
| Capital redemption reserve                     | 28    | 422.8          | 422.8      |
| Own shares                                     | 28    | (69.6)         | (39.4)     |
| Cash flow hedging reserve                      | 28    | (34.9)         | 18.8       |
| <b>Total equity attributable to the parent</b> |       | <b>(130.2)</b> | 128.4      |

These financial statements have been approved for issue by the Board of Directors on 22 July 2020. The accompanying notes form an integral part of this consolidated balance sheet.



**Martin A Griffiths**  
Chief Executive



**Ross Paterson**  
Finance Director

## 11. Consolidated financial statements (continued)

### Consolidated statement of changes in equity

|   | Notes | Ordinary share capital<br>£m | Share premium account<br>£m | Retained earnings<br>£m | Capital redemption reserve<br>£m | Own shares<br>£m | Translation reserve<br>£m | Cash flow hedging reserve<br>£m | Total equity attributable to parent<br>£m | Non-controlling interest<br>£m | Total equity<br>£m |
|---|-------|------------------------------|-----------------------------|-------------------------|----------------------------------|------------------|---------------------------|---------------------------------|---|--------------------------------|--------------------|
| <b>Balance at 28 April 2018</b>   |       | 3.2                          | 8.4                         | (228.6)                 | 422.8                            | (38.0)           | 2.9                       | 30.1                            | <b>200.8</b>                              | (19.1)                         | <b>181.7</b>       |
| Profit for the year   |       | -                            | -                           | 21.6                    | -                                | -                | -                         | -                               | <b>21.6</b>                               | 2.0                            | <b>23.6</b>        |
| Other comprehensive expense, net of tax   |       | -                            | -                           | (35.9)                  | -                                | -                | (2.9)                     | (11.3)                          | <b>(50.1)</b>                             | -                              | <b>(50.1)</b>      |
| <b>Total comprehensive (expense)/income</b>                                       |       | -                            | -                           | (14.3)                  | -                                | -                | (2.9)                     | (11.3)                          | <b>(28.5)</b>                             | 2.0                            | <b>(26.5)</b>      |
| Own ordinary shares purchased into treasury                                       |       | -                            | -                           | -                       | -                                | (1.4)            | -                         | -                               | <b>(1.4)</b>                              | -                              | <b>(1.4)</b>       |
| Shareholder transactions with non-controlling interest                            |       | -                            | -                           | -                       | -                                | -                | -                         | -                               | -   | 17.1                           | <b>17.1</b>        |
| Cash paid to settle share based payments originally intended to be equity-settled |       | -                            | -                           | (0.3)                   | -                                | -                | -                         | -                               | <b>(0.3)</b>                              | -                              | <b>(0.3)</b>       |
| Credit in relation to equity-settled share based payments                         |       | -                            | -                           | 1.9                     | -                                | -                | -                         | -                               | <b>1.9</b>                                | -                              | <b>1.9</b>         |
| Dividends paid on ordinary shares   | 9     | -                            | -                           | (44.1)                  | -                                | -                | -                         | -                               | <b>(44.1)</b>                             | -                              | <b>(44.1)</b>      |
| <b>As at 27 April 2019</b>  |       | 3.2                          | 8.4                         | (285.4)                 | 422.8                            | (39.4)           | -                         | 18.8                            | <b>128.4</b>                              | -                              | <b>128.4</b>       |
| Profit for the year   |       | -                            | -                           | 35.8                    | -                                | -                | -                         | -                               | <b>35.8</b>                               | <b>0.3</b>                     | <b>36.1</b>        |
| Other comprehensive expense, net of tax   |       | -                            | -                           | (168.3)                 | -                                | -                | -                         | (53.7)                          | <b>(222.0)</b>                            | -                              | <b>(222.0)</b>     |
| <b>Total comprehensive (expense)/income</b>                                       |       | -                            | -                           | (132.5)                 | -                                | -                | -                         | (53.7)                          | <b>(186.2)</b>                            | <b>0.3</b>                     | <b>(185.9)</b>     |
| Own ordinary shares purchased into treasury                                       |       | -                            | -                           | -                       | -                                | (30.2)           | -                         | -                               | <b>(30.2)</b>                             | -                              | <b>(30.2)</b>      |
| Shareholder transactions with non-controlling interest                            |       | -                            | -                           | -                       | -                                | -                | -                         | -                               | -   | <b>(0.3)</b>                   | <b>(0.3)</b>       |
| Cash paid to settle share based payments originally intended to be equity-settled |       | -                            | -                           | (0.5)                   | -                                | -                | -                         | -                               | <b>(0.5)</b>                              | -                              | <b>(0.5)</b>       |
| Credit in relation to equity-settled share based payments                         |       | -                            | -                           | 0.9                     | -                                | -                | -                         | -                               | <b>0.9</b>                                | -                              | <b>0.9</b>         |
| Dividends paid on ordinary shares   | 9     | -                            | -                           | (42.6)                  | -                                | -                | -                         | -                               | <b>(42.6)</b>                             | -                              | <b>(42.6)</b>      |
| <b>As at 2 May 2020</b>   |       | 3.2                          | 8.4                         | (460.1)                 | 422.8                            | (69.6)           | -                         | (34.9)                          | <b>(130.2)</b>                            | -                              | <b>(130.2)</b>     |

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

## 11. Consolidated financial statements (continued)

### Consolidated statement of cash flows

For the year ended 2 May 2020

|   | Notes | 2020<br>£m    | 2019<br>£m |
|---|-------|---------------|------------|
| <b>Cash flows from operating activities</b>                 |       |               |            |
| Cash generated by operations                                | 29    | 158.8         | 127.1      |
| Interest paid   |       | (22.4)        | (31.3)     |
| Interest received   |       | 0.9           | 3.5        |
| Dividends received from joint ventures                      |       | 27.3          | 25.4       |
| <b>Net cash flows from operating activities before tax</b>  |       | <b>164.6</b>  | 124.7      |
| Tax paid  |       | –             | (17.8)     |
| <b>Net cash from operating activities after tax</b>         |       | <b>164.6</b>  | 106.9      |
| <b>Cash flows from investing activities</b>                 |       |               |            |
| Acquisition of subsidiaries, net of cash acquired           |       | (3.3)         | –          |
| Disposal of subsidiaries, net of cash disposed of           |       | (2.8)         | 73.8       |
| Purchase of property, plant and equipment                   |       | (93.3)        | (102.4)    |
| Disposal of property, plant and equipment                   |       | 8.6           | 50.2       |
| Purchase of intangible assets and other investments         |       | (5.5)         | (4.4)      |
| Disposal of intangible assets                               |       | 0.5           | 28.1       |
| <b>Net cash (outflow)/inflow from investing activities</b>  |       | <b>(95.8)</b> | 45.3       |
| <b>Cash flows from financing activities</b>                 |       |               |            |
| Purchase of own shares into treasury                        |       | (30.2)        | (1.4)      |
| Repayments of principal portion of lease debt               |       | (28.4)        | (20.7)     |
| Redemption of US Dollar 4.36% Notes – principal             |       | –             | (116.1)    |
| Drawdown of other borrowings                                |       | 210.0         | 114.0      |
| Repayment of other borrowings                               |       | (10.7)        | (154.2)    |
| Loan from joint venture                                     |       | 11.0          | –          |
| Dividends paid on ordinary shares                           | 9     | (42.6)        | (44.1)     |
| Redemption of tokens  |       | –             | (0.2)      |
| <b>Net cash inflow/(outflow) from financing activities</b>  |       | <b>109.1</b>  | (222.7)    |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <b>177.9</b>  | (70.5)     |
| Cash and cash equivalents at the beginning of the year      |       | 170.4         | 238.2      |
| Exchange rate effects                                       |       | –             | 2.7        |
| <b>Cash and cash equivalents at the end of year</b>         | 19    | <b>348.3</b>  | 170.4      |

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

### (a) Introduction

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 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 in note 1(c) below.

### (b) 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 53-week period from 28 April 2019 to 2 May 2020. Prior year comparatives are for the 52-week 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. Note 5 sets out the details and impact of discontinued operations.

These financial statements have been prepared on a going concern basis. In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The Directors have 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.

The Strategic report in section 1 of this Annual Report includes information on the actions taken in response to the COVID-19 pandemic (including in sections 1.3 and 1.5.5), the outlook for the Group (including in sections 1.3 and 1.7) and the Group's financial position and liquidity (including in section 1.6.10). Section 3.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern, and of its longer-term viability. Section 5.4.1 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusions of the Audit Committee in respect of that.

### (c) New accounting standards adopted during the year

#### (i) IFRS 16, Leases

The Group has adopted IFRS 16, Leases, from 28 April 2019, but has not restated comparatives for the year to 27 April 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 28 April 2019. IFRS 16 replaces International Accounting Standard 17 ("IAS 17"), Leases, 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. Lease costs are recognised as depreciation and interest, rather than entirely as an operating cost.

#### Accounting policy for leases under IAS 17 prior to 28 April 2019

Until 27 April 2019, the Group classified leases for property, plant and equipment as either finance leases or operating leases under IAS 17.

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset passed to the Group, were 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 were 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 were charged directly against income and were reported within finance costs in the consolidated income statement.

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

Rentals under operating leases were generally charged on a straight-line basis over the lease term. Any contingent rentals, principally being rental adjustments related to inflation indices, were accounted for in the period they were incurred.

#### Accounting policy for leases from 28 April 2019

The Group leases many assets including properties, passenger service vehicles, company cars and office equipment. Rental contracts are typically made for a fixed period of 6 months to 100 years. Certain leases have extension options which the Group may choose to exercise.

For contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, the Group recognises lease liabilities to make lease payments, and right-of-use assets representing the right to use the underlying asset.



# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (c) New accounting standards adopted during the year (continued)

Contracts can contain lease and non-lease components. For all property leases, the Group has separated lease and non-lease components. For all other leases, the Group has elected not to separate lease and non-lease components but instead accounts for these as a single lease component.

Lease terms are negotiated lease by lease resulting in a wide range of terms and conditions. The lease agreements do not generally impose any financial covenants. The principal restriction on assets held under lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

### Measurement of lease liabilities under IFRS 16

Liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- Fixed lease payments, less any lease incentives receivable;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option;
- Payments to be made under reasonably certain extension options;
- Variable lease payments that are based on an on index or rate, initially measured using the index or rate at the commencement date.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the individual Group company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- makes adjustments to the rate to reflect the terms and conditions specific to the lease. These will include adjustment for items such as the lease term and the right-of-use asset being leased.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. There are no leases with other forms of variable payment.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### Right-of-use assets under IFRS 16

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- dilapidation provisions.

There has been no change to how the Group accounts for dilapidations on leased items (see note 23).

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

### Short-term leases and low-value assets

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets have a capital value, when new, of less than £4,500 and comprise principally IT equipment and small items of office equipment.

### Adoption of IFRS 16

The Group has adopted IFRS 16 using the modified retrospective approach, whereby each right-of-use asset recognised at the transition date of 28 April 2019 is initially equal to the corresponding lease liability recognised at the transition date. When measuring lease liabilities under IFRS 16 for leases that were previously classified as operating leases under IAS 17, the Group discounted lease payments using each lessee's incremental borrowing rate. The incremental borrowing rate applied to the lease liabilities as at 28 April 2019 ranged from 2.5% to 3.5% and the Group's weighted average incremental borrowing rate was 3.1%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the leased asset and the lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application of IFRS 16. The measurement principles of IFRS 16 are only applied after that date.

### Practical expedients applied on transition to IFRS 16

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments of whether leases are onerous as an alternative to performing an impairment review, with any previous onerous lease provision deducted from the carrying value of the related right-of-use asset as at 28 April 2019;
- accounting for leases with a remaining lease term of less than 12 months as at 28 April 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- selecting not to reassess whether a contract is, or contains, a lease at the date of initial application of 28 April 2019. The Group has applied IFRS 16 only to those contracts previously identified as leases under IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

## Notes to the consolidated financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (c) New accounting standards adopted during the year (continued)

Due to the short remaining duration of the Group's rail franchises at 28 April 2019, all of the lease contracts of the rail franchise businesses have been accounted as short-term leases on transition. These include leases for rolling stock but exclude contracts with Network Rail for access to the railway infrastructure (track, stations and depots), which 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.

The Group is the lessee of certain properties where the applicable lease agreements provide the Group with the right to end the lease prior to the end of the full contractual term of the lease. Judgement was required in assessing whether and when the Group was likely to end each lease early. The Group expects to end three property leases at the next rent-break dates and the Group has accounted for those leases accordingly. The Group expects all other leases to continue to the end of their contractual terms. If the Group did not end those three property leases at their next rent break-dates, the Group would have additional undiscounted property lease liabilities of £0.9m at 2 May 2020.

#### Impact of IFRS 16 on Financial Statements

##### Impact on transition

The table below summarises the transition adjustments recorded as at 28 April 2019 on the adoption of IFRS 16.

|  | Recognition of leases previously classified as operating leases<br>£m | Reclassification of prepaid lease rentals<br>£m | Reclassification of onerous lease liabilities<br>£m | Reclassification of lease incentives<br>£m | Reclassification of accrued lease rentals<br>£m | Net impact of adopting IFRS 16<br>£m |
|--|---|---|---|--|---|--------------------------------------|
| <b>Non-current assets</b>                          |   |   |   |  |   |                                      |
| Property, plant and equipment: right-of-use assets | 89.0  | 1.1   | (0.9)   | (0.9)                                      | (0.2)   | 88.1                                 |
| <b>Current assets</b>                              |   |   |   |  |   |                                      |
| Trade and other receivables: prepayments           | –   | (1.1)   | –   | –  | –   | (1.1)                                |
| <b>Current liabilities</b>                         |   |   |   |  |   |                                      |
| Borrowings: lease liabilities                      | (23.9)  | –   | –   | –  | –   | (23.9)                               |
| Trade and other payables: accruals                 | –   | –   | –   | 0.9  | 0.2   | 1.1                                  |
| Provisions: onerous contracts                      | –   | –   | 0.7   | –  | –   | 0.7                                  |
| <b>Non-current liabilities</b>                     |   |   |   |  |   |                                      |
| Borrowings: lease liabilities                      | (65.1)  | –   | –   | –  | –   | (65.1)                               |
| Provisions: onerous contracts                      | –   | –   | 0.2   | –  | –   | 0.2                                  |
| <b>Net assets</b>                                  | –   | –   | –   | –  | –   | –                                    |

The right-of-use assets recognised on transition on 28 April 2019 are summarised in the following table:

|  | £m          |
|--|-------------|
| Right-of-use assets included within land and buildings                                   | 33.6        |
| Right-of-use assets included within passenger service vehicles                           | 50.1        |
| Right-of-use assets included within other plant and equipment                            | 4.4         |
| <b>Total right-of-use assets included within property, plant and equipment (note 13)</b> | <b>88.1</b> |

The lease liabilities recognised as at 28 April 2019 can be reconciled as follows:

|  | £m          |
|--|-------------|
| Operating lease commitments disclosed under IAS 17 as at 27 April 2019   | 110.2       |
| Short-term lease commitments straight-line expensed under IFRS 16  | (13.3)      |
| Lease commitments for low-value assets straight-line expensed under IFRS 16  | (0.4)       |
| Re-assessment of operating lease options to terminate lease  | 14.0        |
| Right-of-use assets made available to the Group on or after 28 April 2019 and committed as an operating lease at 27 April 2019 | (4.0)       |
| Effect of discounting  | (17.5)      |
| <b>Lease liabilities recognised as at 28 April 2019 for leases formerly accounted for as operating leases</b>                  | <b>89.0</b> |
| Hire purchase liabilities recognised under IAS 17 at 27 April 2019   | 9.3         |
| <b>Lease liabilities recognised as at 28 April 2019</b>  | <b>98.3</b> |

#### Impact for the year to 2 May 2020

In respect of leases that would previously have been classified as operating leases, the Group has recognised £78.6m right-of-use assets and £80.3m of lease liabilities as at 2 May 2020.

The cash flow statement includes the following cash outflow in relation to leases and the related interest expense:

|                                      | 2020<br>£m  | 2019<br>£m   |
|--------------------------------------|-------------|--------------|
| <b>Total cash outflow for leases</b> | <b>46.2</b> | <b>102.3</b> |

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (c) New accounting standards adopted during the year (continued)

The consolidated income statement includes the following depreciation charges and other costs relating to leases:

|  | Note | 2020<br>£m | 2019*<br>£m |
|--|------|------------|-------------|
| <b>Depreciation</b>                                  |      |            |             |
| Land and buildings                                   | 13   | 4.4        | –           |
| Passenger service vehicles                           | 13   | 20.0       | 3.1         |
| Other plant and equipment                            | 13   | 2.2        | –           |
| <b>Total depreciation for right-of-use assets</b>    |      |            |             |
| Operating lease costs recognised under IAS 17        | 3    | –          | 81.4        |
| Expense relating to short-term leases                |      | 14.8       | –           |
| Expense relating to leases of low-value assets       |      | 0.2        | –           |
| <b>Lease costs included within operating profit</b>  |      |            |             |
| Interest expense included in finance costs           | 6    | 2.8        | 0.2         |
| <b>Lease costs included within profit before tax</b> |      |            |             |
|  |      | 44.4       | 84.7        |

\*The comparative figures for the year to 27 April 2019 were prepared under IAS 17 and exclude the effect resulting from the recognition of the right-of-use assets on 28 April 2019.

The expense relating to short-term leases for the year to 2 May 2020 includes £13.0m for short-term leases in respect of trains and rolling stock. This will not recur in the year to 1 May 2021 as the Group's rail franchises have now all ended. The Group has commitments of £0.1m for short-term leases and £0.5m of low-value assets as at 2 May 2020.

IFRS 16 has had a negligible impact on profit before tax but increases the Group's interest costs by £2.7m and increases the Group's operating profit by £1.8m in the year ended 2 May 2020 relative to what they would have been under IAS 17.

### (ii) IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017 and was implemented by the Group from 28 April 2019. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge by applying either the 'most likely outcome' or 'expected value' methodology. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter. The Group has assessed the potential impact of the new interpretation. The application of IFRIC 23 on the opening balance of retained earnings as at 28 April 2019 has not resulted in a material change to the amounts held in the consolidated balance sheet for uncertain tax positions.

### (iii) Other new standards

Other new standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 28 April 2019, do not have any significant effect on the consolidated financial statements and are listed below.

| <i>International Accounting Standards and Interpretations</i>              | <i>Effective for annual periods beginning on or after</i> |
|--|---|
| Annual Improvements to IFRS Standards 2015-2017 Cycle                      | 1 January 2019  |
| Amendments to IFRS 9 – Prepayment features with negative compensation      | 1 January 2019  |
| Amendments to IAS 19: Plan Amendment, Curtailment or Settlement            | 1 January 2019  |
| Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures | 1 January 2019  |

### (d) New accounting standards not yet applied

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

| <i>International Accounting Standards and Interpretations</i> | <i>Effective for annual periods beginning on or after</i> |
|---|---|
| Amendments to references to conceptual framework in IFRS      | 1 January 2020  |
| Amendments to IAS 1 and IAS 8                                 | 1 January 2020  |
| Amendments to IFRS 9, IAS 39 and IFRS 17                      | 1 January 2020  |
| IFRS 3 Business Combinations                                  | 1 January 2020  |

The following standards have not yet been endorsed for use in the European Union:

| <i>International Accounting Standards and Interpretations</i> | <i>Effective for annual periods beginning on or after</i>  |
|---|--|
| IFRS 16   | Amendments to IFRS 16, Leases: COVID-19 Related Rent   |
| IFRS 17   | Concessions  |
|   | Insurance contracts  |
| IFRS 4  | Annual Improvements 2018 – 2020  |
|   | Amendments to IFRS 4, Insurance Contracts: Deferral of IFRS 9  |
| IAS 1   | Amendments to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-current |

These new standards and interpretations are not expected to have a material effect on the Group's reported financial performance or position.

## Notes to the consolidated financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (e) 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.

#### (i) Judgements

Paragraph 122 of International Accounting Standard 1 requires disclosure of significant judgements made in applying an entity's accounting policies. Apart from those involving estimations (see (ii) below), the Directors do not consider there to be significant judgements involved in the process of applying the Group's accounting policies.

#### (ii) 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.

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, the valuation of harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined.

Neither the valuations on the trustees' technical provisions basis nor the net liabilities reflected in the financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

Note 24(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

#### COVID-19 Bus Services Support Grant ("CBSSG")

Under the COVID-19 Bus Services Support Grant ("CBSSG") scheme, grant income may be claimed by operators of local bus services in England to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period.

Estimating the amount of CBSSG receivable for the year ended 2 May 2020 involves significant estimation uncertainty.

The CBSSG scheme is subject to a cap on the level of funding available for the scheme. The extent to which that budget cap is sufficient to cover the relevant shortfalls of revenue versus costs of all eligible operators will be a function of all those operators' revenues and costs. While the Group has visibility of its own revenues and costs, it does not have visibility of other operators' revenues and costs. As such, estimating the extent to which the budget cap will limit the Group's CBSSG grant income involves estimation uncertainty.

In addition, the extent to which certain costs are eligible for inclusion in claiming CBSSG and how certain costs should be determined for the purposes of CBSSG remains subject to a reconciliation process. That creates further estimation uncertainty in determining the Group's CBSSG grant income.

In the year ended 2 May 2020, the Group has recognised CBSSG income of £15.6m, being the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the CBSSG reconciliation process. Ignoring the budget cap, the Group estimates that it is entitled to CBSSG of £22.5m for the year ended 2 May 2020 and so the amount ultimately received in respect of the year could exceed the amount recognised by £6.9m. The income recognised of £15.6m is the maximum amount by which the amount ultimately received in respect of the year could fall short of the amount recognised.

#### Rail contractual positions

The Group's 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, rolling stock lessors 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 2 May 2020 could require adjustment by up to £10.0m in the year ending 1 May 2021 (2019: £10.0m in the year ending 2 May 2020).

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (e) Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Uncertain tax positions

The Group's tax charge is based on the pre-tax profit for the year and tax rates in force. The Group estimates and accrues taxes that will ultimately be payable when reviews or audits by the tax authorities of tax returns are completed. These estimates include management judgements about the position expected to be taken by each tax authority. Assessment of the likely outcome is based on historical experience, professional advice from external advisors, and the current status of any judgmental issues. The tax liability is reassessed in each period to take account of all relevant information, including changes in legislation, changes in tax authority practice and correspondence with tax authorities. However, actual outcomes and settlements may differ significantly from the estimates recorded in these consolidated financial statements, and the difference may impact the income tax charge/credit in subsequent financial years.

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 £3.4m (2019: £17.1m) has been recognised in the consolidated income statement for the year ended 2 May 2020 in relation to the pre-tax losses reported in previous years. As at 2 May 2020, potential tax assets of £5.0m (2019: £8.4m) in respect of the losses associated with Virgin Trains East Coast remain uncertain and have not been recorded within the consolidated financial statements as it is considered not probable that the Group will be able to realise these.

The tax amounts recognised by the Group as at 2 May 2020 continue to involve a degree of estimation uncertainty. Liabilities of £10.7m are held as at 2 May 2020 (2019: £13.3m) 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' assessment and measurement of the amounts payable taking account of correspondence with the tax authorities and advice on the application of applicable regulations. The Group continues to monitor developments on an ongoing basis.

The current tax liabilities include an amount of £7.3m (2019: £8.7m) in respect of the legacy financing of overseas operations, whereby the Group has benefitted from the Finance Company Exemption contained in UK's Controlled Foreign Company ("CFC") legislation. Whilst the Group had 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, in November 2019, the Group, in line with a number of UK corporates, made a similar appeal. Consistent with other UK-based international companies whose arrangements have complied with the requirements of the UK CFC legislation, the Group may be affected by the outcome of the appeals and has calculated its maximum potential liability, including interest, to be approximately £8.9m (2019: £8.7m). Included within the reduction in the liabilities for uncertain tax positions in the year is a partial release of this provision. This reduction takes account of developments in the year ended 2 May 2020, including correspondence with tax authorities and consideration of an alternative exemption under the UK's CFC legislation. It reflects the possibility that a more favourable position is achieved than that of the most likely outcome that all the benefit obtained from the UK Finance Company Exemption is foregone.

#### Claims 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, as well as for the estimated costs of any fines or regulatory action, in relation to incidents occurring prior to the balance sheet date. The estimation of the claims provisions is based on an assessment of the expected settlement on known claims together with an estimate of payments 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 payments on such matters may differ from the amounts provided for at the balance sheet date.

Given the varying factors that ultimately determine the cost of an incident, it is difficult to provide precise sensitivity analysis on the amount of the claims provisions. 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 claims provisions as at 2 May 2020 will require adjustment in the year ending 1 May 2021 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 the 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 instrument is US\$65m and the range of values that the Group could recover varies from US\$Nil to US\$65m plus interest.

As at 2 May 2020, the Group has recognised the Deferred Payment Instrument as an asset at a carrying value of US\$5.7m (£4.5m) (2019: US\$29.2m (£22.3m)). The carrying value has been determined by discounting forecast cash flows to October 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 is re-assessed at each balance sheet date and any movement in the carrying value is recognised in the consolidated income statement.

The key sensitivity within the valuation relates to the projected ongoing cashflows of the business sold. Adjusting the cashflows by +/-US\$1m (£0.8m) per annum over the forecast period would result in an adjustment of +/-US\$1.8m (£1.4m) to the carrying value of the asset as at 2 May 2020.

#### Provision for onerous contracts

As at 2 May 2020, provisions for onerous contracts amount to £15.8m (2019: £1.0m). The estimation of the provisions involve forecasting the unavoidable costs of meeting the obligations under the applicable contracts and the economic benefits expected to be received under the contracts. The forecast net unavoidable costs (benefits less costs) are discounted to present value. Judgements are required in forecasting unavoidable costs and economic benefits.

As at 2 May 2020, the majority of the provisions related to the Sheffield Supertram concession agreement pursuant to which the Group has an obligation to operate a tram system through to March 2024. The key area of estimation uncertainty is in respect of forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts assume that passenger revenue returns to around 85% of pre-COVID levels by May 2021. If the forecast revenue used in determining the provision was reduced by 10%, the provision as at 2 May 2020 would be £5.4m higher. If the forecast revenue was increased by 10%, the provision would be £5.4m lower.

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (e) Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Accounting for fuel derivatives

The Group is exposed to fuel price risk. It manages the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby financial derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption. The Group generally accounts for these financial derivatives as cash flow hedges of forecast transactions, with the forecast transactions being purchases of future fuel consumption.

The Group significantly reduced its vehicle mileage following reduced customer demand from March 2020 as the public followed UK Government advice to avoid all but essential travel in light of the COVID-19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable. Hedge accounting was discontinued in mid-March 2020 for certain of the fuel hedges covering the period from mid-March 2020 to April 2021.

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur.

Forecasting both the level of highly probable fuel consumption (to determine the extent to which hedge accounting should be discontinued) and the level of expected fuel consumption (to determine the immediate accounting implications of discontinued cash flow hedges) involves judgement.

In the Directors' judgement, for the period from mid-March 2020 to April 2021, around 38% of the fuel consumption that was previously considered to be highly probable, remained highly probable from mid-March 2020. For the period from mid-March 2020 to May 2020, the Directors considered the expected fuel consumption to be the same as the highly probable fuel consumption.

In the Directors' view, the judgement of the expected fuel consumption from June 2020 to May 2021 is a key source of estimation uncertainty. On average, the Directors considered for that period, around 64% of the forecast fuel consumption that was previously expected, was still expected as of mid-March 2020. Had that expected fuel consumption been reduced to 38% for the entire May 2020 to April 2021 period (being the element considered to be highly probable), the separately disclosed expense in the year ended 2 May 2020 for discontinued fuel hedges would have been £3.6m higher than reported, with a corresponding adjustment to the cash flow hedging reserve. On the other hand, had that expected fuel consumption been increased to 80% for the entire May 2020 to April 2021 period, the separately disclosed expense in the year ended 2 May 2020 for discontinued fuel hedges would have been £1.8m lower than reported, with a corresponding adjustment to the cash flow hedging reserve.

Although these judgements do not affect the carrying values of assets and liabilities presented as at 2 May 2020, they do affect the presentation and timing of expenses in the consolidated income statement and the Directors consider them worthy of explanation.

For periods from May 2021 onwards, the Directors considered that the highly probable forecast fuel consumption remained in excess of the level of fuel consumption covered by cash flow hedges. As a result, no cash flow hedge accounting in respect of periods from May 2021 was discontinued. The Directors do not consider the judgements in respect of periods from May 2021 to be key sources of estimation uncertainty in the context of the consolidated financial statements.

#### (iii) 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.

#### (f) 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.

#### (g) 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.

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (g) Subsidiaries and joint ventures (continued)

#### (ii) Joint ventures

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

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. 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.

#### (h) Presentation of income statement and separately disclosed items

Where applicable, income statement information has been presented in a columnar format, which separately highlights separately disclosed items. This is intended to enable users of the financial statements to determine more readily the impact of non-software intangible asset amortisation and other separately disclosed 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.

Separately disclosed items are defined in note 34.

#### (i) Revenue

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the Group expects to be entitled in exchange for those goods or services. Performance obligations of the Group are generally clear and transaction prices are even over the period to which they relate and are time apportioned. Customer compensation is treated as a reduction in revenue.

The Group principally generates revenue from the provision of transport services to its customers.

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.

#### Commercial passenger revenue

Commercial passenger revenue primarily relates to ticket sales for travel on the Group's transport services. 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.

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.

#### Concessionary revenue

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, Revenue from Contracts with Customers, 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.

#### Tendered and school revenue

Other amounts that the Group receives from government bodies to pay for the operation of transport services they consider to be socially desirable are included in revenue and recognised in the income statement in the period that the relevant payment relates to. This includes tender and school revenue receivable to financially support certain bus services the Group operates in the UK.

## Notes to the consolidated financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (i) Revenue (continued)

##### Contract revenue

Contract revenues mainly relate to UK Bus (London) contracts with Transport for London. 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.

##### Other revenue and income

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.

Income from other sources is reported as other operating income. These other sources include:

- COVID-related grant income;
- 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.

##### 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.

#### (j) 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.

#### (k) 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 (or net losses) are deferred and recognised in the income statement over the period necessary to match them with the costs (or net losses) they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable (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.

Government grants received in excess of the amounts recognised in the income statement are held as deferred grant income within trade and other payables.

COVID-19 related grants are government grants receivable in light of the ongoing COVID-19 situation. The amounts principally reflect grants receivable under the Coronavirus Job Retention Scheme ("CJRS") and under the COVID-19 Bus Services Support Grant ("CBSSG") scheme.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. CJRS income is recognised in the income statement in the same period in which the related costs are incurred to the extent there is reasonable certainty that the grant will be received.



# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (k) Government grants (continued)

Under the CBSSG scheme, grant income may be claimed by operators of local bus services in England to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. The estimation of the CBSSG grant income involves significant uncertainty, as explained in note 1(e)(ii). CBSSG income is recognised in the income statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the CBSSG reconciliation process.

### (l) 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. Where an award is cancelled or settled in cash on vesting, any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

#### Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

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

#### Choice of settlement

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

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it generally expects to settle such outstanding 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.

### (m) 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 separately disclosed items and taxation.

### (n) Taxation

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

Corporation tax is provided on taxable 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.

## Notes to the consolidated financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (n) Taxation (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent, external specialist advice and consideration of the progress on, and nature of, current discussions with the tax authority. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

#### (o) 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.

#### (p) 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 117.

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:

|                   | 2020          | 2019   |
|-------------------|---------------|--------|
| <b>US Dollar:</b> |               |        |
| Year-end rate     | <b>1.2542</b> | 1.2935 |
| Average rate      | <b>1.2664</b> | 1.3047 |

#### (q) 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.

#### (r) 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.

Property, plant, equipment and intangible assets are not depreciated or amortised once classified as held for sale.

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 in the consolidated income statement as a single amount of profit or loss after tax from discontinued operations.

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (s) 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.

### (t) 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. Such assets 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 <ul style="list-style-type: none"><li>• 3 years and 5 months from October 2015 to 2 March 2019 for East Midlands Trains franchise; and</li><li>• 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.</li></ul> |
| 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.

### (u) 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 (or lease term, if shorter) 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.

# Notes to the consolidated financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (v) 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.

### (w) Contract provisions

A provision is recognised in the consolidated balance sheet for any contract that is "onerous" or, when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision (that is the lower of the net 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.

### (x) 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.

### (y) Claims provisions

The Group receives claims, and can incur fines, in respect of traffic incidents and employee claims. The Group protects against the cost of 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 liabilities for incidents occurring prior to the balance sheet date. The estimate of the balance sheet claims provisions is based on an assessment of the expected settlement of known claims together with an estimate of payments 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 provisions are set after taking account of advice from third party actuaries. Provisions are determined on a gross basis, with a separate reimbursement asset identified for amounts recoverable from insurance policies.

### (z) 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 (continued)

## Note 1 IFRS accounting policies (continued)

### (aa) Financial instruments

#### Financial assets

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, fair value through other comprehensive income ("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 uses an impairment model with impairment provisions based on expected credit losses rather than incurred credit losses. For trade receivables, accrued income and other receivables, the Group applies a simplified approach and determines expected credit losses for significant portfolios of receivables.

The Group recognises a provision for expected credit losses for all financial assets 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, an embedded derivative and certain financial derivatives.

#### Trade receivables

Trade receivables are recorded at their original amount less provision for expected credit losses. 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 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 fully provided against 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.

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

#### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently 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.

## Notes to the consolidated financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (aa) Financial instruments (continued)

##### Derivative financial instruments (continued)

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

#### (ab) 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 (continued)

## Note 2 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Group is 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 almost 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.

Reflecting the reduced scope of the business, the classes of revenue previously reported have been extended and refined to better align the reporting between this segmental analysis and the financial review, and to more align this analysis with how management categorises revenue for internal management reporting.

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:

|  | Commercial passenger revenue<br>£m | Concessionary revenue<br>£m | Tendered & school revenue<br>£m | Contract & other revenue<br>£m | Total<br>£m    |
|--|------------------------------------|-----------------------------|---------------------------------|--------------------------------|----------------|
| <b>Year ended 2 May 2020</b>                       |                                    |                             |                                 |                                |                |
| UK Bus (regional operations)                       | 611.5                              | 256.6                       | 104.4                           | 39.4                           | 1,011.9        |
| UK Bus (London)                                    | 0.2                                | –                           | –                               | 246.0                          | 246.2          |
| Total bus operations                               | 611.7                              | 256.6                       | 104.4                           | 285.4                          | 1,258.1        |
| UK Rail  | 150.1                              | –                           | –                               | 11.0                           | 161.1          |
| <b>Total Group revenue</b>                         | <b>761.8</b>                       | <b>256.6</b>                | <b>104.4</b>                    | <b>296.4</b>                   | <b>1,419.2</b> |
| Intra-Group revenue – UK Bus (regional operations) | –                                  | –                           | –                               | (1.6)                          | (1.6)          |
| <b>Reported Group revenue</b>                      | <b>761.8</b>                       | <b>256.6</b>                | <b>104.4</b>                    | <b>294.8</b>                   | <b>1,417.6</b> |

|  | Commercial passenger revenue<br>£m | Concessionary revenue<br>£m | Tendered & school revenue<br>£m | Contract & other revenue<br>£m | Total<br>£m    |
|--|------------------------------------|-----------------------------|---------------------------------|--------------------------------|----------------|
| <b>Year ended 27 April 2019</b>                    |                                    |                             |                                 |                                |                |
| UK Bus (regional operations)                       | 656.4                              | 244.8                       | 100.3                           | 41.8                           | 1,043.3        |
| UK Bus (London)                                    | 0.3                                | –                           | –                               | 252.5                          | 252.8          |
| Total bus operations                               | 656.7                              | 244.8                       | 100.3                           | 294.3                          | 1,296.1        |
| UK Rail  | 546.2                              | –                           | –                               | 43.3                           | 589.5          |
| <b>Total Group revenue</b>                         | <b>1,202.9</b>                     | <b>244.8</b>                | <b>100.3</b>                    | <b>337.6</b>                   | <b>1,885.6</b> |
| Intra-Group revenue – UK Bus (regional operations) | –                                  | –                           | –                               | (6.7)                          | (6.7)          |
| <b>Reported Group revenue</b>                      | <b>1,202.9</b>                     | <b>244.8</b>                | <b>100.3</b>                    | <b>330.9</b>                   | <b>1,878.9</b> |

## Notes to the consolidated financial statements (continued)

### Note 2 Segmental information (continued)

#### (b) Operating profit

Operating profit from continuing operations, split by segment, was as follows:

|  | 2020   |  |                            | 2019   |  |                            |
|--|--|--|----------------------------|--|--|----------------------------|
|  | Performance excluding separately disclosed items<br>£m | Separately disclosed items<br>(note 4)<br>£m | Results for the year<br>£m | Performance excluding separately disclosed items<br>£m | Separately disclosed items<br>(note 4)<br>£m | Results for the year<br>£m |
| UK Bus (regional operations)   | 90.6   | (14.5)                                       | 76.1                       | 117.0  | (19.0)                                       | 98.0                       |
| UK Bus (London)  | 16.1   | –  | 16.1                       | 10.7   | (5.0)  | 5.7                        |
| Total bus operations   | 106.7  | (14.5)                                       | 92.2                       | 127.7  | (24.0)                                       | 103.7                      |
| UK Rail  | 4.4  | (17.3)                                       | (12.9)                     | 26.4   | (0.7)  | 25.7                       |
|  | 111.1  | (31.8)                                       | 79.3                       | 154.1  | (24.7)                                       | 129.4                      |
| Group overheads  | (8.1)  | (0.7)  | (8.8)                      | (13.6)   | (0.9)  | (14.5)                     |
| Restructuring costs  | (0.9)  | –  | (0.9)                      | (2.5)  | –  | (2.5)                      |
| <b>Total operating profit of continuing Group companies</b>                      | <b>102.1</b>   | <b>(32.5)</b>                                | <b>69.6</b>                | 138.0  | (25.6)                                       | 112.4                      |
| Share of joint ventures' profit after finance costs, finance income and taxation | 17.6   | –  | 17.6                       | 23.3   | –  | 23.3                       |
| <b>Total operating profit:</b>   |  |  |                            |  |  |                            |
| <b>Group operating profit and share of joint ventures' profit after taxation</b> | <b>119.7</b>   | <b>(32.5)</b>                                | <b>87.2</b>                | 161.3  | (25.6)                                       | 135.7                      |

#### (c) Joint ventures

The share of profit from joint ventures was further split as follows:

|   | 2020<br>£m  | 2019<br>£m |
|---|-------------|------------|
| <b>Virgin Rail Group (UK Rail)</b>  |             |            |
| Operating profit  | 18.9        | 25.7       |
| Finance income (net)  | 0.4         | 0.8        |
| Taxation  | (3.5)       | (5.2)      |
|   | 15.8        | 21.3       |
| <b>Citylink (UK Bus, regional operations)</b>   |             |            |
| Operating profit  | 2.3         | 2.5        |
| Taxation  | (0.5)       | (0.5)      |
|   | 1.8         | 2.0        |
| <b>Share of profit of joint ventures after finance costs, finance income and taxation</b> | <b>17.6</b> | 23.3       |

#### (d) Gross assets and liabilities

Assets and liabilities, split by segment, were as follows:

|                              | Non-current assets |            | 2020               |                         |                                    | 2019               |                         |                                    |
|------------------------------|--------------------|------------|--------------------|-------------------------|------------------------------------|--------------------|-------------------------|------------------------------------|
|                              | 2020<br>£m         | 2019<br>£m | Gross assets<br>£m | Gross liabilities<br>£m | Net assets/<br>(liabilities)<br>£m | Gross assets<br>£m | Gross liabilities<br>£m | Net assets/<br>(liabilities)<br>£m |
| UK Bus (regional operations) | 857.4              | 851.1      | 949.0              | (490.3)                 | 458.7                              | 931.8              | (321.6)                 | 610.2                              |
| UK Bus (London)              | 115.6              | 65.9       | 128.5              | (225.9)                 | (97.4)                             | 74.0               | (144.7)                 | (70.7)                             |
| UK Rail                      | –                  | 2.4        | 5.1                | (138.4)                 | (133.3)                            | 50.3               | (207.3)                 | (157.0)                            |
|                              | 973.0              | 919.4      | 1,082.6            | (854.6)                 | 228.0                              | 1,056.1            | (673.6)                 | 382.5                              |
| Central functions            | 28.1               | 26.1       | 36.6               | (71.7)                  | (35.1)                             | 50.5               | (29.0)                  | 21.5                               |
| Joint ventures               | 16.3               | 19.9       | 16.3               | –                       | 16.3                               | 19.9               | –                       | 19.9                               |
| Borrowings and cash          | –                  | –          | 348.3              | (710.0)                 | (361.7)                            | 170.4              | (433.0)                 | (262.6)                            |
| Taxation                     | 33.3               | –          | 33.3               | (11.0)                  | 22.3                               | –                  | (32.9)                  | (32.9)                             |
| <b>Total</b>                 | <b>1,050.7</b>     | 965.4      | <b>1,517.1</b>     | <b>(1,647.3)</b>        | <b>(130.2)</b>                     | 1,296.9            | (1,168.5)               | 128.4                              |

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.



# Notes to the consolidated financial statements (continued)

## Note 2 Segmental information (continued)

### (e) Additions to property, plant and equipment

The additions to property, plant and equipment, by continuing operations, is shown below and is on an accruals basis, not on a cash basis. It includes additions to right-of-use assets and assets acquired as part of business combinations.

|                              | 2020<br>£m   | 2019<br>£m |
|------------------------------|--------------|------------|
| UK Bus (regional operations) | 87.6         | 63.7       |
| UK Bus (London)              | 21.8         | 13.6       |
| UK Rail                      | 1.1          | 27.5       |
|                              | <b>110.5</b> | 104.8      |

### (f) Additions to intangible assets

The additions to intangible assets (including goodwill), by continuing operations, is shown below:

|                              | 2020<br>£m | 2019<br>£m |
|------------------------------|------------|------------|
| UK Bus (regional operations) | 6.2        | 2.7        |
| UK Rail                      | –          | 2.0        |
|                              | <b>6.2</b> | 4.7        |

### (g) Earnings before interest, tax, depreciation and amortisation (“EBITDA”)

The results of each continuing segment are further analysed below:

|                              | Year ended 2 May 2020                                      |   |  |  |                                |   |  |   |   |                           |
|------------------------------|--|---|--|--|--------------------------------|---|--|---|---|---------------------------|
|                              | EBITDA<br>before<br>separately<br>disclosed<br>items<br>£m | Joint<br>venture<br>interest<br>and tax<br>£m | EBITDA<br>including<br>joint<br>venture<br>interest<br>and tax<br>£m | Depreciation<br>and<br>impairment<br>expense<br>£m | Software<br>amortisation<br>£m | Operating<br>profit<br>before<br>separately<br>disclosed<br>items<br>£m | Intangible asset<br>(excl. software)<br>amortisation<br>£m | Other<br>separately<br>disclosed<br>items<br>£m | Allocation of<br>restructuring<br>costs<br>£m | Operating<br>profit<br>£m |
| UK Bus (regional operations) | 180.8  | –   | 180.8  | (85.7)   | (4.5)                          | 90.6  | (0.7)  | (13.8)  | (0.5)   | 75.6                      |
| UK Bus (London)              | 39.6   | –   | 39.6   | (23.5)   | –                              | 16.1  | –  | –   | –   | 16.1                      |
| UK Rail – subsidiaries       | 4.7  | –   | 4.7  | (0.3)  | –                              | 4.4   | –  | (17.3)  | (0.4)   | (13.3)                    |
| UK Rail – joint venture      |  |   |  |  |                                |   |  |   |   |                           |
| Virgin Rail Group            | 18.9   | (3.1)   | 15.8   | –  | –                              | 15.8  | –  | –   | –   | 15.8                      |
| UK Bus – joint venture       |  |   |  |  |                                |   |  |   |   |                           |
| Citylink                     | 2.3  | (0.5)   | 1.8  | –  | –                              | 1.8   | –  | –   | –   | 1.8                       |
| Group overheads              | (8.1)  | –   | (8.1)  | –  | –                              | (8.1)   | –  | (0.7)   | –   | (8.8)                     |
| Restructuring costs          | (0.9)  | –   | (0.9)  | –  | –                              | (0.9)   | –  | –   | 0.9   | –                         |
|                              | 237.3  | (3.6)   | 233.7  | (109.5)  | (4.5)                          | 119.7   | (0.7)  | (31.8)  | –   | 87.2                      |
|                              | Year ended 27 April 2019                                   |   |  |  |                                |   |  |   |   |                           |
|                              | EBITDA<br>before<br>separately<br>disclosed<br>items<br>£m | Joint<br>venture<br>interest<br>and tax<br>£m | EBITDA<br>including<br>joint<br>venture<br>interest<br>and tax<br>£m | Depreciation<br>and<br>impairment<br>expense<br>£m | Software<br>amortisation<br>£m | Operating<br>profit<br>before<br>separately<br>disclosed<br>items<br>£m | Intangible asset<br>(excl. software)<br>amortisation<br>£m | Other<br>separately<br>disclosed<br>items<br>£m | Allocation of<br>restructuring<br>costs<br>£m | Operating<br>profit<br>£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                     |

## Notes to the consolidated financial statements (continued)

### Note 3 Operating costs and other operating income

Operating costs and other operating income of continuing operations were as follows:

|  | 2020<br>£m       | 2019<br>£m       |
|--|------------------|------------------|
| Miscellaneous revenue (see explanation below)              | 29.7             | 78.9             |
| COVID-19 related grants receivable (see explanation below) | 38.3             | –                |
| Rail franchise premia (see explanation below)              | (14.7)           | (73.6)           |
| Rail revenue share payable (see explanation below)         | (7.2)            | (5.8)            |
| Materials and consumables                                  | (198.3)          | (243.4)          |
| Staff costs (note 7)                                       | (815.3)          | (928.7)          |
| Depreciation on property, plant and equipment              | (109.2)          | (89.9)           |
| Expenditure on property plant and equipment                | (4.7)            | (32.4)           |
| Gain on disposal of property, plant and equipment          | 0.9              | 0.3              |
| Impairment of property, plant and equipment                | (0.8)            | (0.5)            |
| Amortisation of intangible assets                          | (5.2)            | (8.9)            |
| Impairment of inventories                                  | 1.0              | (0.3)            |
| Network Rail charges including electricity for traction    | (27.9)           | (105.1)          |
| Operating lease rentals payable                            | –                | (81.4)           |
| Rentals payable on low-value and short-term leases         | (15.0)           | –                |
| Other external charges                                     | (218.7)          | (273.2)          |
| Restructuring costs  | (0.9)            | (2.5)            |
| <b>Total operating costs</b>                               | <b>(1,348.0)</b> | <b>(1,766.5)</b> |

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 were payable or receivable by the Group's train operating companies 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. £13.2m (2019: £44.1m) is included in respect of these possessions and performance regimes in the overall miscellaneous revenue of £29.7m (2019: £78.9m) shown above.

COVID-19 related grants receivable reflects the amounts receivable in respect of government grants provided to organisations in light of the ongoing COVID-19 situation. The amounts principally reflect grants receivable in respect of the year ended 2 May 2020 under the Coronavirus Job Retention Scheme ("CJRS") and under the COVID-19 Bus Services Support Grant ("CBSSG") scheme.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. The CJRS income included above reflects the costs incurred in the year ended 2 May 2020 that are eligible to be included in CJRS grant claims to extent the Group considers there to be reasonable certainty that the grant will be received.

Under the CBSSG scheme, grant income may be claimed by operators of local bus services in England to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. The estimation of the CBSSG grant income involves significant uncertainty, as explained in note 1(e)(ii) to these consolidated financial statements. The amount of CBSSG recognised in the year ended 2 May 2020 reflects the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the CBSSG reconciliation process. The Department for Transport reserves the right to change the CBSSG calculation methodology at any time during the scheme period.

In addition to the COVID-19 related grants receivable shown above, some government bodies have agreed to continue certain levels of payments of concessionary revenue, tender revenue and Bus Service Operators Grant ("BSOG") to help support the continuing operation of bus services. The payment rates of these items during the period affected by COVID-19 are higher than they would ordinarily be for the relevant levels of patronage, mileage and fuel consumption. Consistent with previous years, all amounts of concessionary revenue and tender revenue are reported within revenue and an analysis of revenue for the year ended 2 May 2020 is provided in note 2(a) to these consolidated financial statements. Also consistent with previous years, all amounts of BSOG receivable, essentially rebates of fuel duty, are included net within materials and consumables costs shown above.

Had the average rate of concessionary revenue per journey for the year ended 2 May 2020 as a whole been consistent with the rate for the period from 28 April 2019 to 29 February 2020, the concessionary revenue for the year would have been £234.3m, £22.3m lower than £256.6m reported in note 2(a). While not all concessionary revenue is ordinarily determined on a "per journey" basis, that illustrates the extent to which concessionary payments were maintained notwithstanding the COVID-19 related reductions in journey numbers.

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 share payable is the amount payable to the UK's Department for Transport in certain circumstances where a train operating company's revenue is above target or where defined macroeconomic indices are above target.

# Notes to the consolidated financial statements (continued)

## Note 3 Operating costs and other operating income (continued)

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

|   | 2020<br>£m | 2019<br>£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        | 0.6        |
| Total audit fees  | 1.0        | 1.0        |
| Other assurance services  | 0.1        | 0.4        |
| Total non-audit fees  | 0.1        | 0.4        |
| Total fees payable by the Group to its auditors   | 1.1        | 1.4        |

A description of the work of the Audit Committee is set out in the Audit Committee Report in section 5 of this Annual Report, and includes an explanation of how auditor independence is safeguarded when non-audit services are provided by the auditors.

## Note 4 Separately disclosed items

### (a) Summary of separately disclosed items

The Group highlights amounts before certain "separately disclosed items" as well as clearly reporting the results in accordance with IFRS. Separately disclosed items are defined in note 34.

The items shown in the columns headed "separately disclosed items" on the face of the consolidated income statement for the year ended 2 May 2020 and for the prior year comparatives are further analysed in the table below.

|   | 2020   |  |   | 2019   |  |   |
|---|--|--|---|--|--|---|
|   | Non–software<br>intangible asset<br>amortisation<br>£m | Other<br>separately<br>disclosed items<br>£m | Total separately<br>disclosed items<br>£m | Non–software<br>intangible asset<br>amortisation<br>£m | Other<br>separately<br>disclosed items<br>£m | Total separately<br>disclosed items<br>£m |
| <b>Operating costs and other operating income</b>     |  |  |   |  |  |   |
| Non–software intangible assets amortisation           | (0.7)  | –  | (0.7)                                     | (0.3)  | –  | (0.3)                                     |
| Re-organisation costs                                 | –  | (2.4)  | (2.4)                                     | –  | –  | –   |
| Impairment of assets and onerous contracts            | –  | (16.5)                                       | (16.5)                                    | –  | –  | –   |
| Discontinuation of fuel hedge accounting              | –  | (12.9)                                       | (12.9)                                    | –  | –  | –   |
| Equalisation of guaranteed minimum pension benefits   | –  | –  | –   | –  | (25.3)                                       | (25.3)                                    |
|   | (0.7)  | (31.8)                                       | (32.5)                                    | (0.3)  | (25.3)                                       | (25.6)                                    |
| <b>Finance costs</b>                                  |  |  |   |  |  |   |
| Change in fair value of Deferred Payment Instrument   | –  | (17.8)                                       | (17.8)                                    | –  | –  | –   |
| Finance costs in relation to early redemption of debt | –  | –  | –   | –  | (6.1)  | (6.1)                                     |
|   | –  | (17.8)                                       | (17.8)                                    | –  | (6.1)  | (6.1)                                     |
| <b>Separately disclosed items before taxation</b>     | (0.7)  | (49.6)                                       | (50.3)                                    | (0.3)  | (31.4)                                       | (31.7)                                    |
| Taxation effect                                       | –  | 12.8   | 12.8                                      | –  | 22.5   | 22.5                                      |
| <b>Separately disclosed items after taxation</b>      | (0.7)  | (36.8)                                       | (37.5)                                    | (0.3)  | (8.9)  | (9.2)                                     |

### (b) Re-organisation costs

In April 2019, there were two significant events relevant to the Group's overall strategy: the sale of the Group's North America Division and the UK Department for Transport's decision to disqualify the bids that the Group was involved in for new UK rail franchises. In light of those, the Group subsequently reshaped its management structure and reduced overheads to reflect the reduced scope of the business. The re-organisation costs associated with those changes amounted to £2.4m in the year ended 2 May 2020.

### (c) Impairment of assets and onerous contracts

Taking account of the effects of the COVID-19 situation, the Group has assessed its assets for impairment and reviewed for onerous contracts. Based on that review, a separately disclosed expense of £16.5m was recorded for the year ended 2 May 2020.

### (d) Discontinuation of fuel hedge accounting

The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed government advice to avoid all but essential travel in light of the COVID-19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable and hedge accounting was discontinued in mid-March 2020 for certain of the fuel hedges covering the period from mid-March 2020 to April 2021.

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement expense for that, and for subsequent movements in the fair value of fuel derivatives that are no longer effective hedges, has been presented as a separately disclosed item.

## Notes to the consolidated financial statements (continued)

### Note 4 Separately disclosed items (continued)

#### (e) Equalisation of guaranteed minimum pension 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 guaranteed minimum pension ("GMP") benefits. The judgement has implications for many defined benefit schemes, including those in which the Stagecoach Group participates. We worked with our actuarial advisors to understand the implications of the High Court judgement for the schemes in which the Group participates and recorded a £25.3m pre-tax expense in the year ended 27 April 2019 to reflect our best estimate of the effect on our reported pension liabilities.

The Directors 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 was 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.

#### (f) Change in fair value of Deferred Payment Instrument

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 October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business is unsecured and ranks behind all of its secured lenders. The carrying value of the instrument was £22.3m as at 27 April 2019. At 2 May 2020, the carrying value of the instrument was estimated to be £4.5m, resulting in a loss of £17.8m being recognised as finance costs in the year ended 2 May 2020. COVID-19 has adversely affected the fair value of the instrument.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the holder of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group's financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.

#### (g) Finance costs in relation to 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 a separately disclosed item in the year ended 27 April 2019.

#### (h) Taxation effect

The separately disclosed tax credit for the year ended 2 May 2020 includes the tax effect of the pre-tax separately disclosed items, as well as a tax credit of £3.4m in respect of tax losses relating to an expired rail franchise.

# Notes to the consolidated financial statements (continued)

## Note 5 Discontinued operations

On 20 December 2018, the Group announced that an agreement had been reached to sell the North American business, which consisted 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 were as follows:

|   | 2020  |  | 2019                             |                            |
|---|---|--|----------------------------------|----------------------------|
|   | Separately disclosed items and results for the year<br>£m | Performance excluding separately disclosed items<br>£m | Separately disclosed items<br>£m | Results for the year<br>£m |
| <b>Discontinued operations</b>                              |   |  |                                  |                            |
| Revenue   | –   | 456.6  | –                                | 456.6                      |
| Operating costs and other operating income                  | –   | (436.8)  | (69.8)                           | (506.6)                    |
| Operating profit/(loss) before restructuring costs          | –   | 19.8   | (69.8)                           | (50.0)                     |
| Restructuring costs   | –   | (0.2)  | –                                | (0.2)                      |
| Profit/(loss) before interest and taxation                  | –   | 19.6   | (69.8)                           | (50.2)                     |
| Finance costs   | –   | (3.8)  | –                                | (3.8)                      |
| Finance income  | –   | 0.1  | –                                | 0.1                        |
| Profit/(loss) before taxation                               | –   | 15.9   | (69.8)                           | (53.9)                     |
| Taxation  | –   | (0.4)  | –                                | (0.4)                      |
|   | –   | 15.5   | (69.8)                           | (54.3)                     |
| Loss on disposal of North American business                 | <b>(1.3)</b>  | –  | (23.8)                           | (23.8)                     |
| Taxation on disposal of North American business             | –   | –  | –                                | –                          |
| <b>(Loss)/profit after tax from discontinued operations</b> | <b>(1.3)</b>  | 15.5   | (93.6)                           | (78.1)                     |

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<br>£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)     |
| <b>Total net assets disposed of</b>                      | 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)      |
| <b>Proceeds, less costs, on disposal</b>                 | 126.9      |
| <b>Loss on disposal of business</b>                      | (23.8)     |

The net cash flows of the North America business were as follows:

|  | 2019<br>£m |
|--|------------|
| <b>Cash flows from discontinued operations</b> |            |
| Net cash from operating activities             | 47.3       |
| Net cash from investing activities             | (1.7)      |
| Net cash from financing activities             | (47.1)     |
| <b>Net cash flows for the year</b>             | (1.5)      |

The sale of the North America business was concluded prior to 27 April 2019. As a result, there were no assets classified as held for sale as at 27 April 2019.

## Notes to the consolidated financial statements (continued)

### 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.

|   | 2020<br>£m    | 2019<br>£m    |
|---|---------------|---------------|
| <b>Interest expense on financial liabilities at fair value through profit or loss</b>               |               |               |
| – Separately disclosed finance costs (note 4)   | (17.8)        | –             |
| <b>Interest expense on financial liabilities not at fair value through profit or loss</b>           |               |               |
| – Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance | (3.3)         | (2.1)         |
| – Interest payable on leases  | (2.8)         | (0.2)         |
| – Interest payable and other finance costs on bonds   | (17.2)        | (21.8)        |
| – Separately disclosed finance costs (note 4)   | –             | (6.1)         |
| <b>Other finance costs</b>  |               |               |
| – Unwinding of discounts on provisions  | (1.3)         | (1.2)         |
| – Interest charge on defined benefit pension schemes  | (5.1)         | (4.6)         |
| <b>Finance costs</b>  | <b>(47.5)</b> | <b>(36.0)</b> |
| <b>Interest income on financial assets not at fair value through profit or loss</b>                 |               |               |
| – Interest receivable on cash   | 0.9           | 1.2           |
| <b>Interest income on fair value hedges</b>   |               |               |
| – Interest receivable on interest rate swaps qualifying as fair value hedges                        | –             | 0.3           |
| <b>Finance income</b>   | <b>0.9</b>    | <b>1.5</b>    |
| <b>Net finance costs</b>  | <b>(46.6)</b> | <b>(34.5)</b> |

### Note 7 Staff costs

Total staff costs were as follows:

|   | 2020<br>£m   | 2019<br>£m     |
|---|--------------|----------------|
| <b>Staff costs</b>  |              |                |
| Wages and salaries  | 690.3        | 943.4          |
| Social security costs   | 65.3         | 85.9           |
| Pension costs excluding interest on net liability (note 24)                               |              |                |
| – Defined benefit pension costs excluding separately disclosed past service (credit)/cost | 11.2         | 19.7           |
| – Defined benefit past service credit   | (1.1)        | –              |
| – Separately disclosed past service cost (note 4)   | –            | 25.3           |
| – Defined contribution costs  | 47.4         | 45.7           |
| – Administration costs for pension schemes  | 0.8          | 0.9            |
| Share based payment costs (excluding social security costs)                               |              |                |
| – Equity-settled  | 0.9          | 1.9            |
| – Cash-settled  | 0.5          | 1.2            |
|   | <b>815.3</b> | <b>1,124.0</b> |
| Less: discontinued operations staff costs   | –            | (195.3)        |
| Continuing operations staff costs   | <b>815.3</b> | <b>928.7</b>   |

The total amount shown for staff costs above includes an amount of £0.5m (2019: £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:

|   | 2020<br>number | 2019<br>number |
|---|----------------|----------------|
| <b>Average monthly staff numbers</b>    |                |                |
| UK operations                           | 22,572         | 23,628         |
| UK administration and supervisory       | 2,344          | 3,403          |
| Continuing operations                   | 24,916         | 27,031         |
| Discontinued operations – North America | –              | 4,165          |
| <b>Total</b>                            | <b>24,916</b>  | <b>31,196</b>  |

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

|  | 2020<br>number | 2019<br>number |
|--|----------------|----------------|
| UK Bus (regional operations)                   | 20,178         | 19,706         |
| UK Bus (London)                                | 3,629          | 3,932          |
| UK Rail  | 1,052          | 3,315          |
| Central  | 57             | 78             |
| <b>Continuing operations</b>                   | <b>24,916</b>  | <b>27,031</b>  |
| <b>Discontinued operations – North America</b> | <b>–</b>       | <b>4,165</b>   |

# Notes to the consolidated financial statements (continued)

## Note 8 Taxation

### (a) Analysis of charge in the year

|   | 2020   |   |                            | 2019   |   |                            |
|---|--|---|----------------------------|--|---|----------------------------|
|   | Performance excluding separately disclosed items<br>£m | Separately disclosed items (note 4)<br>£m | Results for the year<br>£m | Performance excluding separately disclosed items<br>£m | Separately disclosed items (note 4)<br>£m | Results for the year<br>£m |
| Current tax:                                      |  |   |                            |  |   |                            |
| UK Corporation tax at 19.0% (2019: 19.0%)         | 7.7  | (9.4)                                     | (1.7)                      | 21.7   | (2.0)                                     | 19.7                       |
| Prior year over provision for corporation tax     | (2.6)  | (3.4)                                     | (6.0)                      | (1.9)  | (16.2)                                    | (18.1)                     |
| Total current tax                                 | 5.1  | (12.8)                                    | (7.7)                      | 19.8   | (18.2)                                    | 1.6                        |
| Deferred tax:                                     |  |   |                            |  |   |                            |
| Origination and reversal of temporary differences | 6.4  | –   | 6.4                        | 2.8  | (4.3)                                     | (1.5)                      |
| Adjustments in respect of prior years             | (1.2)  | –   | (1.2)                      | (0.6)  | –   | (0.6)                      |
| Change in tax rates                               | 5.7  | –   | 5.7                        | –  | –   | –                          |
| Total deferred tax                                | 10.9   | –   | 10.9                       | 2.2  | (4.3)                                     | (2.1)                      |
| Total tax on profit on continuing operations      | 16.0   | (12.8)                                    | 3.2                        | 22.0   | (22.5)                                    | (0.5)                      |

### (b) Factors affecting tax charge for the year

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| Profit before taxation – on continuing operations   | 40.6       | 101.2      |
| Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.0% (2019: 19.0%) | 7.7        | 19.2       |
| Effects of:   |            |            |
| Impact of initial recognition exemption on property, plant and equipment                                    | 0.6        | 1.0        |
| Impact of initial recognition exemption on defined benefit pension schemes                                  | 0.2        | 1.0        |
| Non-deductible element of share based payment expense   | 0.1        | 0.3        |
| Other non-deductible expenditure  | 0.7        | 2.0        |
| Other non-taxable income  | (1.3)      | (0.5)      |
| Benefit in respect of expired rail franchise losses   | –          | (0.9)      |
| Tax effect of share of results of joint ventures  | (3.3)      | (4.4)      |
| Adjustments to tax charge in respect of prior years   |            |            |
| – prior year adjustments  | (3.8)      | (2.5)      |
| – separately disclosed credit arising from expired rail franchise losses                                    | (3.4)      | (16.2)     |
| Change in UK corporation tax rate   |            |            |
| – impact on opening deferred tax (from 17% to 19%)  | 5.7        | –          |
| – temporary difference expected to reverse at a (higher)/lower rate of tax                                  | –          | 0.5        |
| Total tax on profit (note 8a)   | 3.2        | (0.5)      |

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

Gross deductible temporary differences of £34.2m (2019: £52.1m) have not been recognised due to restrictions in the availability of their use. This includes £26.4m (2019: £44.3m) of accumulated tax losses associated with expired rail franchises 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.

The areas where the Group sees greatest uncertainty around the amount of tax that is payable are explained in note 1.

Following legislation substantively enacted on 17 March 2020, the expected UK corporation tax increases from 17% to 19%, the net impact of which is to increase the deferred tax liability by £1.7m, of which £5.7m is reflected as a charge in the consolidated income statement. The tax charge for the year ended 2 May 2020 also includes a £2.6m release of liabilities for uncertain tax positions.

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 separately disclosed items) to be between 18% and 20% (2019: 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 (continued)

### Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below.

|  | 2020<br>pence<br>per share | 2019<br>pence<br>per share | 2020<br>£m  | 2019<br>£m  |
|--|----------------------------|----------------------------|-------------|-------------|
| <b>Amounts recognised as distributions in the year</b>   |                            |                            |             |             |
| <b>Dividends on ordinary shares</b>  |                            |                            |             |             |
| Final dividend in respect of the previous year   | 3.9                        | 3.9                        | 21.7        | 22.4        |
| Interim dividend in respect of the current year  | 3.8                        | 3.8                        | 20.9        | 21.7        |
| <b>Amounts recognised as distributions to equity holders in the year</b>                           | <b>7.7</b>                 | <b>7.7</b>                 | <b>42.6</b> | <b>44.1</b> |
| <b>Dividends proposed but neither paid nor included as liabilities in the financial statements</b> |                            |                            |             |             |
| <b>Dividends on ordinary shares</b>  |                            |                            |             |             |
| Final dividend in respect of the current year  | –                          | 3.9                        | –           | 22.3        |

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 11 December 2019 and paid on 4 March 2020. The Board has proposed no final dividend in respect of the year ended 2 May 2020.

During the year ended 2 May 2020, a total amount of £21.7m was paid in respect of the final dividend of 3.9p per ordinary share for the year ended 27 April 2019. The amount is less than the £22.3m shown for the proposed final dividend in the financial statements for the year ended 27 April 2019. The difference is due to the purchase by the Company of some of its own ordinary shares during the half-year ended 26 October 2019. That resulted in fewer ordinary shares being eligible for the final dividend than was assumed in preparing the financial statements for the year ended 27 April 2019.

### 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.

|   | 2020<br>no. of shares<br>million | 2019<br>no. of shares<br>million |
|---|----------------------------------|----------------------------------|
| Basic weighted average number of ordinary shares, excluding treasury shares | 555.3                            | 573.2                            |
| Dilutive ordinary shares  |                                  |                                  |
| – Executive Participation Plan  | 3.0                              | 2.7                              |
| – Long Term Incentive Plan  | 1.1                              | 0.7                              |
| Diluted weighted average number of ordinary shares                          | 559.4                            | 576.6                            |

Adjusted EPS is calculated by adding back separately disclosed 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<br>operations<br>2020<br>£m | Discontinued<br>operations<br>2020<br>£m | Total of all<br>operations<br>2020<br>£m | Continuing<br>operations<br>2019<br>£m | Discontinued<br>operations<br>2019<br>£m | Total of all<br>operations<br>2019<br>£m |
|---|--|--|--|--|--|--|
| Profit attributable to equity holders of the parent for basic EPS calculation | 37.1                                   | (1.3)                                    | 35.8                                     | 99.7                                   | (78.1)                                   | 21.6                                     |
| Non-software intangible asset amortisation (note 4)                           | 0.7                                    | –  | 0.7                                      | 0.3                                    | –  | 0.3                                      |
| Other separately disclosed items before tax (notes 4 and 5)                   | 49.6                                   | 1.3                                      | 50.9                                     | 31.4                                   | 93.6                                     | 125.0                                    |
| Tax effect of separately disclosed items (note 4)                             | (12.8)                                 | –  | (12.8)                                   | (22.5)                                 | –  | (22.5)                                   |
| Non-controlling interest in separately disclosed items                        | 0.3                                    | –  | 0.3                                      | 2.0                                    | –  | 2.0                                      |
| Profit for adjusted EPS calculation   | 74.9                                   | –  | 74.9                                     | 110.9                                  | 15.5                                     | 126.4                                    |



# Notes to the consolidated financial statements (continued)

## Note 11 Goodwill

The movements in goodwill were as follows:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| <b>Cost</b>                                     |            |            |
| At beginning of year                            | 51.2       | 142.1      |
| Acquired through business combinations          | 0.7        | 0.3        |
| Disposal of subsidiaries                        | –          | (95.9)     |
| Foreign exchange movements                      | –          | 4.7        |
| At end of year                                  | 51.9       | 51.2       |
| <b>Accumulated amortisation</b>                 |            |            |
| 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             | 51.2       | 142.1      |
| Net book value at end of year                   | 51.9       | 51.2       |

Goodwill arose in the year ended 2 May 2020 on a business combination. The business combination and its effect on cash flow was not material.

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to two individual cash generating units (“CGUs”) on the basis of the Group’s operations. The UK Bus (regional operations) and UK Bus (London) cash generating units operate coach and bus services in the United Kingdom. No goodwill has been allocated to the Group’s UK rail operations.

The cash generating units are as follows:

|  | UK Bus<br>(regional operations) |              | UK Bus<br>(London)  |              |
|--|---------------------------------|--------------|---------------------|--------------|
|  | 2020<br>£m                      | 2019<br>£m   | 2020<br>£m          | 2019<br>£m   |
| Carrying amount of goodwill  | 48.3                            | 47.6         | 3.6                 | 3.6          |
| Basis on which recoverable amount has been determined  | <b>Value in use</b>             | Value in use | <b>Value in use</b> | Value in use |
| Period covered by approved management plans used in value in use calculation                             | <b>5 years</b>                  | 5 years      | <b>5 years</b>      | 5 years      |
| Pre-tax discount rate applied to cash flow projections   | <b>9.7%</b>                     | 8.7%         | <b>9.7%</b>         | 8.7%         |
| Growth rate used to extrapolate cash flows beyond period of management plan                              | <b>2.2%</b>                     | 2.2%         | <b>2.2%</b>         | 2.2%         |
| Difference between above growth rate and long-term average growth rate for market in which unit operates | <b>Nil</b>                      | Nil          | <b>Nil</b>          | 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 2 May 2020 at 7.9% (2019: 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.

Having delivered a solid performance for most of the year, the UK Bus (regional operations) business has been adversely impacted by the substantial fall in passenger demand for public transport in response to the COVID-19 pandemic. With the continuing uncertainty of the COVID-19 pandemic and the UK’s recovery, it remains difficult to reliably predict financial performance for the new financial year ending 1 May 2021.

## Notes to the consolidated financial statements (continued)

### Note 11 Goodwill (continued)

The value in use as at 2 May 2020 has been estimated to exceed the carrying value of the business' non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below carrying value. The most critical estimates relate to the forecast growth in the business' earnings before interest, tax, depreciation and amortisation over the next few years, the discount rate and the rate of long-term growth in the business' net cash flows. The financial performance of the UK Bus (regional operations) business is influenced by various different factors, including 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 key areas of forecasting uncertainty include:

- The extent and duration of COVID-19 restrictions in the UK;
- Duration and scale of government support measures to the bus sector;
- Recovery in passenger demand; and
- Size of network (mileage) to support that level of passenger demand.

The carrying value of UK Bus (regional operations) non-current assets as at 2 May 2020 was £857.4m and the estimated value in use was £1,201.1m but alternative assumptions could result in an impairment loss. As at 2 May 2020, the value in use of the UK Bus (regional operations) business exceeds its carrying amount by £343.7m. Our sensitivity analysis indicates that this headroom would be eliminated if the assumed long-term growth rate fell by more than 410 basis points, or if the discount rate were to increase by more than 260 basis points. The assumptions described in section 3.11 of this Annual Report in respect of our base case forecast for assessing going concern and longer term viability are consistent with those applied in assessing goodwill as at 2 May 2020 for impairment.

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

### Note 12 Other intangible assets

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

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

|  | Customer contracts<br>£m | Rail franchises<br>£m | Software costs<br>£m | Total<br>£m |
|--|--------------------------|-----------------------|----------------------|-------------|
| <b>Year ended 2 May 2020</b>             |                          |                       |                      |             |
| <b>Cost</b>                              |                          |                       |                      |             |
| At beginning of year                     | 1.7                      |                       | 32.6                 | 34.3        |
| Additions                                | –                        |                       | 5.5                  | 5.5         |
| Disposals                                | –                        |                       | (6.0)                | (6.0)       |
| At end of year                           | 1.7                      |                       | 32.1                 | 33.8        |
| <b>Accumulated amortisation</b>          |                          |                       |                      |             |
| At beginning of year                     | (0.7)                    |                       | (23.9)               | (24.6)      |
| Amortisation charged to income statement | (0.7)                    |                       | (4.5)                | (5.2)       |
| Disposals                                | –                        |                       | 5.5                  | 5.5         |
| At end of year                           | (1.4)                    |                       | (22.9)               | (24.3)      |
| Net book value at beginning of year      | 1.0                      |                       | 8.7                  | 9.7         |
| Net book value at end of year            | 0.3                      |                       | 9.2                  | 9.5         |
| <b>Year ended 27 April 2019</b>          |                          |                       |                      |             |
| <b>Cost</b>                              |                          |                       |                      |             |
| 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        |
| <b>Accumulated amortisation</b>          |                          |                       |                      |             |
| 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         |

# Notes to the consolidated financial statements (continued)

## Note 13 Property, plant and equipment

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

|   | Land and buildings<br>£m | Passenger service vehicles<br>£m | Other plant and equipment<br>£m | Total<br>£m    |
|---|--------------------------|----------------------------------|---------------------------------|----------------|
| <b>Year ended 2 May 2020</b>  |                          |                                  |                                 |                |
| <b>Cost</b>   |                          |                                  |                                 |                |
| At beginning of year  | 298.2                    | 1,127.1                          | 153.3                           | 1,578.6        |
| Recognition of right-of-use assets on adoption of IFRS 16, "Leases" | 33.6                     | 50.1                             | 4.4                             | 88.1           |
|   | <b>331.8</b>             | <b>1,177.2</b>                   | <b>157.7</b>                    | <b>1,666.7</b> |
| Additions – purchased assets  | 3.6                      | 83.7                             | 4.4                             | 91.7           |
| Additions – right-of-use assets                                     | 4.5                      | 9.3                              | 2.1                             | 15.9           |
| Acquired through business combinations                              | 2.2                      | 0.7                              | –                               | 2.9            |
| Disposals   | (4.2)                    | (37.0)                           | (47.7)                          | (88.9)         |
| At end of year  | <b>337.9</b>             | <b>1,233.9</b>                   | <b>116.5</b>                    | <b>1,688.3</b> |
| <b>Depreciation</b>   |                          |                                  |                                 |                |
| At beginning of year  | (68.9)                   | (554.2)                          | (121.5)                         | (744.6)        |
| Depreciation charged to income statement                            | (11.0)                   | (89.4)                           | (8.8)                           | (109.2)        |
| Impairment charged to income statement                              | (0.5)                    | –                                | (0.3)                           | (0.8)          |
| Disposals   | 0.2                      | 36.8                             | 44.2                            | 81.2           |
| At end of year  | <b>(80.2)</b>            | <b>(606.8)</b>                   | <b>(86.4)</b>                   | <b>(773.4)</b> |
| Net book value at beginning of year                                 | <b>229.3</b>             | <b>572.9</b>                     | <b>31.8</b>                     | <b>834.0</b>   |
| Net book value at end of year                                       | <b>257.7</b>             | <b>627.1</b>                     | <b>30.1</b>                     | <b>914.9</b>   |

Included in the above net book value at end of year are the following amounts relating to right-of-use assets:

|  | Land and buildings<br>£m | Passenger service vehicles<br>£m | Other plant and equipment<br>£m | Total<br>£m |
|--|--------------------------|----------------------------------|---------------------------------|-------------|
| Right-of-use assets previously classified as operating leases and recognised at 28 April 2019, and additions in the year to 2 May 2020 |                          |                                  |                                 |             |
|  | <b>33.2</b>              | <b>41.2</b>                      | <b>4.2</b>                      | <b>78.6</b> |
| Assets on hire purchase  | –                        | 17.0                             | –                               | 17.0        |
| Total net book value of right-of-use assets at 2 May 2020  | <b>33.2</b>              | <b>58.2</b>                      | <b>4.2</b>                      | <b>95.6</b> |

|   | Land and buildings<br>£m | Passenger service vehicles<br>£m | Other plant and equipment<br>£m | Total<br>£m    |
|---|--------------------------|----------------------------------|---------------------------------|----------------|
| <b>Year ended 27 April 2019</b>   |                          |                                  |                                 |                |
| 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  | <b>298.2</b>             | <b>1,127.1</b>                   | <b>153.3</b>                    | <b>1,578.6</b> |
| <b>Depreciation</b>   |                          |                                  |                                 |                |
| At beginning of year  | (77.9)                   | (779.7)                          | (148.8)                         | (1,006.4)      |
| Depreciation charged to income statement  |                          |                                  |                                 |                |
| – Charge before separately disclosed items  | (9.5)                    | (108.9)                          | (13.0)                          | (131.4)        |
| – "Saving" in depreciation during the period that the North America business was accounted for as "held for sale" | 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  | <b>(68.9)</b>            | <b>(554.2)</b>                   | <b>(121.5)</b>                  | <b>(744.6)</b> |
| Net book value at beginning of year   | <b>269.4</b>             | <b>805.3</b>                     | <b>62.4</b>                     | <b>1,137.1</b> |
| Net book value at end of year   | <b>229.3</b>             | <b>572.9</b>                     | <b>31.8</b>                     | <b>834.0</b>   |

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 |

## Notes to the consolidated financial statements (continued)

### 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 was the operation of inter-city train services under the West Coast rail franchise. It ceased operating train services in December 2019. 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 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 (2019: £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<br>£m | Citylink<br>£m | Total<br>2020<br>£m | Total<br>2019<br>£m |
|--|-------------------------|----------------|---------------------|---------------------|
| <b>Net book value</b>  |                         |                |                     |                     |
| At beginning of year   | 15.0                    | 4.9            | 19.9                | 25.2                |
| Share of recognised profit   | 15.8                    | 1.8            | 17.6                | 23.3                |
| Share of actuarial gains/(losses) on defined benefit pension schemes, net of tax     | 6.3                     | -              | 6.3                 | (2.8)               |
| Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax | (0.2)                   | -              | (0.2)               | (0.4)               |
| Dividends received in cash   | (25.6)                  | (1.7)          | (27.3)              | (25.4)              |
| At end of year   | 11.3                    | 5.0            | 16.3                | 19.9                |

A loan payable to Citylink of £1.7m (2019: £1.7m) and a loan payable to Virgin Rail Group of £11.0m (2019: £Nil) are included within current liabilities under the caption "Trade and other payables".

#### (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 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         |
|--|-------------------|------------------|
| <b>Latest statutory balance sheet date closest to 2 May 2020</b> | 8 December 2019   | 31 December 2019 |
| <b>Balance sheet date of management accounts</b>                 | 2 May 2020        | 17 April 2020    |

# Notes to the consolidated financial statements (continued)

## Note 14 Interests in joint ventures (continued)

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

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

|   | Virgin Rail Group<br>£m | Citylink<br>£m | Total 2020<br>£m |
|---|-------------------------|----------------|------------------|
| <b>As at 2 May 2020</b>                 |                         |                |                  |
| Non-current assets                      | –                       | 0.2            |                  |
| Cash and cash equivalents               | 38.2                    | 2.6            |                  |
| Other current assets                    | 31.1                    | 8.5            |                  |
| Current liabilities                     | (46.1)                  | (4.3)          |                  |
| <b>Net assets</b>                       | <b>23.2</b>             | <b>7.0</b>     |                  |
| Non-controlling interest                | (0.1)                   | –              |                  |
| <b>Shareholders' funds</b>              | <b>23.1</b>             | <b>7.0</b>     |                  |
| Group share                             | 49%                     | 35%            |                  |
| Group share of net assets               | 11.3                    | 2.4            | 13.7             |
| Goodwill                                | –                       | 2.6            | 2.6              |
| <b>Group interest in joint ventures</b> | <b>11.3</b>             | <b>5.0</b>     | <b>16.3</b>      |
| <b>As at 27 April 2019</b>              |                         |                |                  |
|   | Virgin Rail Group<br>£m | Citylink<br>£m | Total 2019<br>£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)          |                  |
| <b>Net assets</b>                       | <b>30.9</b>             | <b>6.7</b>     |                  |
| Non-controlling interest                | (0.2)                   | –              |                  |
| <b>Shareholders' funds</b>              | <b>30.7</b>             | <b>6.7</b>     |                  |
| Group share                             | 49%                     | 35%            |                  |
| Group share of net assets               | 15.0                    | 2.3            | 17.3             |
| Goodwill                                | –                       | 2.6            | 2.6              |
| <b>Group interest in joint ventures</b> | <b>15.0</b>             | <b>4.9</b>     | <b>19.9</b>      |

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):

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| <b>Virgin Rail Group</b>                              |            |            |
| Current assets – derivative instruments at fair value | –          | 0.2        |
| Current assets – loan to related parties              | 22.4       | –          |
| <b>Citylink</b>                                       |            |            |
| 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 2 May 2020 and 27 April 2019   | 2020                    |                | 2019                    |                |
|--|-------------------------|----------------|-------------------------|----------------|
|  | Virgin Rail Group<br>£m | Citylink<br>£m | Virgin Rail Group<br>£m | Citylink<br>£m |
| Revenue                                    | 791.8                   | 41.3           | 1,243.9                 | 41.1           |
| Operating costs and other operating income | (753.3)                 | (34.8)         | (1,191.5)               | (33.9)         |
| <b>Operating profit</b>                    | <b>38.5</b>             | <b>6.5</b>     | 52.4                    | 7.2            |
| Finance income                             | 0.8                     | –              | 1.6                     | –              |
| Taxation                                   | (7.1)                   | (1.3)          | (10.7)                  | (1.4)          |
| <b>Profit after tax</b>                    | <b>32.2</b>             | <b>5.2</b>     | 43.3                    | 5.8            |
| Other comprehensive income/(expense)       | 12.4                    | –              | (6.5)                   | –              |
| <b>Total comprehensive income</b>          | <b>44.6</b>             | <b>5.2</b>     | 36.8                    | 5.8            |

## Notes to the consolidated financial statements (continued)

### Note 15 Subsidiary and related undertakings

#### 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. 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 2 May 2020 allocated to the non-controlling interest is shown on the consolidated income statement. The movement in the non-controlling interest 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 2 May 2020 (2019: £Nil).

The consolidated balance sheet of Inter City Railways Limited as at 2 May 2020 and its financial performance for the year ended 2 May 2020 are summarised below. The amounts shown below are determined in accordance with the Group's accounting policies before inter-company eliminations.

|                                    | 2020<br>£m | 2019<br>£m |
|------------------------------------|------------|------------|
| Current assets                     | 37.6       | 41.8       |
| Current liabilities                | (37.6)     | (41.8)     |
| <b>Net assets</b>                  | –          | –          |
| Revenue                            | 0.1        | 139.7      |
| Expenses                           | (0.2)      | (139.9)    |
| <b>Operating loss</b>              | (0.1)      | (0.2)      |
| Finance income, (net)              | 0.1        | 0.2        |
| <b>Profit before and after tax</b> | –          | –          |

### Note 16 Inventories

Inventories were as follows:

|                       | 2020<br>£m | 2019<br>£m |
|-----------------------|------------|------------|
| Parts and consumables | 8.8        | 14.3       |

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:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| At beginning of year                   | (1.6)      | (3.3)      |
| Released/(charged) to income statement | 1.0        | (0.5)      |
| Amount utilised                        | –          | 2.2        |
| At end of year                         | (0.6)      | (1.6)      |

## Notes to the consolidated financial statements (continued)

### Note 17 Trade and other receivables

Trade and other receivables were as follows:

|                                      | 2020<br>£m   | 2019<br>£m   |
|--------------------------------------|--------------|--------------|
| <b>Non-current:</b>                  |              |              |
| Other receivables                    | 24.8         | 34.6         |
| <b>Current:</b>                      |              |              |
| Trade receivables                    | 23.9         | 38.6         |
| Less: provision for impairment       | (2.5)        | (2.0)        |
| Trade receivables – net              | 21.4         | 36.6         |
| Other receivables                    | 9.7          | 5.6          |
| Prepayments                          | 8.7          | 25.3         |
| Accrued income                       | 22.5         | 32.9         |
| VAT and other government receivables | 44.1         | 32.9         |
|                                      | <b>106.4</b> | <b>133.3</b> |

Included within non-current other receivables is the carrying value of £4.5m (2019: £22.3m) 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 notes 1, 4 and 25.

The movements in the provision for impairment of current trade receivables were as follows:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| At beginning of year                                  | (2.0)      | (3.1)      |
| Impairment losses in year charged to income statement | (1.5)      | (0.8)      |
| Reversal of impairment losses credited to income      | 0.5        | 1.1        |
| Amount included in disposal of subsidiaries           | –          | 0.4        |
| Amounts utilised                                      | 0.5        | 0.4        |
| At end of year  | (2.5)      | (2.0)      |

Of the above provision for impairment, £2.5m (2019: £2.0m) relate to receivables arising from contracts with customers. Further information on credit risk is provided in note 25.

### Note 18 Contract balances

|                                | 2020<br>£m | 2019<br>£m |
|--------------------------------|------------|------------|
| Trade receivables (note 17)    | 21.4       | 36.6       |
| Contract liabilities (note 20) | 20.6       | 30.4       |

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 and concessionary payments received by the Group in respect of services that had yet to be performed.

The contract liabilities as at 2 May 2020 are expected to be recognised as revenue in the year to 1 May 2021. The contract liabilities at the previous balance sheet date were predominately recognised within revenue in the subsequent year.

Changes in the contract liabilities relating to customer contracts at each year end principally reflect changes in the volume of season tickets purchased in advance of the respective year-end dates. The main reasons for the drop in the balance from 27 April 2019 to 2 May 2020 is the expiry of the East Midlands Trains franchise and reduced sales of season tickets as a result of the COVID-19 situation.

## Notes to the consolidated financial statements (continued)

### Note 19 Cash and cash equivalents

|                          | 2020<br>£m   | 2019<br>£m |
|--------------------------|--------------|------------|
| Cash                     | 347.9        | 168.7      |
| Cash in transit          | 0.4          | 1.7        |
| Cash at bank and in hand | <b>348.3</b> | 170.4      |

The cash amounts shown above include the following cash deposits:

- £17.0m on 12 month deposit maturing by December 2020 (2019: £17.0m on 12 month deposit maturing by December 2019);
- £15.0m on 3 month deposit maturing by May 2020 (2019: £5.0m on 3 month deposit maturing by June 2019);
- £200.0m on 1 month deposit maturing by May 2020;
- £30.0m on 1 month deposit maturing by June 2020;
- £30.0m on 2 week deposit maturing by May 2020 (2019: £15.0m on 2 week deposit maturing by May 2019);
- £10.0m on 10 day deposit maturing by May 2020;

The deposits can be accessed prior to the end of the deposit period without incurring material break costs. The remaining amounts are accessible to the Group within one day (2019: one day).

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 £348.3m (2019: £170.4m) above included the net balance on these offset accounts of £28.0m (2019: £4.6m), which comprised £260.4m (2019: £225.1m) of positive bank balances less £232.4m (2019: £220.5m) 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:

|  | 2020<br>£m   | 2019<br>£m |
|--|--------------|------------|
| <b>Current</b>                             |              |            |
| Trade payables                             | 25.4         | 59.8       |
| Accruals                                   | 178.4        | 266.4      |
| Contract liabilities                       | 20.6         | 30.4       |
| Other deferred income                      | 28.6         | 16.5       |
| Cash-settled share based payment liability | 0.4          | 0.2        |
| Deferred grant income                      | 3.4          | 1.3        |
| Loans from joint ventures                  | 12.7         | 1.7        |
| PAYE and NIC payable                       | 32.9         | 15.8       |
| VAT and other government payables          | 1.3          | 0.5        |
|  | <b>303.7</b> | 392.6      |
| <b>Non-current</b>                         |              |            |
| Deferred grant income                      | 9.2          | 3.0        |
| Cash-settled share based payment liability | 0.5          | 0.9        |
| PAYE and NIC payable                       | 0.3          | 0.4        |
| Deferred income                            | –            | 0.2        |
|  | <b>10.0</b>  | 4.5        |

The Group agreed to accept delivery prior to 2 May 2020 of certain vehicles for which the supplier put in place supplier financing arrangements for these vehicles and the due date for payment by the Group fell after 2 May 2020. As at 2 May 2020, £14.3m (2019: £11.6m) is included in accruals for such vehicles.



# Notes to the consolidated financial statements (continued)

## Note 21 Borrowings

### (a) Repayment profile

Borrowings are repayable as follows:

|                                   | 2020<br>£m    | 2019<br>£m |
|-----------------------------------|---------------|------------|
| <b>On demand or within 1 year</b> |               |            |
| Loan notes                        | 17.5          | 18.2       |
| Hire purchase obligations         | 3.5           | 3.6        |
| Other lease liabilities           | 21.5          | –          |
|                                   | <b>42.5</b>   | 21.8       |
| <b>Within 1-2 years</b>           |               |            |
| Hire purchase obligations         | 2.0           | 3.6        |
| Other lease liabilities           | 16.1          | –          |
|                                   | <b>18.1</b>   | 3.6        |
| <b>Within 2-5 years</b>           |               |            |
| Bank loans                        | 200.0         | –          |
| Hire purchase obligations         | –             | 2.1        |
| Other lease liabilities           | 24.7          | –          |
|                                   | <b>224.7</b>  | 2.1        |
| <b>Over 5 years</b>               |               |            |
| Lease liabilities                 | 18.0          | –          |
| Sterling 4.00% Notes              | 406.7         | 405.5      |
|                                   | <b>424.7</b>  | 405.5      |
| Total borrowings                  | <b>710.0</b>  | 433.0      |
| Less current maturities           | <b>(42.5)</b> | (21.8)     |
| Non-current portion of borrowings | <b>667.5</b>  | 411.2      |

Interest is payable on hire purchase obligations at an annual rate of 0.89% over equivalent LIBOR rates (2019: between 0.40% and 0.89% over bank base rate or equivalent LIBOR rates), subject to certain minimum rates.

Interest on bank loans is payable at LIBOR plus margins ranging from 0.40% to 1.50% (2019: 0.40% to 1.10%).

Interest on loan notes is payable at three months LIBOR. Loan notes amounting to £17.5m (2019: £18.2m) 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 and the bank loans are unsecured.

### (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 2 May 2020 was £406.7m (2019: £405.5m) after taking account of accrued interest, the discount on issue and issue costs.

## Notes to the consolidated financial statements (continued)

### Note 22 Deferred tax

The Group movement in deferred tax during the year was as follows:

|  | 2020<br>£m    | 2019<br>£m |
|--|---------------|------------|
| At beginning of year   | <b>(13.9)</b> | (25.2)     |
| (Charged)/credited to income statement – continuing operations | <b>(10.9)</b> | 2.1        |
| Credited to income statement – discontinuing operations        | –             | 0.4        |
| Disposal of subsidiaries                                       | –             | (0.3)      |
| Credited to equity   | <b>58.1</b>   | 9.1        |
| At end of year   | <b>33.3</b>   | (13.9)     |
| Current  | –             | (0.2)      |
| Non-current  | <b>33.3</b>   | (13.7)     |
| At end of year   | <b>33.3</b>   | (13.9)     |

Gross deductible temporary differences of £175.0m (2019: £Nil) have been recognised as at 2 May 2020 as it is probable that sufficient taxable profit will be available in the future to utilise these and there is no restriction on their use.

Deferred taxation is analysed as follows:

|  | 2020         |                 |               | 2019         |                 |           |
|--|--------------|-----------------|---------------|--------------|-----------------|-----------|
|  | Assets<br>£m | Liability<br>£m | Net<br>£m     | Assets<br>£m | Liability<br>£m | Net<br>£m |
| Accelerated capital allowances                   | –            | <b>(57.4)</b>   | <b>(57.4)</b> | –            | (50.3)          | (50.3)    |
| Pension temporary difference                     | <b>78.5</b>  | –               | <b>78.5</b>   | 33.9         | –               | 33.9      |
| Other temporary differences:                     |              |                 |               |              |                 |           |
| – Employee remuneration and share based payments | <b>4.8</b>   | –               | <b>4.8</b>    | 4.6          | –               | 4.6       |
| – Accrued expenses deductible when paid          | <b>0.2</b>   | –               | <b>0.2</b>    | 0.2          | –               | 0.2       |
| – Fuel derivatives                               | –            | –               | –             | –            | (1.8)           | (1.8)     |
| – Losses carried forward                         | <b>7.9</b>   | –               | <b>7.9</b>    | –            | –               | –         |
| – Other timing differences                       | –            | <b>(0.7)</b>    | <b>(0.7)</b>  | –            | (0.5)           | (0.5)     |
|  | <b>91.4</b>  | <b>(58.1)</b>   | <b>33.3</b>   | 38.7         | (52.6)          | (13.9)    |

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

|                                | 2020<br>£m    | 2019<br>£m |
|--------------------------------|---------------|------------|
| Accelerated capital allowances | <b>(7.1)</b>  | 38.1       |
| Pension temporary differences  | <b>(1.2)</b>  | 3.1        |
| Losses carried forward         | <b>7.9</b>    | –          |
| Other temporary differences    | <b>(10.5)</b> | (38.7)     |
|                                | <b>(10.9)</b> | 2.5        |

Information on uncertain tax positions is provided in note 1.

## Notes to the consolidated financial statements (continued)

### Note 23 Provisions

The movements in provisions were as follows:

|   | Litigation provisions<br>£m | Claims provisions<br>£m | Environmental provisions<br>£m | Dilapidations provision<br>£m | Restructuring provision<br>£m | Onerous contracts<br>£m | Total<br>£m  |
|---|-----------------------------|-------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------|--------------|
| At beginning of year                                      | –                           | 97.0                    | 1.8                            | 2.7                           | 1.5                           | 1.0                     | 104.0        |
| Transferred to right-of-use assets on adoption of IFRS 16 | –                           | –                       | –                              | –                             | –                             | (0.9)                   | (0.9)        |
| Provided during year (after discounting)                  | 7.8                         | 51.3                    | 0.3                            | 0.1                           | –                             | 16.2                    | 75.7         |
| Recognition on acquisition of business                    | –                           | –                       | –                              | –                             | –                             | 0.3                     | 0.3          |
| Unused amounts credited to income statement               | –                           | (3.3)                   | –                              | –                             | –                             | (0.5)                   | (3.8)        |
| Unwinding of discount                                     | –                           | 1.3                     | –                              | –                             | –                             | –                       | 1.3          |
| Utilised in the year                                      | –                           | (39.5)                  | (1.0)                          | –                             | (1.5)                         | (0.3)                   | (42.3)       |
| At end of year  | 7.8                         | 106.8                   | 1.1                            | 2.8                           | –                             | 15.8                    | 134.3        |
| <b>As at 2 May 2020</b>                                   |                             |                         |                                |                               |                               |                         |              |
| Current   | <b>7.8</b>                  | <b>31.5</b>             | <b>1.1</b>                     | <b>2.8</b>                    | <b>–</b>                      | <b>8.7</b>              | <b>51.9</b>  |
| Non-current   | <b>–</b>                    | <b>75.3</b>             | <b>–</b>                       | <b>–</b>                      | <b>–</b>                      | <b>7.1</b>              | <b>82.4</b>  |
|   | <b>7.8</b>                  | <b>106.8</b>            | <b>1.1</b>                     | <b>2.8</b>                    | <b>–</b>                      | <b>15.8</b>             | <b>134.3</b> |
| 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        |

The litigation provisions reflect the best estimate of the expenditure required to settle ongoing litigation, to the extent not covered by other liabilities such as the claims provision. Any payments are expected to be made within one year. The amount and timing of payments may be affected by negotiations between the relevant parties and/or court decisions. The amount provided is based on legal advice.

The claims provisions relate to estimated liabilities on incurred incidents up to the year-end in each year. These are based on legal advice, actuarial reviews and prior claims history. Claims are typically settled within five years of origination. Information on estimation uncertainty regarding claims provisions is included in note 1. Related receivables from insurance companies of £20.2m (2019: £12.2m) are included within other receivables.

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 as the work is undertaken over the next one to 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 restructuring provision related to planned redundancies and was 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. On the adoption of IFRS 16 on 28 April 2019, the element of the provision relating to leases previously recognised as operating leases under IAS 17 was transferred to the opening right-of-use assets recognised on the adoption of IFRS 16, Leases, as required by the standard. The onerous contract provision as at 2 May 2020 principally relates to the Sheffield Supertram concession agreement and is expected to be utilised over around four years to 2024. See note 1(e) for details of estimation uncertainty in respect of the Sheffield Supertram onerous contract provision.

## Notes to the consolidated financial statements (continued)

### 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") – until 18 August 2019; | 31 December 2016                                    |
| • A number of UK Local Government Pension Schemes ("LGPS").                                       | 31 March 2019                                       |

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.

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 2 May 2020 of the expected benefit payments across all UK defined benefit schemes is estimated at 16 years (2019: 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 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.

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 1.6% (2019 2.4%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 15.5% (2019: 12.9%) of the gross present value of pension obligations as at 2 May 2020 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 contributes to 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 ("EFURBS") in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Group has set aside assets to meet its obligations under the scheme. In the case of the EFURBS, 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 2 May 2020 was £10.4m (2019: £8.7m).

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.

# Notes to the consolidated financial statements (continued)

## Note 24 Retirement benefits (continued)

### (b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 2 May 2020 and 27 April 2019 are shown below:

|  | 2020  | 2019  |
|--|-------|-------|
| Discount rate                                | 1.6%  | 2.5%  |
| Retail Prices inflation assumption           | 2.7%  | 3.3%  |
| Consumer Prices inflation assumption         | 1.7%  | 2.2%  |
| Rate of increase in pensionable salaries     |       |       |
| SPS  | 0.5%* | 0.5%* |
| Others                                       | 2.2%  | 2.7%  |
| Rate of increase of pensions in payment      |       |       |
| SPS  | 2.7%  | 3.2%  |
| Others                                       | 1.7%  | 2.2%  |
| Life expectancies in years                   |       |       |
| Current pensioners at 65 – male              | 19.4  | 19.2  |
| Current pensioners at 65 – female            | 22.3  | 22.1  |
| Future pensioners at 65 aged 45 now – male   | 20.8  | 20.6  |
| Future pensioners at 65 aged 45 now – female | 23.9  | 23.7  |

\* 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 will 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 expectancies.

### (c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £Nil (2019: £1.8m) and retirement benefit obligations of £413.1m (2019: £199.5m), resulting in the net liability of £413.1m (2019: £197.7m) analysed below. The amounts recognised in the balance sheet were as follows:

|                                 | Funded schemes |            |             | Unfunded schemes<br>£m | Total<br>£m |
|---------------------------------|----------------|------------|-------------|------------------------|-------------|
|                                 | SPS<br>£m      | LGPS<br>£m | Other<br>£m |                        |             |
| <b>As at 2 May 2020</b>         |                |            |             |                        |             |
| Equities – quoted               | 882.9          | 204.8      | 14.2        | –                      | 1,101.9     |
| Bonds – quoted                  | 247.3          | 26.1       | 3.2         | –                      | 276.6       |
| Total quoted investments        | 1,130.2        | 230.9      | 17.4        | –                      | 1,378.5     |
| Private Equity – unquoted       | 26.9           | 34.3       | –           | –                      | 61.2        |
| Bonds – unquoted                | –              | 33.2       | –           | –                      | 33.2        |
| Cash – unquoted                 | 51.5           | 16.6       | 0.3         | –                      | 68.4        |
| Property – unquoted             | 75.8           | 30.3       | 0.1         | –                      | 106.2       |
| Total unquoted investments      | 154.2          | 114.4      | 0.4         | –                      | 269.0       |
| Fair value of scheme assets     | 1,284.4        | 345.3      | 17.8        | –                      | 1,647.5     |
| Present value of obligations    | (1,688.5)      | (313.3)    | (21.5)      | (2.8)                  | (2,026.1)   |
| (Deficit)/surplus in the scheme | (404.1)        | 32.0       | (3.7)       | (2.8)                  | (378.6)     |
| Asset ceiling                   | –              | (34.3)     | (0.2)       | –                      | (34.5)      |
| Net liability before tax        | (404.1)        | (2.3)      | (3.9)       | (2.8)                  | (413.1)     |

## Notes to the consolidated financial statements (continued)

### Note 24 Retirement benefits (continued)

#### (c) Pension amounts recognised in the balance sheet (continued)

|  | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--|----------------|-----------|------------|-------------|------------------------|-------------|
|  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| As at 27 April 2019                                  |                |           |            |             |                        |             |
| 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)     |

At 2 May 2020, 88% (2019: 85%) 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.

#### (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. 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 1.6.11.3 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 latest actuarial valuations of the two sections of the SPS were completed as at 30 April 2017. The combined deficit across the two sections on the Trustees' technical provisions basis was £19.1m, comprising scheme assets of £1,398.3m less benefit obligations of £1,417.4m. The weighted average discount rate applied in determining the value of those benefit obligations was 4.5%. The discount rate reflects the asset allocation of SPS and its strong track record of investment returns.

# Notes to the consolidated financial statements (continued)

## Note 24 Retirement benefits (continued)

### (d) Funding arrangements and schemes (continued)

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2019. The combined deficit across those schemes on the funding basis agreed by each of the Administering Authorities was £1.5m, comprising scheme assets of £360.8m less benefit obligations of £362.3m. The weighted average discount rate applied in determining the value of those benefit obligations was 2.0%.

Neither the valuations on the Trustees' technical provisions basis nor the net liabilities reflected in the financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

The Group forecasts to contribute £13.9m (forecast at 27 April 2019 for year ended 2 May 2020: £17.4m) to its defined benefit schemes in the financial year ending 1 May 2021.

### (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 |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--|----------------|-----------|------------|-------------|------------------------|-------------|
|  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 2 May 2020</b>                                     |                |           |            |             |                        |             |
| At beginning of year – (liability)/asset                         | (187.7)        | 1.8       | (6.6)      | (1.0)       | (4.2)                  | (197.7)     |
| (Expense)/credit to consolidated income statement                | (10.1)         | (4.3)     | (1.0)      | (1.6)       | 1.0                    | (16.0)      |
| Recognised in the consolidated statement of comprehensive income | (213.0)        | (0.5)     | (3.4)      | (3.2)       | –                      | (220.1)     |
| Employers' contributions and settlements                         | 6.7            | 3.0       | 7.2        | 1.9         | 1.9                    | 20.7        |
| Transfer   | –              | –         | 1.5        | –           | (1.5)                  | –           |
| At end of year – liability                                       | (404.1)        | –         | (2.3)      | (3.9)       | (2.8)                  | (413.1)     |

The transfer shown in the table above relates to the reclassification of certain unfunded LGPS benefit obligations from the LGPS column to the Unfunded schemes column.

|  | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--|----------------|-----------|------------|-------------|------------------------|-------------|
|  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 27 April 2019</b>                                  |                |           |            |             |                        |             |
| 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)     |

### (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:

| <b>Year ended 2 May 2020</b>             | <b>Change in assumption</b>                             | <b>Impact on overall net pensions liabilities</b> |
|--|---|---|
| Discount rate                            | Increase by 10 basis points/Decrease by 10 basis points | Decrease by £24.6m/Increase by £25.0m.            |
| Rate of inflation                        | Increase by 10 basis points/Decrease by 10 basis points | Increase by £25.2m/Decrease by £24.8m.            |
| Rate of increase in pensionable salaries | Increase by 10 basis points/Decrease by 10 basis points | Not material.                                     |
| Rate of increase in pension payments     | Increase by 10 basis points/Decrease by 10 basis points | Increase by £15.4m/Decrease by £15.4m.            |
| Life expectancy                          | Increase by 1 year/Decrease by 1 year                   | Increase by £70.4m/Decrease by £70.3m.            |
| <b>Year ended 27 April 2019</b>          |   |   |
| 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.            |

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.

## Notes to the consolidated financial statements (continued)

### Note 24 Retirement benefits (continued)

#### (g) Pension amounts recognised in income statement

The amounts recognised in the consolidated income statement are analysed as follows:

|                                   | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|-----------------------------------|----------------|-----------|------------|-------------|------------------------|-------------|
|                                   | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 2 May 2020</b>      |                |           |            |             |                        |             |
| Current service cost              | (4.5)          | (4.3)     | (0.9)      | (1.5)       | –                      | (11.2)      |
| Past service credit               | –              | –         | –          | –           | 1.1                    | 1.1         |
| Administration expenses           | (0.8)          | –         | –          | –           | –                      | (0.8)       |
| Defined contribution costs        | –              | –         | –          | –           | (47.4)                 | (47.4)      |
| Included in operating profit      | (5.3)          | (4.3)     | (0.9)      | (1.5)       | (46.3)                 | (58.3)      |
| Net interest (expense)/income     | (4.8)          | (0.6)     | 1.3        | (0.1)       | (0.1)                  | (4.3)       |
| Interest expense on asset ceiling | –              | –         | (1.4)      | –           | –                      | (1.4)       |
| Unwinding of franchise adjustment | –              | 0.6       | –          | –           | –                      | 0.6         |
|                                   | (10.1)         | (4.3)     | (1.0)      | (1.6)       | (46.4)                 | (63.4)      |

|                                   | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|-----------------------------------|----------------|-----------|------------|-------------|------------------------|-------------|
|                                   | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 27 April 2019</b>   |                |           |            |             |                        |             |
| 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)      |

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 |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--|----------------|-----------|------------|-------------|------------------------|-------------|
|  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 2 May 2020</b>   |                |           |            |             |                        |             |
| Actual return on scheme assets (lower)/higher than the discount rate | (109.8)        | 5.1       | (16.1)     | (0.5)       | –                      | (121.3)     |
| Changes in financial assumptions                                     | (116.3)        | (62.7)    | (16.9)     | (1.5)       | –                      | (197.4)     |
| Changes in demographic assumptions                                   | (3.8)          | –         | (0.9)      | (1.9)       | –                      | (6.6)       |
| Experience on benefit obligations                                    | 16.9           | 23.5      | 10.2       | 0.5         | –                      | 51.1        |
| Changes in asset ceiling (net of interest)                           | –              | –         | 20.3       | 0.2         | –                      | 20.5        |
| Change in franchise adjustment                                       | –              | 33.6      | –          | –           | –                      | 33.6        |
|  | (213.0)        | (0.5)     | (3.4)      | (3.2)       | –                      | (220.1)     |

|  | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--|----------------|-----------|------------|-------------|------------------------|-------------|
|  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 27 April 2019</b>                              |                |           |            |             |                        |             |
| 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 (continued)

## Note 24 Retirement benefits (continued)

### (i) Benefit obligations

Changes in the present value of the defined benefit obligations (net of franchise adjustments and members' share of RPS deficit) are analysed as follows:

|                                      | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--------------------------------------|----------------|-----------|------------|-------------|------------------------|-------------|
|                                      | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 2 May 2020</b>         |                |           |            |             |                        |             |
| At beginning of year                 | 1,599.1        | 382.7     | 315.5      | 16.7        | 4.2                    | 2,318.2     |
| Rail franchise changes               | –              | (390.6)   | –          | –           | –                      | (390.6)     |
| Current service cost                 | 4.5            | 4.3       | 0.9        | 1.5         | –                      | 11.2        |
| Past service credit                  | –              | –         | –          | –           | (1.1)                  | (1.1)       |
| Interest on benefit obligations      | 40.0           | 2.4       | 7.8        | 0.4         | 0.1                    | 50.7        |
| Unwinding of franchise adjustment    | –              | (0.6)     | –          | –           | –                      | (0.6)       |
| Benefits paid                        | (58.7)         | (4.2)     | (17.2)     | (0.1)       | (1.9)                  | (82.1)      |
| Contributions by employees           | 0.4            | 0.4       | 0.2        | 0.1         | –                      | 1.1         |
| Actuarial losses/(gains) due to:     |                |           |            |             |                        |             |
| – Changes in demographic assumptions | 3.8            | –         | 0.9        | 1.9         | –                      | 6.6         |
| – Changes in financial assumptions   | 116.3          | 62.7      | 16.9       | 1.5         | –                      | 197.4       |
| – Experience on benefit obligations  | (16.9)         | (23.5)    | (10.2)     | (0.5)       | –                      | (51.1)      |
| – Change in franchise adjustment     | –              | (33.6)    | –          | –           | –                      | (33.6)      |
| Transfer                             | –              | –         | (1.5)      | –           | 1.5                    | –           |
| At end of year                       | 1,688.5        | –         | 313.3      | 21.5        | 2.8                    | 2,026.1     |

|                                      | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|--------------------------------------|----------------|-----------|------------|-------------|------------------------|-------------|
|                                      | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 27 April 2019</b>      |                |           |            |             |                        |             |
| 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     |

## Notes to the consolidated financial statements (continued)

### Note 24 Retirement benefits (continued)

#### (j) Scheme assets

The movement in the fair value of scheme assets was as follows:

|   | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|---|----------------|-----------|------------|-------------|------------------------|-------------|
|   | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 2 May 2020</b>                                  |                |           |            |             |                        |             |
| At beginning of year  | 1,411.4        | 384.5     | 362.1      | 16.1        | –                      | 2,174.1     |
| Rail franchise changes  | –              | (390.6)   | –          | –           | –                      | (390.6)     |
| Administration costs  | (0.8)          | –         | –          | –           | –                      | (0.8)       |
| Interest income   | 35.2           | 1.8       | 9.1        | 0.3         | –                      | 46.4        |
| Employer contributions  | 6.7            | 3.0       | 7.2        | 1.9         | 1.9                    | 20.7        |
| Contributions by employees                                    | 0.4            | 0.4       | 0.2        | 0.1         | –                      | 1.1         |
| Benefits paid   | (58.7)         | (4.2)     | (17.2)     | (0.1)       | (1.9)                  | (82.1)      |
| Remeasurements  |                |           |            |             |                        |             |
| – Return on assets excluding amounts included in net interest | (109.8)        | 5.1       | (16.1)     | (0.5)       | –                      | (121.3)     |
| At end of year  | 1,284.4        | –         | 345.3      | 17.8        | –                      | 1,647.5     |

|   | Funded schemes |           |            |             | Unfunded schemes<br>£m | Total<br>£m |
|---|----------------|-----------|------------|-------------|------------------------|-------------|
|   | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m |                        |             |
| <b>Year ended 27 April 2019</b>                               |                |           |            |             |                        |             |
| 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     |

#### (k) Asset ceiling

The movement in the asset ceiling is shown below:

|                      | 2020<br>£m | 2019<br>£m |
|----------------------|------------|------------|
| At beginning of year | (53.6)     | (56.4)     |
| Interest expense     | (1.4)      | (1.6)      |
| Remeasurements       | 20.5       | 4.4        |
| At end of year       | (34.5)     | (53.6)     |

#### (l) Franchise adjustment

The movement in the franchise adjustment is shown below:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| At beginning of year                    | 73.9       | 178.4      |
| Rail franchise changes                  | (108.1)    | (117.8)    |
| Amounts recognised in income statement: |            |            |
| – Unwinding of franchise adjustment     | 0.6        | 1.6        |
| Remeasurements:                         |            |            |
| – Change in franchise adjustment        | 33.6       | 11.7       |
| At end of year                          | –          | 73.9       |

# Notes to the consolidated financial statements (continued)

## 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.

### (b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities and their respective fair values were:

|   | Note | Carrying value |            | Fair value |            |
|---|------|----------------|------------|------------|------------|
|   |      | 2020<br>£m     | 2019<br>£m | 2020<br>£m | 2019<br>£m |
| <b>Financial assets</b>   |      |                |            |            |            |
| <b>Financial assets measured at fair value through profit or loss</b> |      |                |            |            |            |
| – Non-current assets  |      |                |            |            |            |
| – Other receivables – Deferred Payment Instrument                     | 17   | 4.5            | 22.3       | 4.5        | 22.3       |
| – Current Assets  |      |                |            |            |            |
| – Other receivables – embedded derivative                             | 17   | 5.8            | –          | 5.8        | –          |
| <b>Financial assets measured at amortised cost</b>                    |      |                |            |            |            |
| – Non-current assets  |      |                |            |            |            |
| – Other receivables   | 17   | 20.3           | 12.3       | 20.3       | 12.3       |
| – Current assets  |      |                |            |            |            |
| – Accrued income  | 17   | 22.5           | 32.9       | 22.5       | 32.9       |
| – Trade receivables, net of impairment                                | 17   | 21.4           | 36.6       | 21.4       | 36.6       |
| – Other receivables   | 17   | 3.9            | 5.6        | 3.9        | 5.6        |
| – Cash and cash equivalents   | 19   | 348.3          | 170.4      | 348.3      | 170.4      |
| Total financial assets  |      | 426.7          | 280.1      | 426.7      | 280.1      |
| <b>Financial liabilities</b>  |      |                |            |            |            |
| <b>Financial liabilities at fair value through profit or loss</b>     |      |                |            |            |            |
| – Current liabilities   |      |                |            |            |            |
| – Accruals – embedded derivative                                      | 20   | –              | (0.7)      | –          | (0.7)      |
| <b>Financial liabilities measured at amortised cost</b>               |      |                |            |            |            |
| – Non-current liabilities   |      |                |            |            |            |
| – Borrowings  | 21   | (667.5)        | (411.2)    | (663.1)    | (428.1)    |
| – Current liabilities   |      |                |            |            |            |
| – Trade payables  | 20   | (25.4)         | (59.8)     | (25.4)     | (59.8)     |
| – Accruals  | 20   | (178.4)        | (265.7)    | (178.4)    | (265.7)    |
| – Loans from joint ventures   | 20   | (12.7)         | (1.7)      | (12.7)     | (1.7)      |
| – Borrowings  | 21   | (42.5)         | (21.8)     | (42.5)     | (21.8)     |
| Total financial liabilities   |      | (926.5)        | (760.9)    | (922.1)    | (777.8)    |
| Net financial liabilities   |      | (499.8)        | (480.8)    | (495.4)    | (497.7)    |

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 consideration for the sale of the North American business in April 2019 included 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 October 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. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of its 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 £4.5m as at 2 May 2020 (2019: £22.3m).

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 no control or significant 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 the extent and duration of COVID-19 related restrictions; the extent and timing of how demand recovers from the COVID-19 situation; 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.

## Notes to the consolidated financial statements (continued)

### Note 25 Financial instruments (continued)

#### (b) Carrying values of financial assets and financial liabilities (continued)

The fair values of the other financial assets and financial liabilities shown above are determined as follows:

- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables (excluding the Deferred Payment Instrument and the embedded derivative) is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of the embedded derivative is its fair value determined with reference to the fair value of off-setting financial derivatives as confirmed by the applicable counterparty banks.
- The carrying value of trade payables, accruals and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 ("IFRS 7"), Financial Instruments: Disclosures, does not require the disclosure of fair values for leases.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments, other than the Deferred Payment Instrument, would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed rate notes liability by around £10.2m (2019: £13.9m).

#### 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 2 May 2020.

| Note  | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|---|---------------|---------------|-------------|
| <b>Assets</b>   |               |               |             |
| Deferred Payment Instrument from disposal of subsidiaries | –             | 4.5           | 4.5         |
| Financial derivatives                                     | 25(g) 2.9     | –             | 2.9         |
| Other receivables – embedded derivative                   | 5.8           | –             | 5.8         |
| <b>Total assets</b>                                       | <b>8.7</b>    | <b>4.5</b>    | <b>13.2</b> |
| <b>Liabilities</b>  |               |               |             |
| Financial derivatives                                     | 25(g) (65.2)  | –             | (65.2)      |

There were no transfers between levels during the year ended 2 May 2020.

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<br>£m | Level 3<br>£m | Total<br>£m  |
|---|---------------|---------------|--------------|
| <b>Assets</b>   |               |               |              |
| Deferred Payment Instrument from disposal of subsidiaries | –             | 22.3          | 22.3         |
| Financial derivatives                                     | 25(g) 27.7    | –             | 27.7         |
| <b>Total assets</b>                                       | <b>27.7</b>   | <b>22.3</b>   | <b>50.0</b>  |
| <b>Liabilities</b>  |               |               |              |
| Financial derivatives                                     | 25(g) (2.0)   | –             | (2.0)        |
| Accruals – embedded derivative                            | (0.7)         | –             | (0.7)        |
| <b>Total liabilities</b>                                  | <b>(2.7)</b>  | <b>–</b>      | <b>(2.7)</b> |

#### (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 2 May 2020. 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 1.6.11.3 of the Strategic report and 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.

# Notes to the consolidated financial statements (continued)

## 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 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.

#### (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. Until April 2019, the Group was 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 through to the disposal of the North America business on 16 April 2019. To reduce balance sheet translation exposure, the Group partially hedged 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) was 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:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| <b>US dollars</b>   |            |            |
| – Cash  | 0.4        | 0.2        |
| – Deferred Payment Instrument from disposal of subsidiaries | 4.5        | 22.3       |
| Net exposure  | 4.9        | 22.5       |

The amounts shown above are the carrying values of all US 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 financial derivatives and embedded derivatives are excluded.

The Directors do not consider the sensitivity of the above amounts to reasonably probable movements in foreign exchange rates to be material to the Group.

The Group's consolidated income statement exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| <b>US dollars</b>  |            |            |
| – US\$ element of North American operating profit                | –          | 16.6       |
| – Redundancy/restructuring costs                                 | –          | (0.2)      |
| – Separately disclosed items relating to North American business | (1.3)      | (93.6)     |
| – Net finance costs  | –          | (14.7)     |
| – Net tax credit   | –          | 0.3        |
| <b>Canadian dollars</b>  |            |            |
| – C\$ element of North American operating profit                 | –          | 3.9        |
| – Net tax charge   | –          | (0.7)      |
| Net exposure   | (1.3)      | (88.4)     |

## Notes to the consolidated financial statements (continued)

### Note 25 Financial instruments (continued)

#### (c) Nature and extent of risks arising from financial instruments (continued)

The operating profit figures shown in the above table reconcile to the operating profit before separately disclosed items for North America shown in note 5 as follows:

|  | 2019<br>£m |
|--|------------|
| US\$ element of North American operating profit shown above        | 16.6       |
| C\$ element of North American operating profit shown above         | 3.9        |
| Share based payment adjustment denominated in sterling             | (0.7)      |
| Operating profit before separately disclosed items shown in note 5 | 19.8       |

The loss of £88.4m shown above for 2019 arises due to separately disclosed 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 2 May 2020, there were no material net transactional foreign currency exposures (2019: none).

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.

At 2 May 2020 the interest rate profile of the Group's interest bearing financial liabilities was as follows:

| Currency | Floating rate<br>£m | Fixed rate<br>£m | Total<br>£m | Weighted<br>average fixed<br>interest rate<br>% | Weighted<br>average period<br>for which rate<br>is fixed<br>Years |
|----------|---------------------|------------------|-------------|---|---|
| Sterling | 234.0               | 406.7            | 640.7       | 4.0   | 5.4   |

At 27 April 2019, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

| Currency | Floating rate<br>£m | Fixed rate<br>£m | Total<br>£m | Weighted<br>average fixed<br>interest rate<br>% | Weighted<br>average period<br>for which rate<br>is fixed<br>Years |
|----------|---------------------|------------------|-------------|---|---|
| Sterling | 27.5                | 405.5            | 433.0       | 4.0   | 6.4   |

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).

# Notes to the consolidated financial statements (continued)

## Note 25 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

The Group's financial assets on which floating interest is receivable include cash deposits and cash in hand of £348.3m (2019: £170.4m). The Group's financial asset on which fixed interest is receivable is a Deferred Payment Instrument receivable of £4.5m (2019: £22.3m) arising from the sale of the North America business in April 2019. As at 2 May 2020, the Group had no other financial assets on which fixed interest is receivable (2019: £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 net 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 2 May 2020 consume approximately 212m litres of diesel fuel per annum assuming normal, pre-COVID service levels. 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 fuel used. The fuel derivatives hedge the underlying commodity price risk (denominated in US\$). They also hedge the currency risk due to the commodity being priced in US\$ and the functional currency of the businesses being pounds sterling.

Prior to the COVID-19 situation, we forecast that our diesel consumption for the year ending 1 May 2021 would be around 212m litres. As explained elsewhere in this Annual Report, we reduced vehicle mileage in response to the COVID-19 situation and, as a result, our diesel consumption also reduced. The COVID-19 situation means that there is greater estimation uncertainty in our forecast fuel consumption, which complicates an assessment of the sensitivity of our costs to movements in fuel prices.

For the purpose of this sensitivity analysis, we have excluded fuel derivatives that relate to our former North America business because any payment or receipt by the Group on those derivatives should be exactly offset by a corresponding receipt or payment from/to our former North America business pursuant to the contractual arrangements agreed when we sold the business.

As at 2 May 2020, we had financial derivatives in place covering a net 141.3m litres of fuel consumption by our UK bus business in the year ending 1 May 2021. The price of the underlying product as at 2 May 2020 was 17.1 pence per litre. Taking account of the financial derivatives in place, the table below shows the sensitivity of our fuel costs (amounts payable/receivable on derivatives and purchase cost of the underlying product, excluding taxes, delivery margins and Bus Service Operators Grant) to different levels of consumption and fuel prices.

#### Year ending 1 May 2021

|  |                    |           |           |           |
|--|--------------------|-----------|-----------|-----------|
| Volume of diesel consumed (millions)     |                    | 157.5     | 175.0     | 192.5     |
| <b>Fuel costs</b>                        | <b>pence/litre</b> | <b>£m</b> | <b>£m</b> | <b>£m</b> |
| At 2 May 2020 price                      | 17.1               | (57.6)    | (60.6)    | (63.6)    |
| At 10% higher than 2 May 2020 price      | 18.8               | (57.9)    | (61.2)    | (64.5)    |
| – (increase)/decrease versus 2 May price |                    | (0.3)     | (0.6)     | (0.9)     |
| At 10% lower than 2 May 2020 price       | 15.4               | (57.4)    | (60.1)    | (62.8)    |
| – (increase)/decrease versus 2 May price |                    | 0.2       | 0.5       | 0.8       |

The revenue receivable under certain of the contracts that the Group has with customers is subject to adjustment for changes to certain fuel prices. This further reduces the unhedged exposure to fuel prices.

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, was exposed to changes in fuel and electricity prices until its rail franchise ended in December 2019. It applied commodity price risk management strategies similar to those applied by the Group and explained above.

## Notes to the consolidated financial statements (continued)

### Note 25 Financial instruments (continued)

#### (c) Nature and extent of risks arising from financial instruments (continued)

##### (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 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 receivables is shown in note 17. There was no opening or closing loss allowance for any of the other financial assets measured at amortised cost.

The table below shows the financial assets that are exposed to credit risk at the balance sheet date:

|   | Gross<br>2020<br>£m | Impairment<br>2020<br>£m | Net Exposure<br>2020<br>£m | Gross<br>2019<br>£m | Impairment<br>2019<br>£m | Net Exposure<br>2019<br>£m |
|---|---------------------|--------------------------|----------------------------|---------------------|--------------------------|----------------------------|
| Deferred Payment Instrument                       | 4.5                 | –                        | 4.5                        | 22.3                | –                        | 22.3                       |
| Embedded Derivative                               | 5.8                 | –                        | 5.8                        | –                   | –                        | –                          |
| Trade receivables                                 | 23.9                | (2.5)                    | 21.4                       | 38.6                | (2.0)                    | 36.6                       |
| Loans, other receivables and accrued income       | 46.7                | –                        | 46.7                       | 50.8                | –                        | 50.8                       |
| Cash and cash equivalents – pledged as collateral | 17.5                | –                        | 17.5                       | 18.1                | –                        | 18.1                       |
| Cash and cash equivalents – other                 | 330.8               | –                        | 330.8                      | 152.3               | –                        | 152.3                      |
| Excluding derivative financial instruments        | 429.2               | (2.5)                    | 426.7                      | 282.1               | (2.0)                    | 280.1                      |
| Financial derivatives                             | 2.9                 | –                        | 2.9                        | 27.7                | –                        | 27.7                       |
| Total exposure to credit risk                     | 432.1               | (2.5)                    | 429.6                      | 309.8               | (2.0)                    | 307.8                      |

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 generally 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:

|                         | 2020<br>£m | 2019<br>£m |
|-------------------------|------------|------------|
| United Kingdom & Europe | 419.3      | 285.5      |
| North America           | 10.3       | 22.3       |
|                         | 429.6      | 307.8      |

The Group's financial assets by currency are analysed below:

|                  | 2020<br>£m | 2019<br>£m |
|------------------|------------|------------|
| Sterling & Euros | 418.9      | 285.3      |
| US dollars       | 10.7       | 22.5       |
|                  | 429.6      | 307.8      |

The Group does not hold any collateral in respect of its credit risk exposures set out above (2019: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 2 May 2020 (2019: £Nil).



# Notes to the consolidated financial statements (continued)

## Note 25 Financial instruments (continued)

### (c) Nature and extent of risks arising from financial instruments (continued)

#### Trade receivables, other receivables and accrued income

The Group applies the IFRS 9 simplified approach to measuring expected credit losses on trade receivables, other receivables and accrued income. This uses a lifetime expected loss allowance for all trade receivables, other receivables and accrued income.

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 UK GDP and unemployment rate are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The loss allowance as at 2 May 2020 and 27 April 2019 was determined for trade receivables, other receivables measured at amortised cost and accrued income as set out in the following tables:

|                                 | Trade receivables<br>£m | Other receivables<br>£m | Accrued income<br>£m | Loss allowance<br>£m |
|---------------------------------|-------------------------|-------------------------|----------------------|----------------------|
| <b>As at 2 May 2020</b>         |                         |                         |                      |                      |
| Amounts not yet due             | 18.7                    | 24.2                    | 22.5                 | –                    |
| Amounts 1 to 90 days overdue    | 3.5                     | –                       | –                    | (0.8)                |
| Amounts 91 to 180 days overdue  | 0.2                     | –                       | –                    | (0.2)                |
| Amounts 181 to 365 days overdue | 1.5                     | –                       | –                    | (1.5)                |
| <b>Total</b>                    | <b>23.9</b>             | <b>24.2</b>             | <b>22.5</b>          | <b>(2.5)</b>         |
| <b>As at 27 April 2019</b>      |                         |                         |                      |                      |
|                                 | Trade receivables<br>£m | Other receivables<br>£m | Accrued income<br>£m | Loss allowance<br>£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)                |
| <b>Total</b>                    | <b>38.6</b>             | <b>17.9</b>             | <b>32.9</b>          | <b>(2.0)</b>         |

#### (iii) Liquidity risk

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

As at 2 May 2020, the Group's credit facilities were £858.1m (2019: £928.5m), £383.7m (2019: £222.9m) 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:

|                                    | 2020<br>£m   | 2019<br>£m   |
|------------------------------------|--------------|--------------|
| Expiring within one year           | 268.0        | 260.8        |
| Expiring between one and two years | 140.0        | –            |
| Expiring beyond two years          | 66.4         | 444.8        |
|                                    | <b>474.4</b> | <b>705.6</b> |

Although there is an element of seasonality in the Group's 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.

## Notes to the consolidated financial statements (continued)

### Note 25 Financial instruments (continued)

#### (c) Nature and extent of risks arising from financial instruments (continued)

The committed bank facilities and their utilisation, as at 2 May 2020, was:

| As at 2 May 2020, facilities expiring in: | Facility<br>£m | Loans drawn<br>£m | Performance<br>bonds,<br>guarantees etc.<br>drawn<br>£m | Available for<br>non-cash<br>utilisation only<br>£m | Available for<br>cash drawings<br>£m |
|---|----------------|-------------------|---|---|--------------------------------------|
| <b>MAIN GROUP FACILITIES</b>              |                |                   |   |   |                                      |
| – 2025                                    | 325.0          | (200.0)           | (58.6)  | –   | 66.4                                 |
| – 2021                                    | 140.0          | –                 | –   | –   | 140.0                                |
| – 2020                                    | 204.6          | –                 | (75.6)  | (129.0)   | –                                    |
|   | 669.6          | (200.0)           | (134.2)   | (129.0)   | 206.4                                |
| <b>SHORT-TERM FACILITIES</b>              |                |                   |   |   |                                      |
| – Various                                 | 2.3            | –                 | –   | –   | 2.3                                  |
|   | 671.9          | (200.0)           | (134.2)   | (129.0)   | 208.7                                |

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, excluding lease liabilities, including interest payments.

| As at 2 May 2020                             | Carrying<br>amount<br>£m | Contractual<br>cash flows<br>£m | Less than<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | More than<br>5 years<br>£m |
|--|--------------------------|---------------------------------|---------------------------|-----------------|-----------------|----------------------------|
| <b>Non derivative financial liabilities:</b> |                          |                                 |                           |                 |                 |                            |
| Unsecured bond issues                        | (406.7)                  | (496.0)                         | (16.0)                    | (16.0)          | (48.0)          | (416.0)                    |
| Loan notes payable                           | (17.5)                   | (17.5)                          | (17.5)                    | –               | –               | –                          |
| Bank loans payable                           | (200.0)                  | (201.6)                         | (1.6)                     | –               | (200.0)         | –                          |
| Trade and other payables                     | (216.5)                  | (216.5)                         | (216.5)                   | –               | –               | –                          |
|  | (840.7)                  | (931.6)                         | (251.6)                   | (16.0)          | (248.0)         | (416.0)                    |
| <b>Derivative financial liabilities:</b>     |                          |                                 |                           |                 |                 |                            |
| Financial derivatives                        | (65.2)                   | (65.2)                          | (38.6)                    | (13.6)          | (13.0)          | –                          |
|  | (905.9)                  | (996.8)                         | (290.2)                   | (29.6)          | (261.0)         | (416.0)                    |
| <b>As at 27 April 2019</b>                   |                          |                                 |                           |                 |                 |                            |
| <b>Non derivative financial liabilities:</b> |                          |                                 |                           |                 |                 |                            |
| Unsecured bond issues                        | (405.5)                  | (512.0)                         | (16.0)                    | (16.0)          | (48.0)          | (432.0)                    |
| Loan notes payable                           | (18.2)                   | (18.2)                          | (18.2)                    | –               | –               | –                          |
| Trade and other payables                     | (327.9)                  | (327.9)                         | (327.9)                   | –               | –               | –                          |
|  | (751.6)                  | (858.1)                         | (362.1)                   | (16.0)          | (48.0)          | (432.0)                    |
| <b>Derivative financial liabilities:</b>     |                          |                                 |                           |                 |                 |                            |
| Financial derivatives                        | (2.0)                    | (2.0)                           | (0.2)                     | (0.9)           | (0.9)           | –                          |
|  | (753.6)                  | (860.1)                         | (362.3)                   | (16.9)          | (48.9)          | (432.0)                    |

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 an interest rate or credit rating in the future, the contractual cash flows in the above table have been determined with reference to the interest rate or credit rating 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.

The following are contractual maturities of lease liabilities:

| As at 2 May 2020           | Carrying<br>amount<br>£m | Contractual<br>cash flows<br>£m | Less than<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | More than<br>5 years<br>£m |
|----------------------------|--------------------------|---------------------------------|---------------------------|-----------------|-----------------|----------------------------|
| Lease liabilities          | (85.8)                   | (104.3)                         | (27.0)                    | (19.7)          | (27.4)          | (30.2)                     |
| <b>As at 27 April 2019</b> |                          |                                 |                           |                 |                 |                            |
| Hire purchase liabilities  | (9.3)                    | (9.5)                           | (3.7)                     | (3.7)           | (2.1)           | –                          |

# Notes to the consolidated financial statements (continued)

## Note 25 Financial instruments (continued)

### (d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

### (e) Collateral and restricted cash

Included within the cash and cash equivalents balance of £348.3m (2019: £170.4m) are £17.5m (2019: £18.1m) of cash balances that have been pledged by the Group as collateral for £17.5m (2019: £18.1m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit and a bank has guaranteed the Group's obligations to the holders of the loan notes. To the extent that the Group fails to satisfy its obligations under the loan notes, the bank shall use the cash collateral to satisfy such obligations.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 2 May 2020 and 27 April 2019.

In addition, cash includes train operating company cash of £Nil (2019: £121.6m). 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. All of the Group's rail franchise arrangements ended in the year to 2 May 2020.

### (f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 2 May 2020 and 27 April 2019 and no loans payable were in default as at 2 May 2020 and 27 April 2019. The Group was in compliance with all bank loan covenants as at 2 May 2020 and 27 April 2019.

### (g) Financial derivatives and hedge accounting

A summary of the Group's hedging arrangements that applied during the years ended 2 May 2020 and 27 April 2019 is provided in the table below.

| Type of hedge                                  | Risks hedged by the Group | Hedging instruments used        |
|--|---------------------------|---------------------------------|
| 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:

|                         | 2020                   | 2019                   |
|-------------------------|------------------------|------------------------|
|                         | Fuel derivatives<br>£m | Fuel derivatives<br>£m |
| Non-current assets      | –                      | 14.2                   |
| Current assets          | 2.9                    | 13.5                   |
| Current liabilities     | (38.6)                 | (0.2)                  |
| Non-current liabilities | (26.6)                 | (1.8)                  |
| Total                   | (62.3)                 | 25.7                   |

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

### Embedded derivative

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 an embedded derivative 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 derivative 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 a liability of £5.8m as at 2 May 2020 (2019: asset of £0.7m) and is included in the amounts shown in the table above. The fair value of the embedded derivative was an asset of £5.8m as at 2 May 2020 (2019: liability of £0.7m) and is included in other receivables within trade and other receivables (2019: 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 2 May 2020 (2019: None) which were separately accounted for.

### Cash flow hedges – fuel

The movements in the fair value of fuel derivatives in the year were as follows:

|   | 2020   | 2019   |
|---|--------|--------|
|   | £m     | £m     |
| Fuel derivatives  |        |        |
| Fair value at start of year   | 25.7   | 38.6   |
| Changes in fair value during year taken to cash flow hedging reserve    | (71.0) | 16.5   |
| Changes in fair value during year taken immediately to income statement | (10.2) | –      |
| Cash received during the year   | (6.8)  | (29.4) |
| Fair value at end of year   | (62.3) | 25.7   |

## Notes to the consolidated financial statements (continued)

### Note 25 Financial instruments (continued)

#### (g) Financial derivatives and hedge accounting (continued)

##### 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.

The fair value of the fuel derivatives, split by maturity, was as follows:

|                            | Assets<br>£m | Liabilities<br>£m |
|----------------------------|--------------|-------------------|
| <b>As at 2 May 2020</b>    |              |                   |
| Within one year            | 2.9          | (38.6)            |
| 1 to 2 years               | –            | (13.6)            |
| 2 to 3 years               | –            | (10.0)            |
| More than 3 years          | –            | (3.0)             |
|                            | <b>2.9</b>   | <b>(65.2)</b>     |
| <b>As at 27 April 2019</b> |              |                   |
| 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)             |
|                            | <b>27.7</b>  | <b>(2.0)</b>      |

The fair value of fuel derivatives is further analysed by currency and segment as follows:

|   | Fair value<br>£m | Notional<br>quantity of<br>fuel covered by<br>derivatives<br>Millions of litres |
|---|------------------|---|
| <b>As at 2 May 2020</b>                             |                  |   |
| Sterling denominated – UK Bus (regional operations) | (49.1)           | 301.5   |
| Sterling denominated – UK Bus (London)              | (7.4)            | 47.6  |
| US dollar denominated – North America               | (5.8)            | 23.3  |
|   | <b>(62.3)</b>    | <b>372.4</b>  |
| <b>As at 27 April 2019</b>                          |                  |   |
| 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  |
|   | <b>25.7</b>      | <b>545.2</b>  |

The maturity profile of the above fuel derivative contracts is as follows:

|   | Up to 1 year | 1 to 2 years | 2+ years | Total |
|---|--------------|--------------|----------|-------|
| <b>As at 2 May 2020</b>                 |              |              |          |       |
| Notional amount (in millions of litres) | 160.4        | 122.5        | 89.5     | 372.4 |
| Notional amount (in £m)                 | 67.3         | 47.2         | 33.8     | 148.3 |
| Average hedge rate (in £/litre)         | 0.42         | 0.39         | 0.38     | 0.40  |
| <b>As at 27 April 2019</b>              |              |              |          |       |
| 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 £/litre)         | 0.35         | 0.35         | 0.38     | 0.36  |

# Notes to the consolidated financial statements (continued)

## Note 25 Financial instruments (continued)

### (g) Financial derivatives and 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:

|  | <b>Fair value hedges</b> |
|--|--------------------------|
|  | 2019<br>£m               |
| <b>Interest rate derivatives</b>                                 |                          |
| Fair value at start of year                                      | 2.3                      |
| Changes in fair value reflected in carrying value of hedged item | (0.3)                    |
| Interest income on fair value hedges                             | 0.3                      |
| Cash received during the year                                    | (2.3)                    |
| Fair value at end of year  | –                        |

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:

|  | 2020<br>£m    | 2019<br>£m |
|--|---------------|------------|
| Cash flow hedging reserve at start of year                               | <b>18.8</b>   | 30.1       |
| Changes in fair value during the year taken to cash flow hedging reserve | <b>(71.0)</b> | 16.5       |
| Cash flow hedges reclassified and reported in profit for year            | <b>4.9</b>    | (30.5)     |
| Tax effect of cash flow hedges   | <b>12.4</b>   | 2.7        |
| Cash flow hedging reserve at end of year                                 | <b>(34.9)</b> | 18.8       |
| Cash flow hedging reserve before tax                                     | <b>(43.0)</b> | 23.1       |
| Tax to be credited/(charged) to income statement in future periods       | <b>8.1</b>    | (4.3)      |
| Cash flow hedging reserve after tax                                      | <b>(34.9)</b> | 18.8       |

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 derivative".

As a consequence of the COVID-related reduction in vehicle mileage, certain previously hedged cash flows for fuel consumption are no longer expected to occur. In relation to that, of the £4.9m reclassified to the income statement above, £10.2m was as a result of reclassifying amounts relating to previously forecast fuel consumption that is 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 used as hedging instruments were as follows:

|   | 2019<br>£m |
|---|------------|
| <b>US\$4.36% notes</b>  |            |
| Fair value at start of year                                   | 108.7      |
| Changes in fair value during the year                         | 5.8        |
| End of hedging relationship on sale of North America business | (114.5)    |
| Fair value at end of year                                     | –          |

The fair values of the non-derivative hedging instrument shown above only take account of fair value movements arising from movements in foreign exchange rates.

## Notes to the consolidated financial statements (continued)

### Note 26 Share capital

The allotted, called-up and fully paid ordinary share capital was:

|   | 2020               |            | 2019          |     |
|---|--------------------|------------|---------------|-----|
|   | No. of shares      | £m         | No. of shares | £m  |
| <b>Allotted, called-up and fully-paid ordinary shares of 125/228 pence each</b> |                    |            |               |     |
| At beginning and end of year  | <b>576,099,960</b> | <b>3.2</b> | 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 25,912,949 (2019: 3,458,907) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements.

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In line with the Company's strong capital discipline, the Board decided in October 2019 to conclude the programme when around £30m of shares had been bought back. The Board was by then satisfied that the programme had largely achieved its objective of making appropriate use of the Group's cash, whilst retaining a good financial position and maintaining an investment grade credit rating. In the year ended 27 April 2019, the Group purchased 165,779 ordinary shares pursuant to the programme, at a total cost of £0.2m. Since then, during the year ended 2 May 2020, the Group purchased 22,920,256 ordinary shares pursuant to that programme, at a total cost of £30.2m. The Group concluded the programme on 9 October 2019 having invested £30.4m under the programme in acquiring a total of 23,086,035 ordinary shares. The shares are held in treasury.

### 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 £1.4m (2019: £3.1m) have been recognised in the income statement during the year in relation to the above schemes.

#### Long Term Incentive Plan

The following assumptions were applied in accounting for awards under the LTIP scheme:

| Grant date   | June 2016  | December 2016 | August 2017 | December 2017 | December 2018 | June 2019  | December 2019 |
|--|------------|---------------|-------------|---------------|---------------|------------|---------------|
| Share price at time of grant/award (£)                           | 2.265      | 2.110         | 1.745       | 1.780         | 1.636         | 1.210      | 1.368         |
| 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 | 5.44%      | 5.84%         | 7.37%       | 7.22%         | 5.08%         | 6.87%      | 6.08%         |
|  | Bespoke    | Bespoke       | Bespoke     | Bespoke       | Bespoke       | Bespoke    | Bespoke       |
| Option pricing model   | simulation | simulation    | simulation  | simulation    | simulation    | simulation | 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.

The movements in the LTIP Incentive Units during the year to 2 May 2020 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 2 May 2020* (£) | TSR ranking at 2 May 2020** | Vesting date |
|--------------|--|--|----------------------------------|-------------------------------------|--|--|---|-----------------------------|--------------|
| 30 June 2016 | 1,240,627                                      | –  | (1,240,627)                      | –                                   | –  | 1.5497                                 | –   | –                           | 30 Jun 2019  |
| 8 Dec 2016   | 1,283,469                                      | –  | (1,311,824)                      | 28,355                              | –  | 1.4437                                 | –   | –                           | 8 Dec 2019   |
| 25 Aug 2017  | 1,650,360                                      | –  | (487,227)                        | 75,486                              | 1,238,619                                    | 1.1939                                 | 0.1724                                      | 169                         | 25 Aug 2020  |
| 7 Dec 2017   | 1,543,579                                      | –  | (455,701)                        | 70,603                              | 1,158,481                                    | 1.2179                                 | 0.3680                                      | 165                         | 7 Dec 2020   |
| 7 Dec 2018   | 3,406,861                                      | –  | (965,634)                        | 158,124                             | 2,599,351                                    | 1.1194                                 | 0.2950                                      | 173                         | 7 Dec 2021   |
| 27 June 2019 | –  | 1,982,015                                | (240,020)                        | 112,607                             | 1,854,602                                    | 0.8279                                 | 0.2116                                      | 187                         | 27 June 2022 |
| 12 Dec 2019  | –  | 1,620,600                                | –                                | 51,832                              | 1,672,432                                    | 0.9360                                 | 0.2312                                      | 190                         | 12 Dec 2022  |
|              | 9,124,896                                      | 3,602,615                                | (4,701,033)                      | 497,007                             | 8,523,485                                    |  |   |                             |              |

\* 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.

# Notes to the consolidated financial statements (continued)

## 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 Bonus Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Bonus Shares in the year ended 2 May 2020 were as follows:

| Award date   | Outstanding at start of year (Deferred Bonus Shares) | Awards granted in year (Deferred Bonus Shares) | Vested in year (Deferred Bonus Shares) | Lapsed in year (Deferred Bonus Shares) | Dividends in year (Deferred Bonus Shares) | Outstanding at end of year (Deferred Bonus Shares) | Vesting date | Expected total value of award at time of grant £ | Closing share price on date of grant £ |
|--------------|--|--|--|--|---|--|--------------|--|--|
| 30 June 2016 | 729,304  | –  | (729,304)                              | –                                      | –   | –  | 30 June 2019 | 2,725,336  | 2.3110                                 |
| 29 June 2017 | 856,351  | –  | (197,585)                              | (6,350)                                | 41,087                                    | 693,503  | 29 June 2020 | 2,162,081  | 1.9110                                 |
| 6 Dec 2018   | 944,053  | –  | (313,916)                              | (16,590)                               | 38,969                                    | 652,516  | 6 Dec 2021   | 2,164,076  | 1.7700                                 |
| 27 June 2019 | –  | 1,775,883                                      | –                                      | (53,201)                               | 109,669                                   | 1,832,351  | 27 June 2022 | 2,148,818  | 1.2100                                 |
|              | 2,529,708  | 1,775,883                                      | (1,240,805)                            | (76,141)                               | 189,725                                   | 3,178,370  |              |  |  |

### 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. In light of the COVID-19 situation and in order to ensure fairness for all employees on the Government's Coronavirus Job Retention Scheme ("CJRS"), from 6 April 2020, the Group has suspended share investments under the BAYE Plan for the time being.

At 2 May 2020, there were 4,010 (2019: 4,696) participants in the BAYE scheme to which were attributed 6,360,662 (2019: 6,551,599) shares that they purchased, 2,294,678 (2019: 2,292,178) matching shares that the Company contributed and 1,588,507 shares (2019: 1,309,518) 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 101.

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 and losses 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 cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

## Notes to the consolidated financial statements (continued)

### 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:

|   | 2020<br>£m    | 2019<br>£m |
|---|---------------|------------|
| Operating profit/(loss) of Group companies  |               |            |
| – Continuing operations   | <b>69.6</b>   | 112.4      |
| – Discontinued operations   | –             | (50.2)     |
|   | <b>69.6</b>   | 62.2       |
| Separately disclosed items  | <b>32.5</b>   | 95.4       |
| Depreciation before separately disclosed items  | <b>109.2</b>  | 131.4      |
| Software amortisation   | <b>4.5</b>    | 9.3        |
| Impairment of property, plant and equipment, excluding separately disclosed items           | <b>0.3</b>    | 0.5        |
| EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA")             | <b>216.1</b>  | 298.8      |
| Cash effect of separately disclosed items   | <b>(2.4)</b>  | –          |
| (Gain)/loss on disposal of property, plant and equipment                                    | <b>(0.9)</b>  | 0.3        |
| Share based payment movements   | <b>0.9</b>    | 1.4        |
| Operating cashflows before working capital movements  | <b>213.7</b>  | 300.5      |
| Decrease in inventories   | <b>5.5</b>    | 8.6        |
| Decrease in receivables   | <b>24.7</b>   | 46.4       |
| Decrease in payables  | <b>(90.8)</b> | (165.7)    |
| Increase/(decrease) in provisions   | <b>15.5</b>   | (56.2)     |
| Differences between employer contributions and pension expense in adjusted operating profit | <b>(9.8)</b>  | (6.5)      |
| Cash generated by operations  | <b>158.8</b>  | 127.1      |

#### (b) Reconciliation of net cash flow to movement in net debt

The increase/(decrease) in cash and cash equivalents reconciles to the movement in net debt as follows:

|   | 2020<br>£m     | 2019<br>£m |
|---|----------------|------------|
| Increase/(decrease) in cash and cash equivalents        | <b>177.9</b>   | (70.5)     |
| Cash flow from movement in borrowings                   | <b>(170.9)</b> | 177.0      |
|   | <b>7.0</b>     | 106.5      |
| Recognition of lease liabilities on adoption of IFRS 16 | <b>(89.0)</b>  | –          |
| Borrowings transferred on disposal of subsidiaries      | –              | 54.4       |
| New leases in year                                      | <b>(15.9)</b>  | (9.4)      |
| Foreign exchange movements                              | –              | (8.0)      |
| Other movements   | <b>(0.9)</b>   | (1.0)      |
| (Increase)/decrease in net debt                         | <b>(98.8)</b>  | 142.5      |
| Opening net debt (as defined in note 34)                | <b>(253.3)</b> | (395.8)    |
| Closing net debt (as defined in note 34)                | <b>(352.1)</b> | (253.3)    |



# Notes to the consolidated financial statements (continued)

## Note 29 Consolidated cash flows (continued)

### (c) Net debt and changes in liabilities arising from financing activities

The Group considers its liabilities arising from financing activities to be those items included within borrowings shown on the consolidated balance sheet. The table below summarises the changes in liabilities arising from financing activities.

The table below also summarises the changes in cash and net debt (as defined in note 34).

| Year to 2 May 2020  | Opening<br>£m | Impact of<br>adoption of<br>IFRS 16<br>£m | Cashflows<br>£m | New leases<br>£m | Charged to<br>income<br>statement<br>£m | Closing<br>£m |
|---|---------------|---|-----------------|------------------|---|---------------|
| <b>Liabilities arising from financing activities</b>  |               |   |                 |                  |   |               |
| <b>Borrowings</b>   |               |   |                 |                  |   |               |
| Lease liabilities   | (9.3)         | (89.0)                                    | 28.4            | (15.9)           | –                                       | (85.8)        |
| Bank loans and loan notes   | (18.2)        | –   | (199.3)         | –                | –                                       | (217.5)       |
| Bonds   |               |   |                 |                  |   |               |
| – Principal   | (400.0)       | –   | –               | –                | –                                       | (400.0)       |
| – Unamortised costs & discounts on issue  | 3.8           | –   | –               | –                | (0.9)                                   | 2.9           |
| Gross debt  | (423.7)       | (89.0)                                    | (170.9)         | (15.9)           | (0.9)                                   | (700.4)       |
| Accrued interest on bonds   | (9.3)         | –   | 16.0            | –                | (16.3)                                  | (9.6)         |
| Total liabilities arising from financing activities   | (433.0)       | (89.0)                                    | (154.9)         | (15.9)           | (17.2)                                  | (710.0)       |
| <b>Cash and cash equivalents</b>  |               |   |                 |                  |   |               |
| Cash and cash equivalents – pledged as collateral   | 18.1          | –   | (0.6)           | –                | –                                       | 17.5          |
| Cash and cash equivalents – other   | 152.3         | –   | 178.5           | –                | –                                       | 330.8         |
| <b>Total cash and cash equivalents</b>  | 170.4         | –   | 177.9           | –                | –                                       | 348.3         |
| <b>Net debt</b> (total gross debt shown above less total cash and cash equivalents shown above) | (253.3)       | (89.0)                                    | 7.0             | (15.9)           | (0.9)                                   | (352.1)       |

The cash collateral balance as at 2 May 2020 of £17.5m (2019: £18.1m) comprises balances held in trust in respect of loan notes of £17.5m (2019: £18.1m).

By the year end date of 2 May 2020, all of the major rail franchises previously operated by Group subsidiaries had ended. Therefore, as at 2 May 2020, there is no cash (27 April 2019: £121.6m) held by train operating companies. However, the settlement of train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 2 May 2020, the consolidated net liabilities included £101.0m of net liabilities in respect of such items. Accordingly, if all such items were to be settled at their 2 May 2020 carrying values, consolidated net debt would increase by £101.0m. Consolidated net debt plus those outstanding train operating company net liabilities as at 2 May 2020 was £453.1m.

The cash amounts shown above include term deposits as explained in note 19.

| Year to 27 April 2019   | Opening<br>£m | Cashflows<br>£m | New leases<br>£m | Disposal<br>of<br>subsidiaries<br>£m | Foreign exchange<br>movements<br>£m | Charged to<br>income<br>statement<br>£m | Closing<br>£m |
|---|---------------|-----------------|------------------|--------------------------------------|-------------------------------------|---|---------------|
| <b>Liabilities arising from financing activities</b>  |               |                 |                  |                                      |                                     |   |               |
| <b>Borrowings</b>   |               |                 |                  |                                      |                                     |   |               |
| Lease liabilities   | (71.7)        | 20.7            | (9.4)            | 54.4                                 | (3.3)                               | –                                       | (9.3)         |
| Bank loans and loan notes   | (58.4)        | 40.2            | –                | –                                    | –                                   | –                                       | (18.2)        |
| Bonds   |               |                 |                  |                                      |                                     |   |               |
| – Principal   | (508.7)       | 116.1           | –                | –                                    | (7.4)                               | –                                       | (400.0)       |
| – Unamortised costs & discounts on issue  | 4.8           | –               | –                | –                                    | –                                   | (1.0)                                   | 3.8           |
| Gross debt  | (634.0)       | 177.0           | (9.4)            | 54.4                                 | (10.7)                              | (1.0)                                   | (423.7)       |
| 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                                     | –             |
| Total liabilities arising from financing activities   | (643.8)       | 197.9           | (9.4)            | 54.4                                 | (10.7)                              | (21.4)                                  | (433.0)       |
| <b>Cash and cash equivalents</b>  |               |                 |                  |                                      |                                     |   |               |
| Cash and cash equivalents – pledged as collateral   | 18.5          | (0.4)           | –                | –                                    | –                                   | –                                       | 18.1          |
| Cash and cash equivalents – other   | 219.7         | (70.1)          | –                | –                                    | 2.7                                 | –                                       | 152.3         |
| <b>Total cash and cash equivalents</b>  | 238.2         | (70.5)          | –                | –                                    | 2.7                                 | –                                       | 170.4         |
| <b>Net debt</b> (total gross debt shown above less total cash and cash equivalents shown above) | (395.8)       | 106.5           | (9.4)            | 54.4                                 | (8.0)                               | (1.0)                                   | (253.3)       |

## Notes to the consolidated financial statements (continued)

### Note 29 Consolidated cash flows (continued)

#### (d) Liabilities arising from financing activities

The total liabilities arising from financing activities shown above are presented as borrowings in the consolidated balance sheet as follows:

|  | 2020<br>£m   | 2019<br>£m   |
|--|--------------|--------------|
| Current liabilities: borrowings                            | 42.5         | 21.8         |
| Non-current liabilities: borrowings                        | 667.5        | 411.2        |
| <b>Total liabilities arising from financing activities</b> | <b>710.0</b> | <b>433.0</b> |

### Note 30 Contingencies

#### Contingent liabilities

(i) Under UK rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. The franchises have now expired. 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 2 May 2020, 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 2 May 2020 (2019: £Nil) 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.

(ii) At 2 May 2020, the following rail bonds were in place relating to amounts for which liabilities have not been recognised in the consolidated balance sheet:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| Performance bonds backed by bank facilities and/or insurance arrangements<br>– East Midlands Trains   | –          | 10.0       |
| Season ticket bonds backed by bank facilities and/or insurance arrangements<br>– East Midlands Trains | –          | 7.5        |

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 prospective claimant representative 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 have allegedly been affected by the train operating companies' allegedly anti-competitive behaviour. The total sought from SSWT and First MTR South Western Trains Limited is around £57m. SSWT is arguing against the granting of a collective proceedings order. The case has been stayed by the CAT pending the Supreme Court's decision in Merricks v Mastercard, which will clarify the test to be applied by the CAT in determining whether a collective proceedings order should be granted or denied. That case was heard in May 2020 and the judgement is still awaited. No provision is held as at 2 May 2020 (2019: £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 2 May 2020, the liabilities in the consolidated financial statements for such matters total £7.8m (2019: £6.4m) in addition to those covered by the claims provisions.

(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 which have been recorded in the consolidated financial statements, 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 provide the guarantees and 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 30 April 2019. As at 2 May 2020, the North America business had provided for £59.2m (2019: £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 (2019: £Nil).
- The Group guaranteed the North American business' obligations under certain vehicle lease arrangements after the disposal of the business. The guarantee by the Group in respect of such arrangements as at 2 May 2020 for which no liability is reflected in the consolidated balance sheet was £Nil (2019: £1.5m).

# Notes to the consolidated financial statements (continued)

## Note 31 Financial commitments

### (a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

|                                  | 2020<br>£m  | 2019<br>£m |
|----------------------------------|-------------|------------|
| Contracted for but not provided: |             |            |
| For delivery within one year     | <b>35.6</b> | 61.3       |

### (b) Operating lease commitments

From 28 April 2019, the Group has recognised right-of-use assets for leases previously treated as operating leases under IAS 17, Leases, except for short-term and leases of low-value assets. This has resulted in lease liabilities being recognised in the consolidated balance sheet as at 2 May 2020. Further information on the change in accounting treatment arising in the year from the adoption of IFRS 16 is provided in note 1(c)(i).

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<br>£m | Buses &<br>other road<br>transportation<br>equipment<br>£m | Trains<br>& rolling<br>stock<br>£m | Plant &<br>machinery<br>£m | Total<br>£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         |
|                                   | <b>34.4</b>            | <b>57.8</b>  | <b>13.2</b>                        | <b>4.8</b>                 | <b>110.2</b> |

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 former UK Rail franchises had contracts with Network Rail for access to the railway infrastructure (track, stations and depots). Commitments for payments under these contracts as at 27 April 2019 are as shown below.

|                        | 2019<br>£m |
|------------------------|------------|
| Year ending 2 May 2020 | 26.7       |

### (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:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| Annual commitments under non-cancellable operating leases | –          | 69.2       |
| Franchise performance bonds                               | <b>5.1</b> | 10.3       |
| Season ticket bonds                                       | <b>3.3</b> | 3.3        |

By 2 May 2020, our share of the season ticket bonds shown above had reduced to £Nil.

## Notes to the consolidated financial statements (continued)

### Note 32 Related party transactions

Details of major related party transactions during the year ended 2 May 2020 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 2 May 2020, the Group earned fees of £0.2m (2019: £0.2m) from Virgin Rail Group Holdings Limited in this regard. As at 2 May 2020, the Group had £Nil (2019: £0.1m) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group purchased £1.7m in the year ended 2 May 2020 (2019: £1.7m) from the group headed by Virgin Rail Group Holdings Limited and sales were immaterial (2019: £0.5m). As at 2 May 2020, the Group had £Nil (2019: £0.4m) payable in this respect.

Additionally, the group headed by Virgin Rail Group Holdings Limited advanced the Group a loan of £11.0m (2019: £Nil) of which all was outstanding at 2 May 2020 (2019: £Nil). The loan accrues interest at commercial rates and during the year ended 2 May 2020, the interest accrued was immaterial (2019: £Nil).

#### (ii) Alexander Dennis Limited

Until May 2019, when they sold their holdings, Sir Brian Souter (Non-Executive Director) and Dame Ann Gloag (Non-Executive Director until 31 December 2019) collectively held, via companies that they control, 55.1% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director until 31 December 2019) was a director of its holding company until 3 January 2019) controlled a further 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 period from 28 April 2019 to 28 May 2019, the date at which Alexander Dennis ceased to be a related party, the Group purchased £5.0m (2019: £61.7m) of vehicles from Alexander Dennis Limited and £1.5m (2019: £26.2m) of spare parts and other services. As at 27 April 2019, £0.2m was payable to Alexander Dennis Limited.

#### (iii) Pension schemes

Details of contributions made to pension schemes are contained in note 24.

#### (iv) Scottish Citylink Coaches Limited

A non-interest bearing loan of £1.7m (2019: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 2 May 2020. The Group earned £21.2m in the year ended 2 May 2020 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2019: £20.5m). The Group also collected revenue of £18.3m on behalf of Scottish Citylink Coaches Limited in the year ended 2 May 2020 (2019: £17.5m). As at 2 May 2020, the Group had a net £Nil payable (2019: £1.5m payable) to Scottish Citylink Coaches Limited, excluding the loan referred to above.

#### (v) 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 2 May 2020, other Group companies earned £0.6m (2019: £3.0m) from East Coast Main Line Company Limited in respect of the provision of certain services. Other Group companies had a net payable to East Coast Main Line Company Limited of £Nil as at 2 May 2020 (2019: £0.3m). In addition, East Coast Main Line Company Limited has advanced the Company a loan of £30.0m (2019: £Nil), of which £30.0m was outstanding as at 2 May 2020 (2019: £Nil). During the year ended 2 May 2020, the interest paid on the loan was £0.1m (2019: £Nil) and the amount of accrued interest outstanding as at 2 May 2020 was immaterial (2019: £Nil).

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 the year to 27 April 2019. Stagecoach Group plc paid £0.5m (2019: £1.7m) to Virgin Holdings Limited in the year ended 2 May 2020 in relation to East Coast Main Line Company Limited and the end of its franchise and had a payable of £0.2m as at 2 May 2020 (2019: £0.6m) in respect of that.

#### (vi) Transport2 (UK) Limited trading as Coachhire.com

During the year ended 2 May 2020, the Group earned £0.1m (2019: immaterial) from Transport2 (UK) Limited and had an immaterial amount receivable as at 2 May 2020 (2019: immaterial). Sir Brian Souter, Non-Executive Director, indirectly owns 54.0% (2019: 54.0%) of the share capital of Transport2 (UK) Limited.

# Notes to the consolidated financial statements (continued)

## Note 33 Post balance sheet events

During May 2020, the Company issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. The Company repaid its outstanding bank loans from the net proceeds of the issuances and placed the remainder of the net proceeds in bank deposits and money market funds.

Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to the Group's Sheffield Supertram business that were not taken account of in estimating the Supertram onerous contract provision recorded in the consolidated balance sheet as at 2 May 2020. The amount of such payments is subject to uncertainty but we currently estimate them at £2.2m. The Group expects to recognise these payments as income in the year ending 1 May 2021. Further COVID-related payments might also be confirmed.

On 17 June 2020, the High Court ruled against the Group in respect of its claims against the Secretary of State for Transport regarding his decision to disqualify the Group from three rail franchise competitions.

## 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 2 May 2020 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 separately disclosed items, by the basic weighted average number of shares in issue in the year.

For the year ended 2 May 2020 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 excluding separately disclosed 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 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 2 May 2020 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 2 May 2020        | Reported revenue | Exclude effect of acquisitions | Exclude expired rail franchises | Exclude week 53 | Like-for-like revenue |
|------------------------------|------------------|--------------------------------|---------------------------------|-----------------|-----------------------|
| UK Bus (regional operations) | £m 1,011.9       | (0.5)                          | –                               | (8.8)           | 1,002.6               |
| UK Bus (London)              | £m 246.2         | –                              | –                               | (4.5)           | 241.7                 |
| UK Rail                      | £m 161.1         | –                              | (148.0)                         | (0.1)           | 13.0                  |

| 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         | –                                 | (575.3)                         | 14.2                  |

### Operating profit

Operating profit for the Group as a whole is profit before non-operating separately disclosed 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 operating profit and operating profit from Group companies are shown on the face of the consolidated income statement. For discontinued operations, operating profit is shown in note 5.

Operating profit (or loss) for a particular business unit or segment within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, separately disclosed 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.

## Notes to the consolidated financial statements (continued)

### Note 34 Definitions (continued)

#### (a) Alternative performance measures (continued)

##### Operating margin

Operating margin for a particular business unit or segment 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 5 of this Annual Report.

##### Adjusted EBITDA

Adjusted EBITDA is earnings before interest, taxation, depreciation, software amortisation and separately disclosed items.

A reconciliation of adjusted EBITDA for the year ended 2 May 2020, and the comparative prior year, to the financial statements is shown in section 1.6.5 of this Annual Report.

##### Adjusted EBITDA from Group companies

Adjusted EBITDA from Group companies is earnings before interest, taxation, depreciation, software amortisation and separately disclosed items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit from joint ventures).

Adjusted EBITDA from Group companies is directly identifiable from note 29(a) to the financial statements.

##### Net finance costs

Net finance costs 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.

##### Adjusted net finance costs

Adjusted net finance costs are net finance costs (see above) excluding separately disclosed items.

##### Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest on bonds 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.

Gross debt as at 2 May 2020 includes lease liabilities in respect of leases that prior to the adoption of IFRS 16 would be regarded as operating leases. No such lease liabilities are reflected in gross debt as at 27 April 2019.

##### 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, new leases, and sales of property, plant and equipment on net debt.

In the year ended 2 May 2020 (but not for the year ended 27 April 2019), net capital expenditure includes new lease liabilities arising in the year on leases that prior to the adoption of IFRS 16 would have been regarded as operating leases.

#### (b) Other definition

The following other definition is also used in this document:

##### Separately disclosed items

Separately disclosed items means:

- Non-software intangible asset amortisation;
- 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; and
- Changes in the fair value of the Deferred Payment Instrument received in relation to the sale of the North America Division in April 2019.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the holder of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group's financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.

## 12. Separate financial statements of the parent company,

### Stagecoach Group plc

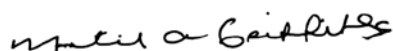
#### Company balance sheet

As at 2 May 2020

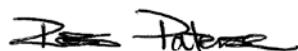
|                                      | Notes | 2020<br>£m     | 2019<br>£m     |
|--------------------------------------|-------|----------------|----------------|
| <b>ASSETS</b>                        |       |                |                |
| <b>Non-current assets</b>            |       |                |                |
| Property, plant and equipment        | 3     | 7.5            | 3.4            |
| Investments                          | 4     | 1,040.4        | 1,039.5        |
| Deferred tax asset                   | 7     | 3.1            | 2.5            |
| Derivative instruments at fair value | 8     | –              | 14.2           |
|                                      |       | <b>1,051.0</b> | <b>1,059.6</b> |
| <b>Current assets</b>                |       |                |                |
| Other receivables                    | 5     | 333.8          | 341.2          |
| Derivative instruments at fair value | 8     | 2.9            | 13.1           |
| Cash and cash equivalents            |       | 303.1          | 33.3           |
|                                      |       | <b>639.8</b>   | <b>387.6</b>   |
| <b>Total assets</b>                  |       | <b>1,690.8</b> | <b>1,447.2</b> |
| <b>LIABILITIES</b>                   |       |                |                |
| <b>Current liabilities</b>           |       |                |                |
| Trade and other payables             | 6     | 411.3          | 289.7          |
| Derivative instruments at fair value | 8     | 38.6           | 0.2            |
|                                      |       | <b>449.9</b>   | <b>289.9</b>   |
| <b>Non-current liabilities</b>       |       |                |                |
| Other payables                       | 6     | 609.0          | 405.5          |
| Derivative instruments at fair value | 8     | 26.6           | 1.8            |
| Retirement benefit obligations       | 9     | 6.1            | 6.0            |
|                                      |       | <b>641.7</b>   | <b>413.3</b>   |
| <b>Total liabilities</b>             |       | <b>1,091.6</b> | <b>703.2</b>   |
| <b>Net assets</b>                    |       | <b>599.2</b>   | <b>744.0</b>   |
| <b>EQUITY</b>                        |       |                |                |
| Ordinary share capital               | 10    | 3.2            | 3.2            |
| Share premium account                | 11    | 8.4            | 8.4            |
| Retained earnings                    | 11    | 234.4          | 349.0          |
| Capital redemption reserve           | 11    | 422.8          | 422.8          |
| Own shares                           | 11    | (69.6)         | (39.4)         |
| <b>Total equity</b>                  |       | <b>599.2</b>   | <b>744.0</b>   |

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 loss of the Company was £72.4m (2019: profit £142.0m).

These financial statements were approved for issue by the Board of Directors on 22 July 2020. The accompanying notes form an integral part of this balance sheet.



**Martin A Griffiths**  
Chief Executive



**Ross Paterson**  
Finance Director

## 12. Separate financial statements of the parent company, Stagecoach Group plc (continued)

### Company statement of changes in equity

|   | Ordinary<br>share capital<br>£m | Share<br>premium<br>account<br>£m | Retained<br>earnings<br>£m | Capital<br>redemption<br>reserve<br>£m | Own shares<br>£m | Total equity<br>£m |
|---|---------------------------------|-----------------------------------|----------------------------|--|------------------|--------------------|
| <b>Balance at 28 April 2018</b>   | 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)             |
| <b>Balance at 27 April 2019</b>   | 3.2                             | 8.4                               | 349.0                      | 422.8                                  | (39.4)           | 744.0              |
| Loss for the year and total comprehensive expense                                 | –                               | –                                 | (72.4)                     | –                                      | –                | (72.4)             |
| Own ordinary shares purchased   | –                               | –                                 | –                          | –                                      | (30.2)           | (30.2)             |
| Cash paid to settle share based payments originally intended to be equity-settled | –                               | –                                 | (0.5)                      | –                                      | –                | (0.5)              |
| Credit in relation to equity-settled share based payments                         | –                               | –                                 | 0.9                        | –                                      | –                | 0.9                |
| Dividends paid on ordinary shares   | –                               | –                                 | (42.6)                     | –                                      | –                | (42.6)             |
| <b>Balance at 2 May 2020</b>  | 3.2                             | 8.4                               | 234.4                      | 422.8                                  | (69.6)           | 599.2              |



# Notes to the Company financial statements

## Note 1 Parent company accounting policies

These financial statements are presented in respect of Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth PH1 5TW.

The Company financial statements are prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101").

### (a) 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.

In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic for the Company and its subsidiaries required a higher level of judgement in assessing whether the Company is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the Company financial statements. The Directors have a reasonable expectation that the Company will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.

The Strategic report in section 1 of this Annual Report includes information on the actions taken in response to the COVID-19 pandemic (including in sections 1.3 and 1.5.5), the outlook for the Group (including in sections 1.3 and 1.7) and the Group's financial position and liquidity (including in section 1.6.10). Section 3.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern, and of its longer-term viability. Section 5.4.1 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusions of the Audit Committee in respect of that.

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'

### (b) New accounting standards adopted during the year

#### IFRS 16 Leases

The Company has adopted IFRS 16 Leases (as incorporated into FRS 101) from 28 April 2019, but has not restated comparatives for the year to 27 April 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 28 April 2019. 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. Lease costs are recognised as depreciation and interest, rather than entirely as an operating cost. Depreciation of the underlying assets is recognised separately from interest.

#### Accounting policy for leases under IAS 17 prior to 28 April 2019

Until 27 April 2019, the Company classified leases for property, plant and equipment as either finance leases or operating leases under IAS 17, Leases.

Assets acquired under hire purchase and finance lease arrangements, where substantially all the risks and rewards of ownership of the asset passed to the Company, were 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 were 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 were charged directly against income and were reported within finance costs in the income statement.

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

Rentals under operating leases were generally charged on a straight-line basis over the lease term. Any contingent rentals, principally being rental adjustments related to inflation indices, were accounted for in the period they were incurred.

#### Accounting policy for leases from 28 April 2019

The Company leases company cars, vans and other vehicles not for passenger service.

For contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, the Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying asset.

Contracts can contain lease and non-lease components. For all current motor vehicle leases the Company has elected not to separate lease and non-lease components but instead accounts for these as a single lease component.

Lease terms are negotiated lease by lease resulting in a wide range of terms and conditions. The lease agreements do not generally impose any financial covenants. The principal restriction on assets held under lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

## Notes to the Company financial statements (continued)

### Note 1 IFRS accounting policies (continued)

#### (b) New accounting standards adopted during the year (continued)

##### Measurement of lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments, less any lease incentives receivable;

There are no leases with any form of variable payment.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- uses recent third party financing received by it as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- makes adjustments to the rate to reflect the terms and conditions specific to the lease. These will include adjustment for items such as the lease term and the right-of-use asset being leased.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

##### Right-of-use assets

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

##### Adoption of IFRS 16

When measuring lease liabilities under IFRS 16 for leases that were previously classified as operating leases under IAS 17, the Company discounted lease payments using its incremental borrowing rate (if the interest rate implicit in the lease is not readily determinable). This rate is the interest rate the Company would have to pay to borrow the funds necessary to obtain an asset of similar value over a similar term and with similar security to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to the lease liabilities as at 28 April 2019 was 2.5%, which was the Company's weighted average incremental borrowing rate.

##### Practical expedients applied on transition

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of less than 12 months as at 28 April 2019 as short-term leases; and
- selecting not to reassess whether a contract is, or contains, a lease at the date of initial application of 28 April 2019. The Company has applied IFRS 16 only to those contracts previously identified as leases under IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

##### Impact of IFRS 16 on Financial Statements

###### Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets of £4.4m and lease liabilities of £4.4m.

|  | <b>Recognition of leases<br/>previously classified as<br/>operating leases<br/>£m</b> |
|--|---|
| <b>Non-current assets</b>                          |   |
| Property, plant and equipment: right-of-use assets | <b>4.4</b>  |
| <b>Current liabilities</b>                         |   |
| Borrowings: lease liabilities                      | <b>(1.9)</b>  |
| <b>Non-current liabilities</b>                     |   |
| Borrowings: lease liabilities                      | <b>(2.5)</b>  |
| <b>Net assets</b>                                  | <b>-</b>  |

The right-of-use assets of £4.4m recognised on transition on 28 April 2019 were included within other plant and equipment.

# Notes to the Company financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (b) New accounting standards adopted during the year (continued)

The lease liabilities recognised as at 28 April 2019 can be reconciled as follows:

|   | £m         |
|---|------------|
| Operating lease commitments disclosed under IAS 17 as at 27 April 2019  | 0.2        |
| Transfer of operating lease commitments from other operating companies (see below)                            | 4.6        |
| Short-term lease commitments straight-line expensed under IFRS 16   | (0.1)      |
| Lease commitments for low-value assets straight-line expensed under IFRS 16                                   | (0.4)      |
| Effect of discounting   | (0.2)      |
| Other reconciling items   | 0.3        |
| <b>Lease liabilities recognised as at 28 April 2019 for leases formerly accounted for as operating leases</b> | <b>4.4</b> |

The Company's operating lease commitments disclosed as at 27 April 2019 exclude certain lease arrangements for vehicles such as company cars. Although the Company is contractually the lessee in these arrangements, it assessed that in substance, the lessees were certain of its operating subsidiary companies. Accordingly, the relevant lease commitments of £4.6m as at 27 April 2019 were included in the operating lease commitments disclosed in the consolidated financial statements, but not included as commitments in the Company financial statements. In applying IFRS 16 for the first time, the Company determined that the lease liabilities arising from these arrangements should be reflected in both the consolidated, and the Company, financial statements, and they are consequently shown as a reconciling item in the table above.

### Impact for the year to 2 May 2020

In respect of leases that would previously have been classified as operating leases, the Company has recognised £4.2m right-of-use assets and £4.1m of lease liabilities as at 2 May 2020. The income statement includes the following depreciation charges and other costs relating to leases:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| Depreciation on right-of-use assets                  | 2.1        | –          |
| Expenses relating to short-term leases               | 0.1        | –          |
| Expenses relating to leases of low-value assets      | 0.1        | –          |
| Operating lease costs recognised under IAS 17        | –          | 0.1        |
| <b>Lease costs included within operating profit</b>  | <b>2.3</b> | 0.1        |
| Interest expense included in finance costs           | 0.1        | –          |
| <b>Lease costs included within profit before tax</b> | <b>2.4</b> | 0.1        |

The cash flow statement includes the following cash outflow in relation to leases and the related interest expense:

|                               | 2020<br>£m | 2019*<br>£m |
|-------------------------------|------------|-------------|
| Total cash outflow for leases | 2.5        | 0.1         |

\*The comparative figures for the year to 27 April 2019 were prepared under IAS 17 and exclude the effect resulting from the recognition of the right-of-use assets on 28 April 2019.

IFRS 16 has had a negligible impact on profit before tax but increases the Company's interest costs by £0.1m and increases the Company's operating profit by £0.2m in the year ended 2 May 2020 relative to what they would have been under IAS 17. For leases that have been straight-line expensed under the IFRS 16 exemption for leases with terms of less than 12 months, the Company recognised £0.1m in rental costs in the year ended 2 May 2020.

### (c) 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.

### (d) 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 (or lease term, if shorter), 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.

### (e) Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

# Notes to the Company financial statements (continued)

## Note 1 IFRS accounting policies (continued)

### (f) Taxation

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

Corporation tax is provided on taxable 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar audits and discussions, independent, external specialist advice and consideration of the progress on, and nature of, current discussions with the tax authority. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

### (g) 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 note 1(p) to the consolidated financial statements.

### (h) Share based payments

The Company issues equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the income statement to the extent that the amount is not recharged to each subsidiary company.

### Equity-settled transactions

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

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

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

### Cash-settled transactions

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

# Notes to the Company financial statements (continued)

## Note 1 Parent company accounting policies (continued)

### (i) 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.

### (j) 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 note 1(aa) to the consolidated financial statements.

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.

### (k) Investment in own shares

Own shares held in treasury by the Company are classified as deductions from equity.

### (l) 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 as appropriate.

### (m) Retirement benefit obligations

The Company is 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 provides benefits to certain employees of subsidiary undertakings under an unapproved employer financed retirement benefit scheme in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Company has set aside assets to meet its obligations under the scheme. The scheme holds a guarantee over assets which the Company has set aside. The Company considers that the assets set aside are in substance pension assets and so the amounts of those assets are included within the net pension amounts reported in the Company balance sheet.

The Company is not liable for a share in any of the other funded 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:

|   | 2020<br>£m | 2019<br>£m |
|---|------------|------------|
| <b>Cost</b>                                 |            |            |
| At beginning of year                        | 0.7        | 0.7        |
| Disposals                                   | (0.7)      | –          |
| At end of year                              | –          | 0.7        |
| <b>Accumulated amortisation</b>             |            |            |
| At beginning of year                        | (0.7)      | (0.7)      |
| Disposals                                   | 0.7        | –          |
| At 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:

|   | Land &<br>Buildings<br>2020<br>£m | Other plant &<br>equipment<br>2020<br>£m | Total<br>2020<br>£m |
|---|-----------------------------------|--|---------------------|
| <b>Cost</b>   |                                   |  |                     |
| At beginning of year  | 3.2                               | 1.4                                      | 4.6                 |
| Recognition of right-of-use assets on adoption of IFRS 16, "Leases" | –                                 | 4.4                                      | 4.4                 |
|   | 3.2                               | 5.8                                      | 9.0                 |
| Additions – right-of-use assets                                     | –                                 | 2.1                                      | 2.1                 |
| Disposals   | –                                 | (0.5)                                    | (0.5)               |
| At end of year  | 3.2                               | 7.4                                      | 10.6                |
| <b>Depreciation</b>   |                                   |  |                     |
| At beginning of year  | –                                 | (1.2)                                    | (1.2)               |
| Depreciation charged to income statement                            | –                                 | (2.2)                                    | (2.2)               |
| Disposals   | –                                 | 0.3                                      | 0.3                 |
| At end of year  | –                                 | (3.1)                                    | (3.1)               |
| Net book value at beginning of year                                 | 3.2                               | 0.2                                      | 3.4                 |
| Net book value at end of year                                       | 3.2                               | 4.3                                      | 7.5                 |

## Notes to the Company financial statements (continued)

### Note 4 Investments

The movements in investments were as follows:

|                                | Subsidiary undertakings |            |
|--------------------------------|-------------------------|------------|
|                                | 2020<br>£m              | 2019<br>£m |
| <b>Cost and net book value</b> |                         |            |
| At beginning of year           | 1,039.5                 | 1,037.6    |
| Additions                      | 0.9                     | 1.9        |
| At end of year                 | 1,040.4                 | 1,039.5    |

The carrying value of the Company's investment in Stagecoach Transport Holdings Limited, a wholly owned subsidiary, was £1,040.4m as at 2 May 2020. Stagecoach Transport Holdings Limited holds investments in a number of businesses within the Group, including the UK regional bus business. The estimated value in use of the investment was £1,056.2m as at 2 May 2020 but alternative assumptions could result in an impairment loss.

The value in use of the Company's investment in Stagecoach Transport Holdings Limited is most sensitive to assumptions regarding the future financial performance of the Group's regional bus business, particularly given the forecasting uncertainty arising from the COVID-19 situation.

Our base case forecast for the regional bus business assumes that vehicle mileage, a key driver of operating costs, is consistent with pre-COVID levels by October 2020. It also assumes that commercial revenue returns to 90% of pre-COVID levels later in the year ending 1 May 2021, is 95% of pre-COVID levels in the year ending 30 April 2022, with concessionary revenue remaining at or above 95% of pre-COVID levels throughout the forecasting period. We have discounted our cash flow projections using a pre-tax discount rate of 9.7%, and a growth rate of 2.2% per annum is used to extrapolate cash flows beyond management's base forecasting period.

As at 2 May 2020, the value in use of the investment exceeded its carrying amount by £15.8m. Our sensitivity analysis indicates that this headroom would be eliminated if the assumed regional bus revenue over the forecasting period was 0.4% lower, the assumed regional bus costs over the forecasting period were 0.4% higher, the assumed regional bus long-term growth rate fell by more than 14 basis points, or if the discount rate applied to the regional bus forecast was to increase by more than 10 basis points.

### Note 5 Other receivables

Other receivables were as follows:

|  | 2020<br>£m | 2019<br>£m |
|--|------------|------------|
| <b>Current:</b>                          |            |            |
| Amounts owed by Group undertakings       | 375.4      | 352.7      |
| Less: provision for impairment           | (53.8)     | (53.8)     |
| Amounts owed by Group undertakings – net | 321.6      | 298.9      |
| Other receivables                        | 12.1       | 22.1       |
| Corporation tax receivable               | –          | 20.0       |
| Prepayments and accrued income           | 0.1        | 0.2        |
|  | 333.8      | 341.2      |

Of amounts owed by Group undertakings, £109.3m (2019: £87.1m) accrue no interest and are repayable on demand. The remaining £266.1m (2019: £265.6m) owed by Group undertakings accrue interest at 6 month LIBOR plus a margin of 3.5% (2019: margins ranging from 2.5% to 3.5%). These are all repayable on demand.

### Note 6 Payables

Trade and other payables were as follows:

|                                    | 2020<br>£m | 2019<br>£m |
|------------------------------------|------------|------------|
| <b>Current:</b>                    |            |            |
| Bank overdraft                     | 123.0      | 124.2      |
| Loan notes                         | 17.5       | 18.2       |
| Amounts owed to Group undertakings | 252.5      | 142.7      |
| Accruals and deferred income       | 3.4        | 4.6        |
| Corporation tax payable            | 2.1        | –          |
| Lease liabilities                  | 1.8        | –          |
| Loan from joint venture            | 11.0       | –          |
|                                    | 411.3      | 289.7      |
| <b>Non-current:</b>                |            |            |
| Sterling 4.00% Notes               | 406.7      | 405.5      |
| Lease liabilities                  | 2.3        | –          |
| Bank loans                         | 200.0      | –          |
|                                    | 609.0      | 405.5      |

Of amounts owed to Group undertakings, £18.3m (2019: £10.7m) accrue no interest and are repayable on demand. The remaining £234.2m owed to Group undertakings (2019: £132.0m) accrue interest at various rates: LIBOR rates plus margins of Nil to 1.0%, bank base rate plus a margin of 1.5% or, two-weekly bank deposit rates (2019: 6 month LIBOR or bank base rate plus a margin of 1.5%). These are all repayable on demand.

## Notes to the Company financial statements (continued)

### Note 6 Payables (continued)

Borrowings are repayable as follows:

|  | 2020<br>£m   | 2019<br>£m   |
|--|--------------|--------------|
| <b>On demand or within 1 year</b>                  |              |              |
| Bank overdraft                                     | 123.0        | 124.2        |
| Lease liabilities                                  | 1.8          | –            |
| Loan notes   | 17.5         | 18.2         |
| <b>Repayable after 2 years, but within 5 years</b> |              |              |
| Bank loans   | 200.0        | –            |
| Lease liabilities                                  | 2.3          | –            |
| <b>Repayable after 5 years</b>                     |              |              |
| Sterling 4.00% Notes                               | 406.7        | 405.5        |
| <b>Total borrowings</b>                            | <b>751.3</b> | <b>547.9</b> |

### Note 7 Deferred tax

The movement in the deferred tax asset during the year was as follows:

|                                | 2020<br>£m | 2019<br>£m |
|--------------------------------|------------|------------|
| At beginning of year           | 2.5        | 2.1        |
| Credit to the income statement | 0.6        | 0.4        |
| At end of year                 | 3.1        | 2.5        |

Deferred taxation is analysed as follows:

|                                | 2020<br>£m | 2019<br>£m |
|--------------------------------|------------|------------|
| Pension temporary differences  | 1.2        | 1.0        |
| Accelerated capital allowances | 0.1        | 0.1        |
| Other temporary differences    | 1.8        | 1.4        |
| At end of year                 | 3.1        | 2.5        |

Gross deductible temporary differences of £16.1m (2019: £14.2m) have been recognised as it is probable that sufficient taxable profit will be available in the future to utilise these and there is no restriction on their use.

### Note 8 Financial instruments

The fair values of derivative financial instruments, none of which are intra-Group, are set out below:

|                                | 2020<br>£m | 2019<br>£m |
|--------------------------------|------------|------------|
| <b>Non-current assets</b>      |            |            |
| Fuel derivatives               | –          | 14.2       |
| <b>Current assets</b>          |            |            |
| Fuel derivatives               | 2.9        | 13.1       |
| <b>Current liabilities</b>     |            |            |
| Fuel derivatives               | (38.6)     | (0.2)      |
| <b>Non-current liabilities</b> |            |            |
| Fuel derivatives               | (26.6)     | (1.8)      |

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 an embedded derivative 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 derivative 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 the bank counterparties was a liability of £5.8m as at 2 May 2020 (2019: asset of £0.7m) and is included in the amounts shown in the table above. The fair value of the embedded derivative was an asset of £5.8m as at 2 May 2020 (2019: liability of £0.7m) and is included in other receivables (2019: accruals and deferred income).

### Note 9 Retirement benefit obligations

|                                | 2020<br>£m | 2019<br>£m |
|--------------------------------|------------|------------|
| Retirement benefit obligations | 6.1        | 6.0        |

The Company no longer has any employees but has retirement benefit liabilities in respect of former employees and current employees of subsidiary undertakings, which are shown above. See note 1(m) to the Company financial statements and note 24 to the consolidated financial statements for more details on retirement benefits.

## Notes to the Company financial statements (continued)

### Note 10 Share capital

Information on share capital is provided in note 26 to the consolidated financial statements.

### Note 11 Equity reserves

The loss of £72.4m (2019: profit £142.0m) 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 £69.6m (2019: £39.4m). 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 accounts for the equity-settled share based payment charge for the year of £0.9m (2019: £1.9m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2019: 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 (2019: £0.5m) by recording an adjustment to the liability for this amount and recording a corresponding entry as a charge through the income statement. 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) Guarantees

The Company has provided guarantees to third parties of £102.7m (2019: £114.0m) in respect of subsidiary companies' liabilities. The liabilities that are guaranteed are included in the consolidated balance sheet but are not included in the Company balance sheet.

In addition, the Company has provided guarantees to third parties of £67.6m (2019: £89.7m) 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:

|   | 2020<br>£m  | 2019<br>£m |
|---|-------------|------------|
| <b>Contracted for but not provided:</b> |             |            |
| For delivery in one year                | <b>16.5</b> | 59.9       |

#### (c) Operating lease commitments

The following were the future minimum contractual lease payments due under unexpired operating leases as at 27 April 2019:

| <b>As at 27 April 2019</b>    | <b>£m</b>  |
|-------------------------------|------------|
| Lease payments in respect of: |            |
| Year ending 2 May 2020        | <b>0.1</b> |
| Year ending 1 May 2021        | <b>0.1</b> |
|                               | <b>0.2</b> |

### 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 (2019: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

### Note 16 Post balance sheet events

During May 2020, the Company issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. The Company repaid its outstanding bank loans from the net proceeds of the issuances and placed the remainder of the net proceeds in bank deposits and money market funds.



## 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 |
|--|-------------------------|--|---------------------------|
| A.1. Service Limited                               | Scotland                | Limited by guarantee                                       | 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 Main Line 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  | Stockport                 |
| 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                 |
| 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 | Stockport                 |
| 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                   |

## 13. Subsidiary and related undertakings (continued)

| Company   | Country of registration | Class of shares/other interest | Registered office address |
|---|-------------------------|--------------------------------|---------------------------|
| SCUSI Limited                                       | England                 | Ordinary A and B shares        | Stockport                 |
| SCUSI US Subsidiary Limited LLC                     | United States           | LLC Units                      | Wilmington                |
| 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 Buss Sverige AB                          | Sweden                  | Ordinary shares                | Stockholm 1               |
| 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 Krösa AB                                 | Sweden                  | Ordinary shares                | Stockholm 1               |
| Stagecoach Mälardalen AB                            | Sweden                  | Ordinary shares                | Stockholm 1               |
| 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                 |
| Stagecoach South West Limited                       | England                 | Ordinary shares                | Stockport                 |
| Stagecoach South Western Trains Limited             | England                 | Ordinary shares                | Stockport                 |
| Stagecoach Supertram Maintenance Limited            | England                 | Ordinary shares                | Stockport                 |
| Stagecoach Sweden AB                                | Sweden                  | Ordinary shares                | Stockholm 2               |
| 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                 | Stockport                 |
| 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                 | Limited by guarantee           | 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 the consolidated financial statements.

## 13. Subsidiary and related undertakings (continued)

| Registered office | Registered office address   |
|-------------------|---|
| Perth             | 10 Dunkeld Road, Perth PH1 5TW  |
| Stockport         | c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW |
| 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   |
| Wilmington        | 1209 Orange Street, Wilmington, DE 19801  |
| London            | The Battleship Building, 179 Harrow Road, London W2 6NB                                     |
| Stockholm 1       | c/o Cirio Advokatbyrå AB, PO Box 3294, 103 65 Stockholm                                     |
| Stockholm 2       | c/o Advokatfirman Vinge KB, PO Box 1703, 111 87 Stockholm                                   |

## 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](mailto: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](http://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

Execution only share dealing services are available to enable Stagecoach shareholders to buy and sell shares by phone or online. 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](http://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.

### 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](mailto: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/](http://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](http://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](http://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](mailto:info@stagecoachgroup.com)

### Company Number

SC100764

## Calendar

Annual General Meeting

25 September 2020

[www.stagecoachgroup.com](http://www.stagecoachgroup.com)

### Registered Office:

10 Dunkeld Road, Perth PH1 5TW, Scotland

T: 01738 442111 | F: 01738 447588 | E: [info@stagecoachgroup.com](mailto:info@stagecoachgroup.com)

Registered in Scotland | Number: SC100764



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**[stagecoachgroup.com](https://www.stagecoachgroup.com)**

Registered in Scotland, number: SC100764