

Stagecoach Group plc – Preliminary results for the year ended 27 April 2019

Financial highlights

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

Operational highlights

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

Financial summary

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

- ⁺ See definitions in note 22 to the condensed financial statements.
- ^{*} The results shown for the year ended 28 April 2018 have been restated from those previously reported to: (i) remove the results of the discontinued North America operations where appropriate and (ii) to adjust revenue and operating costs, as described in note 1 to the condensed financial statements, to reflect the application of International Financial Reporting Standard 15 ("IFRS 15"), *Revenue from Contracts with Customers*.

Stagecoach Chief Executive, Martin Griffiths, said:

"I am pleased to report good financial results as we reposition the business. We continue to focus on driving growth at our core high quality bus and coach operations in the UK, but we have no intention to bid for new UK rail franchises on the current risk profile offered by the Department for Transport. We have maintained our expectation of earnings per share for 2019/20.

"We have a critical role to play in tackling climate change and delivering cleaner air for our communities by enabling the switch of more journeys from car to public transport. As well as our significant investments in newer vehicle technologies, including hybrid and electric vehicles, new policy initiatives such as 'mobility credits' can help governments meet their ambitious targets.

"Our priority is to provide safe, high quality, value travel where every customer matters. We are leading the way in making travel easier for our customers through innovation and continued investment in our people, fleet and technology. Partnership working and new commercial initiatives are delivering positive results and high customer satisfaction.

"Mass transit has positive long-term growth prospects as governments are focused on growing the economy, connecting local communities, revitalising our town centres, combating road congestion and ensuring a healthier environment."

Copies of this announcement are available on the Stagecoach Group website at <http://www.stagecoach.com/investors/financial-analysis/reports/2019.aspx>

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Notes to editorsStagecoach

- Stagecoach is a leading public transport business, employing around 27,000 people.
- Our focus is on providing safe, high quality, value travel where every customer matters. Our greener and smarter services support the economy, connect local communities and help deliver better air quality.
- We are the UK's biggest bus and coach operator. Our modern fleet of around 8,000 buses and coaches operates on a network stretching from south-west England to the Highlands and Islands of Scotland. It includes our low-cost coach service, megabus.com, which operates a network of inter-city services across the UK.
- Stagecoach is an experienced UK rail operator, running the East Midlands Trains network and holding a 49% shareholding in Virgin Rail Group, which operates the West Coast rail franchise.
- We also operate the Supertram light rail network in Sheffield.

Preliminary management report for the year ended 27 April 2019

The Directors of Stagecoach Group plc are pleased to present their report on the Group for the year ended 27 April 2019.

Description of the business

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. The Company has its primary listing on the London Stock Exchange. Throughout this document, Stagecoach Group plc is referred to as “the Company” and the group headed by it is referred to as “Stagecoach” or “the Group”.

The Group is a leading public transport group, with extensive operations in the UK. A description of each of the Group’s operating divisions is given on pages 5 to 7 of its 2018 Annual Report, and an updated version will be provided in the 2019 Annual Report.

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of financial results

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

REVENUE – CONTINUING OPERATIONS

	2019 £m	2018 (restated) £m	Growth
UK Bus (regional operations)	1,043.3	1,013.8	2.9%
UK Bus (London)	252.8	251.8	0.4%
UK Rail	589.5	1,556.0	(62.1)%
Intra-Group revenue	(6.7)	(3.6)	
Group revenue	1,878.9	2,818.0	

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

OPERATING PROFIT – CONTINUING OPERATIONS

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

UK Bus (regional operations)

Summary

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

Financial performance

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

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

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

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

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

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

Our megabus.com business in the UK has continued its good performance, growing revenue and profit by capitalising on the network changes and marketing

enhancements that were made in the second half of the prior year.

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

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

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

The movement in operating margin was built up as follows:

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

The main changes in the operating margin shown above are:

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

* see definitions in note 22 to the condensed financial statements

Investment and innovation

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

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

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

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

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

Customer satisfaction and commercial developments

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

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

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

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

Partnership initiatives and policy development

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

support the vision of the Mayor for the Sheffield city region around improved connectivity.

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

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

Outlook

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

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

UK Bus (London)

Summary

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

Financial performance

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

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

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

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

The movement in operating margin was built up as follows:

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

The main changes in the operating margin shown above are:

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

Outlook

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

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

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

UK Rail

Summary

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

Financial performance

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

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

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

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

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

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

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

Rail contract update and Williams review

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

East Midlands Trains

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

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

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

Sheffield Supertram

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

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

Outlook

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

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

North America

Summary

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

Financial performance

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

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

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

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

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

Virgin Rail Group

Summary

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

Financial performance

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

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

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

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

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

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

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

Pre-exceptional EBITDA, depreciation and intangible asset amortisation

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

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

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

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

Exceptional items

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

- In the half-year ended 27 October 2018, a non-cash, exceptional pre-tax expense of £85.4m was recorded as an impairment of North America goodwill and when retranslated at the average rate for year is reported as an impairment loss of £86.2m. Subsequently, a net loss of £7.4m has been recognised, representing the net effect of the loss on disposal of the Division and the depreciation “saving” arising from this ceasing from 20 December 2018, being the date the Division was classified as held for sale and held at the lower of the carrying amount and fair value less costs to sell.
- On 18 October 2012, the Group issued US\$150m of 4.36% Notes as a private placement. The Notes were due to be redeemed at their principal amount on 18 October 2022. The cash proceeds from the sale of the North America business were applied towards the early repayment of the Notes. Consistent with the terms of the Notes, in repaying the Notes earlier than their scheduled redemption date, the Group paid a “make whole” premium of US\$7.9m (£6.1m) in excess of the US\$150m principal amount. That “make whole” premium has been reported as an exceptional item in the year ended 27 April 2019.

- A pre-tax exceptional expense of £25.3m has been recognised as a past service cost in respect of the equalisation of guaranteed minimum pension (“GMP”) benefits. On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for many defined benefit schemes, including those in which the Stagecoach Group participates. We have worked with our actuarial advisors to understand the implications of the judgement for the schemes in which the Group participates and the £25.3m pre-tax exceptional expense reflects our best estimate of the effect on our reported pension liabilities.
- The Group reported pre-tax losses in previous years in relation to its subsidiary, East Coast Main Line Company Limited (“ECML”) and the franchised rail services that ECML operated until June 2018. Since then, we have made progress with unwinding ECML’s affairs, settling its liabilities and realising its assets. As part of that process, we have progressed the company’s tax affairs and in the consolidated financial statements for the year ended 27 April 2019, we have recognised a tax credit of £17.1m.

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

Net finance costs

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

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

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

Taxation

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

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

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

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

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

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

Fuel costs

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

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

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

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

Cash flows and net debt

Consolidated net debt (as analysed in note 17 to the condensed financial statements) has reduced in the year, principally due to the disposal of the North America Division. Consolidated net debt at 27 April 2019 was £253.3m (2018: £395.8m) and non-rail net debt was £374.9m (2018: £567.0m). The balance at 27 April 2019 includes £36.9m of Virgin Trains East Coast cash, which we expect will reduce to £Nil in the year to 2 May 2020. We also expect further net cash outflows in respect of South West Trains as we conclude open matters relating to that expired franchise and net cash outflows in respect of East Midlands Trains as we unwind that business' affairs following the expected end of its rail franchise in August 2019. We expect a modest increase in non-rail net debt in the year to 2 May 2020, reflecting the Group's previously announced share buyback programme.

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

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

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

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

* East Midlands Trains and Virgin Trains East Coast

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

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

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

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

Net capital expenditure, split by division, was:

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

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

is included in the overall approximately £50m net cash outflow referred to above in respect of the franchise.

Financial position and liquidity

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

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

The Group's good financial position is evidenced by:

- The ratio of net debt at 27 April 2019 to pre-exceptional EBITDA from continuing operations for the year ended 27 April 2019 was 1.0 times (2018: 1.2 times from all operations).
- Pre-exceptional EBITDA from all operations for the year ended 27 April 2019 was 10.4 times (2018: 9.6 times) pre-exceptional net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £444.8m at 27 April 2019 (2018: £433.4m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- Two major credit rating agencies continue to assign investment grade credit ratings to the Group.

Year-end financial position of the Group

Net assets

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

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

Retirement benefits

The reported net assets of £128.4m (2018: £181.7m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £197.7m (2018: £142.2m), and associated deferred tax assets of £33.9m (2018: £24.9m). The increase reflects the £25.3m exceptional pre-tax expense referred to earlier in respect of the equalisation of Guaranteed Minimum Pensions ("GMP"), and pre-tax actuarial losses of £36.2m in the year (2018: £106.7m actuarial gains). The Pensions Regulator takes an active interest in the main pension schemes in which we participate and the relevant trustees continue to discuss the appropriateness of scheme valuations and contribution rates with the Regulator.

Dividend policy

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

The Group takes account of its performance, financial position and prospects when setting dividends. It does not have a prescribed formula for determining each year's dividends and has not set specific targets for

dividend growth or dividend cover ratios for the following reasons:

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

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

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

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

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

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

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

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

Adoption of new accounting standard for leases

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

Related parties

Details of significant transactions and events in relation to related parties are given in note 19 to the condensed financial statements.

Principal risks and uncertainties

Like most businesses, there is a range of risks and uncertainties facing the Group. A brief summary is given below of those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's financial position and/or future financial performance. Pages 9 to 13 of the Group's 2018 Annual Report set out specific risks and uncertainties in more detail. Further information and updates will be provided in the 2019 Annual Report.

The matters summarised below are not intended to represent an exhaustive list of all possible risks and uncertainties. The focus below is on those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's position or performance.

- Catastrophic events – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's services. The ongoing negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our 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.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Sustainability of rail profit – there is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new UK rail franchises or failing to retain its existing franchises.

- Breach of franchise – if the Group fails to comply with certain conditions as part of its rail franchise agreements it may be liable to penalties including potential termination of one or more of the rail franchise agreements.
- Changing customer habits - There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position.
- Pension scheme funding – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as regulatory approach, investment performance, discount rates and life expectancies.
- Insurance and claims environment – there is a risk that the cost to the Group of settling claims against it is significantly higher or lower than expected.
- Regulatory changes and availability of public funding – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. New legislation introduced and planned in the UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations.
- Management and Board succession – there is a risk that the Group does not recruit and retain sufficient directors and managers with the skills important to the operation of the business.
- Disease – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease.
- Information security – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- Information technology – there is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand.
- Competition – in certain of the markets we operate in, there is a risk of increased competitive pressures from existing competitors and new entrants.
- Treasury risks – the Group is affected by changes in fuel prices, interest rates and exchange rates.

Use of non-GAAP measures

Our reported preliminary financial information is extracted from the Group's consolidated financial statements 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 financial performance, the 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 and those that provide additional useful information to stakeholders. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance and position. Note 22 to the condensed financial statements provides further information on these non-GAAP financial measures.

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the year ended 27 April 2019.

Current trading and outlook

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

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

Martin Griffiths
Chief Executive
26 June 2019

Cautionary statement

The preceding preliminary management report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. The preliminary management report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation. Nothing in the preliminary management report should be considered or construed as a profit forecast for the Group. Except as required by law, the Group has no obligation to update forward-looking statements or to correct any inaccuracies therein.

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Audited				Audited			
Year to 27 April 2019				Year to 28 April 2018 (restated)			
Notes	Performance pre intangibles (exc software) and exceptional items £m	Intangibles (exc software) and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles (exc software) and exceptional items £m	Intangibles (exc software) and exceptional items (note 4) £m	Results for the year £m	
CONTINUING OPERATIONS							
Revenue	3(a)	1,878.9	-	1,878.9	2,818.0	-	2,818.0
Operating costs and other operating income		(1,740.9)	(25.6)	(1,766.5)	(2,685.4)	(49.0)	(2,734.4)
Operating profit of Group companies	3(b)	138.0	(25.6)	112.4	132.6	(49.0)	83.6
Share of profit of joint ventures after finance costs, finance income and taxation	3(c)	23.3	-	23.3	27.1	-	27.1
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	3(b)	161.3	(25.6)	135.7	159.7	(49.0)	110.7
Non-operating exceptional items	4	-	-	-	-	(1.7)	(1.7)
Profit before interest and taxation		161.3	(25.6)	135.7	159.7	(50.7)	109.0
Finance income		1.5	-	1.5	1.2	-	1.2
Finance costs		(29.9)	(6.1)	(36.0)	(32.6)	-	(32.6)
Profit before taxation		132.9	(31.7)	101.2	128.3	(50.7)	77.6
Taxation		(22.0)	22.5	0.5	(16.1)	(13.4)	(29.5)
Profit from continuing operations		110.9	(9.2)	101.7	112.2	(64.1)	48.1
DISCONTINUED OPERATIONS							
Profit/(loss) after taxation for the year from discontinued operations	5	15.5	(93.6)	(78.1)	14.7	1.0	15.7
TOTAL OPERATIONS							
Total profit for the year		126.4	(102.8)	23.6	126.9	(63.1)	63.8
Attributable to:							
Equity holders of the parent		126.4	(104.8)	21.6	128.0	(57.5)	70.5
Non-controlling interests		-	2.0	2.0	(1.1)	(5.6)	(6.7)
		126.4	(102.8)	23.6	126.9	(63.1)	63.8
EARNINGS PER SHARE							
Continuing operations							
Adjusted basic / Basic	7	19.3p		17.4p	19.8p		9.6p
Adjusted diluted / Diluted	7	19.2p		17.3p	19.7p		9.5p
Discontinued operations							
Adjusted basic / Basic	7	2.7p		(13.6)p	2.6p		2.7p
Adjusted diluted / Diluted	7	2.7p		(13.5)p	2.6p		2.7p
Total operations							
Adjusted basic / Basic	7	22.1p		3.8p	22.3p		12.3p
Adjusted diluted / Diluted	7	21.9p		3.7p	22.2p		12.2p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited	Audited
	Year to 27 April 2019	Year to 28 April 2018 (restated)
	£m	£m
Profit for the year	23.6	63.8
Items that may be reclassified to profit or loss		
Continuing operations		
Cashflow hedges:		
- Net fair value gains on cash flow hedges	16.6	42.8
- Reclassified and reported in profit for the year	(27.3)	(0.8)
- Share of other comprehensive (expense)/income on joint ventures' cash flow hedges	(0.4)	0.2
- Tax effect of cash flow hedges	2.1	(8.0)
Discontinued operations		
Cashflow hedges:		
- Net fair value (losses)/gains on cash flow hedges	(0.1)	7.5
- Reclassified and reported in profit for the year	(3.2)	(1.2)
- Tax effect of cash flow hedges	0.6	(1.2)
Foreign exchange differences on translation of foreign operations (net of hedging)		
- Foreign exchange differences arising in year	5.7	(7.0)
- Tax effect of foreign exchange differences arising in year	-	(0.3)
- Reclassified and reported in profit for the year	(8.6)	-
Total items that may be reclassified to profit or loss	(14.6)	32.0
Items that will not be reclassified to profit or loss		
Continuing operations		
Actuarial (losses)/gains on Group defined benefit pension schemes	(36.0)	106.8
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes	6.2	(20.6)
Share of actuarial losses on joint ventures' defined benefit pension schemes, net of tax	(2.8)	(0.6)
Net loss on equity instruments designated at fair value through other comprehensive income	(2.7)	-
Discontinued operations		
Actuarial losses on Group defined benefit pension schemes	(0.2)	(0.1)
Total items that will not be reclassified to profit or loss	(35.5)	85.5
Other comprehensive (expense)/income for the year	(50.1)	117.5
Total comprehensive (expense)/income for the year	(26.5)	181.3
Attributable to:		
Equity holders of the parent	(28.5)	190.7
Non-controlling interests	2.0	(9.4)
	(26.5)	181.3

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

		Audited	Audited
		As at 27 April 2019	As at 28 April 2018
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	8	51.2	142.1
Other intangible assets	9	9.7	44.4
Property, plant and equipment	10	834.0	1,137.1
Interests in joint ventures	11	19.9	25.2
Investments in equity instruments		-	2.7
Derivative instruments at fair value		14.2	30.0
Retirement benefit asset	13	1.8	4.6
Other receivables		34.6	3.8
		965.4	1,389.9
Current assets			
Inventories		14.3	22.9
Trade and other receivables		133.3	235.3
Derivative instruments at fair value		13.5	11.4
Cash and cash equivalents		170.4	238.2
		331.5	507.8
Total assets	3(d)	1,296.9	1,897.7
LIABILITIES			
Current liabilities			
Trade and other payables		392.6	614.6
Current tax liabilities		19.0	41.2
Foreign tax liabilities		-	0.6
Borrowings		21.8	36.9
Derivative instruments at fair value		0.2	0.4
Deferred tax liabilities		0.2	-
Provisions		36.8	117.7
		470.6	811.4
Non-current liabilities			
Other payables		4.5	20.4
Borrowings		411.2	606.9
Derivative instruments at fair value		1.8	0.1
Deferred tax liabilities		13.7	25.2
Provisions		67.2	105.2
Retirement benefit obligations	13	199.5	146.8
		697.9	904.6
Total liabilities	3(d)	1,168.5	1,716.0
Net assets	3(d)	128.4	181.7
EQUITY			
Ordinary share capital	14	3.2	3.2
Share premium account		8.4	8.4
Retained earnings		(285.4)	(228.6)
Capital redemption reserve		422.8	422.8
Own shares		(39.4)	(38.0)
Translation reserve		-	2.9
Cash flow hedging reserve		18.8	30.1
Total equity attributable to the parent		128.4	200.8
Non-controlling interest		-	(19.1)
Total equity		128.4	181.7

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity attributable to parent	Non- controlling interest	Total equity
	Notes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 29 April 2017		3.2	8.4	(320.4)	422.8	(37.0)	10.2	(9.0)	78.2	(9.7)	68.5
Profit for the year		-	-	70.5	-	-	-	-	70.5	(6.7)	63.8
Other comprehensive income / (expense) net of tax		-	-	88.4	-	-	(7.3)	39.1	120.2	(2.7)	117.5
Total comprehensive income / (expense)		-	-	158.9	-	-	(7.3)	39.1	190.7	(9.4)	181.3
Own ordinary shares purchased		-	-	-	-	(1.0)	-	-	(1.0)	-	(1.0)
Credit in relation to equity-settled share based payments		-	-	1.2	-	-	-	-	1.2	-	1.2
Dividends paid on ordinary shares	6	-	-	(68.3)	-	-	-	-	(68.3)	-	(68.3)
As at 28 April 2018		3.2	8.4	(228.6)	422.8	(38.0)	2.9	30.1	200.8	(19.1)	181.7
Profit for the year		-	-	21.6	-	-	-	-	21.6	2.0	23.6
Other comprehensive expense net of tax		-	-	(35.9)	-	-	(2.9)	(11.3)	(50.1)	-	(50.1)
Total comprehensive (expense) / income		-	-	(14.3)	-	-	(2.9)	(11.3)	(28.5)	2.0	(26.5)
Own ordinary shares purchased		-	-	-	-	(1.4)	-	-	(1.4)	-	(1.4)
Shareholder transactions with non-controlling interest		-	-	-	-	-	-	-	-	17.1	17.1
Cash paid to settle share based payments originally intended to be equity-settled		-	-	(0.3)	-	-	-	-	(0.3)	-	(0.3)
Credit in relation to equity-settled share based payments		-	-	1.9	-	-	-	-	1.9	-	1.9
Dividends paid on ordinary shares	6	-	-	(44.1)	-	-	-	-	(44.1)	-	(44.1)
As at 27 April 2019		3.2	8.4	(285.4)	422.8	(39.4)	-	18.8	128.4	-	128.4

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Audited	Audited
		Year to	Year to
		27 April 2019	28 April 2018
	<i>Notes</i>	£m	£m
Cash flows from operating activities			
Cash generated by operations	15	127.1	207.9
Interest paid		(31.3)	(30.8)
Interest received		3.5	4.5
Dividends received from joint ventures		25.4	27.2
Net cash flows from operating activities before tax		124.7	208.8
Tax paid		(17.8)	(16.3)
Net cash from operating activities after tax		106.9	192.5
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed of	5	73.8	-
Purchase of property, plant and equipment		(102.4)	(111.7)
Disposal of property, plant and equipment		50.2	38.5
Purchase of intangible assets and other investments		(4.4)	(18.7)
Disposal of intangible assets		28.1	3.1
Net cash inflow/(outflow) from investing activities		45.3	(88.8)
Cash flows from financing activities			
Purchase of treasury shares		(1.4)	(1.0)
Repayments of hire purchase and lease finance debt		(20.7)	(26.0)
Redemption of US Dollar 4.36% Notes – principal		(116.1)	-
Draw down of other borrowings		114.0	160.0
Repayment of other borrowings		(154.2)	(242.0)
Dividends paid on ordinary shares	6	(44.1)	(68.3)
Sale of tokens		-	0.1
Redemption of tokens		(0.2)	(0.4)
Net cash used in financing activities		(222.7)	(177.6)
Net decrease in cash and cash equivalents		(70.5)	(73.9)
Cash and cash equivalents at the beginning of year		238.2	313.3
Exchange rate effects		2.7	(1.2)
Cash and cash equivalents at the end of year		170.4	238.2

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

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

NOTES

1 BASIS OF PREPARATION

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 29 April 2018 to 27 April 2019.

These results are extracts of consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (that therefore comply with Article 4 of the EU IAS Regulation), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies and methods of computation applied in the condensed financial statements are the same as those of the consolidated financial statements for the year ended 28 April 2018 with the exception of the new accounting standards set out below. New standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 28 April 2019 and which will have an effect on the consolidated financial statements of the Group are also detailed below.

The Board of Directors approved this announcement on 26 June 2019.

New accounting standards adopted during the year

IFRS 15, Revenue from Contracts with Customers

The Group has adopted IFRS 15, Revenue from Contracts with Customers, from 30 April 2017, applying the full retrospective approach. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services. In both our rail and bus divisions, performance obligations are generally clear and transaction prices are even over the period to which they relate and are time apportioned. There have been no judgements taken in the implementation of IFRS 15 which significantly affect the amount or timing of the recognition of revenue.

Implementing IFRS 15 has not had a material impact on the consolidated financial statements, with the exception of the reclassification of certain customer compensation amounts which were previously treated as operating costs and the reclassification to revenue of a number of specific income items previously reported as miscellaneous income within other operating income.

Under IFRS 15, customer compensation is treated as a reduction in revenue, and for the year ended 28 April 2018, retrospectively applying IFRS 15 has resulted in a decrease in revenue of £15.8m, offset by an equivalent reduction in operating costs. For the year ended 27 April 2019, customer compensation of £4.0m has been treated as a reduction in revenue, with an equivalent reduction in operating costs.

The Group has other miscellaneous sources of income comprising of income incidental to the Group's principal activities. It includes amounts receivable from Network Rail under performance regimes, commissions receivable, advertising income, maintenance income, railway station access income, railway depot access income, fuel sales and property income. Under IFRS 15 commissions receivable, maintenance income and fuel sales fall under the definition of revenue. For the year ended 28 April 2018, reclassifying those items of income as part of retrospectively applying IFRS 15 has resulted in an increase in revenue of £77.9m.

These two reclassifications explained above result in a net increase of £62.1m in the previously reported revenue for the year ended 28 April 2018.

As there is no net impact on the income statement from implementing IFRS 15, there is no adjustment to prior year opening retained earnings. There is no impact on any of the other primary statements that had previously been reported. No consolidated balance sheet has been restated as at 29 April 2017 because there are no material restatements or reclassifications in the balance sheet resulting from the implementation of IFRS 15. The following table shows the impact of IFRS 15 on the previously reported results along with the impact of the discontinued operations (note 5) to arrive at the comparative figures appearing in the consolidated income statement.

IFRS 15 restatement and impact of discontinued operations	As previously reported £m	IFRS 15 Impact £m	Restated £m	Impact of discontinued operations (Note 5) £m	As restated and appearing in consolidated income statement £m
Revenue	3,226.8	62.1	3,288.9	(470.9)	2,818.0
Operating costs and other operating income	(3,121.8)	(62.1)	(3,183.9)	449.5	(2,734.4)
Operating profit of Group companies	105.0	-	105.0	(21.4)	83.6

1 BASIS OF PREPARATION (CONTINUED)

Note 3(a) sets out a disaggregation of revenue in accordance with the disclosure requirements of the new standard, with an explanation of the types of revenue included in the note set out below.

The Group has a number of revenue streams. 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 transaction price to each of the obligations.

No detailed information is provided about remaining performance obligations as at the balance sheet dates presented, as permitted by IFRS 15, as the contract liabilities are expected to be satisfied within one year. This is the only practical expedient that the Group has elected to adopt on the adoption of IFRS 15. The Group has not adopted any of the transitional expedients available on the adoption of IFRS 15.

Passenger revenues

Passenger revenues primarily relate to ticket sales through UK Bus (regional operations), UK Rail and North America. Passenger revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travel card income is recorded on a straight-line basis over the applicable period.

The Group generates revenue from the provision of bus and rail services to its customers. In the UK, the Group receives concessionary revenue from public bodies, such as local authorities, for transporting disabled and older people free of charge to the passenger. Although the revenue is received from a party other than the person receiving the service, the Group accounts for such revenue in accordance with IFRS 15 with the performance obligation being the provision of the free travel to those eligible.

Amounts that are receivable from government bodies in respect of travel by individuals on the Group's transport services is recognised in the income statement in the period in which the related travel occurs. Such amounts are included in revenue because they represent payments for transport services provided. This can involve some estimation – for example, revenue receivable in respect of UK concessionary travel schemes can involve some negotiation with relevant public authorities on the amount of revenue due and/or be subject to adjustment based on the levels of concessionary travel across a number of operators. Revenue is recognised based on the Group's best estimates of the amounts receivable in respect of travel prior to the balance sheet date and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

In UK Rail, travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, the Group's UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage. Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of the Group's UK bus and tram businesses participate. Procedures exist to allow operators to challenge the appropriateness of revenue allocation. Where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which the Group is made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Other subsidies that the Group receives from government bodies to financially support the operation of transport services they consider to be socially desirable is included in revenue and recognised in the income statement in the period that the subsidy relates to. This includes tender revenue receivable to financially support certain bus services the Group operates in the UK.

1 BASIS OF PREPARATION (CONTINUED)

Contract revenues

Contract revenues mainly relate to UK Bus (London) contracts with Transport for London and contracts with customers in North America. Revenue receivable from government bodies and others to the Group for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

The adoption of IFRS 15 has not resulted in a change to the revenue recognition or measurement of contract revenues.

Other Revenues

Other revenues relate to revenues from government bodies, and incidental revenue. Other revenues are recognised at both a point in time and over time as performance obligations are satisfied.

Revenue that is incidental to the Group's principal activity of providing transport services is reported as other revenue. Such revenue is recognised as the service is provided, the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. This may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling fuel to other transport operators.

This is a change from the previous policy under which all of the above items of income were reported as other operating income and not within revenue.

Income from other sources continue to be reported as other operating income. These other sources include:

- selling advertising space on vehicles and premises that the Group operates;
- access income for others to use railway stations and depots that the Group operates;
- property rental; and
- Network Rail in respect of UK railway operating performance regimes.

Finance Income

Finance income is recognised under the effective interest method as interest accrues and is shown separately on 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.

1 BASIS OF PREPARATION (CONTINUED)

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.

IFRS 9, Financial Instruments

The Group has adopted IFRS 9, Financial Instruments, prospectively from 29 April 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. The standard sets requirements for accounting for financial instruments including in respect of recognition and measurement, impairment, derecognition and general hedge accounting. There have been changes to the Group's categorisation of financial assets and liabilities. These changes are detailed below. No changes were required to the hedge accounting applied as a result of IFRS 9.

IFRS 9 requires a new impairment model with impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. For trade receivables, accrued income and other receivables, the Group has applied the simplified approach under the standard and determined expected credit losses for significant portfolios of receivables. The transitional increase in the impairment allowance as a result of adopting this policy is immaterial. As a result there has been no adjustment made to the retained earnings figures at 28 April 2018 as previously reported.

Under IFRS 9, the Group has elected to recognise its investments, previously classified as available for sale, as Fair Value through Other Comprehensive Income ("FVOCI") when they meet the definition of equity under IAS 32, Financial Instruments: Presentation and are not held for trading. At 27 April 2019, the carrying value of those investments was £Nil (28 April 2018: £22.7m). Changes in the value of equity investments classified as FVOCI are recorded directly in equity and are not recycled to the income statement. Equity instruments classified as FVOCI are not subject to impairment assessment.

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, FVOCI, or fair value through profit or loss. Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest on the principal outstanding are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the income statement as interest income.

The Group recognises a provision for expected credit losses for all financial instruments measured at amortised cost. Where there has not been a significant increase in credit risk since initial recognition, provision is made for defaults that are possible within the next 12 months. Where there has been a significant increase in credit risk since initial recognition, provision is made for credit losses expected over the remaining life of the asset.

The Group's financial assets that are categorised as Fair Value Through Profit and Loss ("FVTPL") include a Deferred Payment Instrument received in respect of the sale of the Group's North America Division in April 2019 and certain financial derivatives.

1 BASIS OF PREPARATION (CONTINUED)

Trade receivables

Trade receivables are recorded at their original amount less provision for expected credit losses. The Group has elected to apply the simplified version of the expected credit loss model permitted by IFRS 9 in respect of trade receivables. The lifetime expected credit losses is assessed for all balances. The Group has established a provision matrix that is based on its historical credit loss experience by division and is adjusted for specific forward-looking factors. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within operating costs and other income. When a previously provided trade receivable is uncollectable, it is written off against the provision. Balances which are more than 180 days past due are considered to be in default and are written off the ledgers but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances. At each reporting date, the Group assesses whether trade receivables are credit-impaired. This includes a review if 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.

There has been no other impact on the accounting for financial instruments resulting from the adoption of IFRS 9.

The following table summarises the changes in the classifications of financial instruments as at 28 April 2018 resulting from the adoption of IFRS 9:

Balance sheet item	IAS 39		IFRS 9 measurement category	
	Measurement category	Carrying value at 28 April 2018	Amortised cost	FVOCI
		£m	£m	£m
Accrued income	Loans and receivables	45.4	45.4	-
Trade receivables	Loans and receivables	105.2	105.2	-
Other receivables	Loans and receivables	12.2	12.2	-
Non-listed equity investments	Available for sale	2.7	-	2.7

New accounting standards not yet applied

IFRS 16, Leases

The Group will adopt IFRS 16, Leases, with effect from 28 April 2019. The condensed financial statements for the year ended 27 April 2019 are prepared in accordance with International Accounting Standard 17 ("IAS 17"), Leases, and so do not reflect all of the requirements of IFRS 16. IFRS 16 replaces IAS 17, and establishes new principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases by lessees as either operating leases or finance leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Depreciation of lease assets is recognised separately from interest.

On adopting IFRS 16, the Group expects to recognise substantial new assets and new liabilities in respect of certain of those leases currently classified as operating leases. The Group intends to apply the modified retrospective approach to transition utilising the practical expedients outlined in the standard.

Practical expedients

The Group has elected to adopt the following practical expedients on transition to IFRS 16:

- Leases which expire before 27 April 2020, which includes all of the Group's existing leases of railway rolling stock, will not be capitalised.
- Low-value leases (those with a capital value of less than £4,500) will not be capitalised.
- The requirements of IFRS 16 will not be applied to intangible assets.
- Contracts will not be reassessed to determine if they contain a lease where an assessment was previously made under IAS 17 and IFRIC 4, Determining Whether an Arrangement Contains a Lease.
- Where an onerous lease provision is in existence, this provision will be utilised to rely on its previous assessment under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and to reduce the right-of-use asset at the date of initial application of IFRS 16 rather than undertaking an impairment review.

1 BASIS OF PREPARATION (CONTINUED)

Accounting judgements

Reflecting the scale and complexity of the lease accounting issues affecting the rail industry, the UK rail sector worked collaboratively under the auspices of the Rail Delivery Group to consider railway specific arrangements and the issues arising from them in the context of implementing IFRS 16. The Group was represented on the working group, as it sought to develop industry-wide agreement on the interpretation of IFRS 16 for private rail operators for use in rail franchises.

UK rail franchises have contracts with Network Rail for access to the railway infrastructure (track, stations and depots). It has been concluded that these contracts do not meet the definition of a lease under IFRS 16, reflecting the fact that Network Rail, rather than the franchise train operator, directs how and for what purposes the assets are used.

Due to the short remaining duration of the Group's current rail franchises, all of its rail related leases are due to expire before 27 April 2020. The Group therefore does not expect to recognise incremental lease liabilities and associated right-of-use assets in relation to those leases. In the event that the Group won another long-term UK rail franchise, the Group would expect to capitalise those leases that relate to rolling stock assets.

Impact of adoption

At 27 April 2019, the Group's operating lease commitments of £110.2m include £14.8m in respect of short-term leases which will be recognised on a straight-line basis as an expense in the income statement. For the remaining lease commitments, and after taking account of discounting to present value, the Group expects to recognise incremental lease liabilities and associated right-of-use assets of around £85m. The right-of-use assets primarily relate to properties and vehicles.

Under IFRS 16, the Group will see a different pattern of expense within the income statement, as the IAS 17 operating lease expense is replaced by depreciation and interest charges. The Group does not expect a material earnings impact to arise as a result of applying IFRS 16 with 2019/20 profit before tax likely to be around £1m lower than under IAS 17. All future cash flows in respect of lease payments will be treated as financing. The Group expects operating cash flows under IFRS 16 to be approximately £21m higher in the year ending 2 May 2020 than they would have been under the current accounting applied to leases. There is no overall cash flow impact from the adoption of IFRS 16.

2 FOREIGN CURRENCIES

The principal rates of exchange used to translate the results of foreign operations are as follows:

	Year to 27 April 2019	Year to 28 April 2018
US Dollar:		
Year end rate	1.2935	1.3797
Average rate	1.3047	1.3380
Canadian Dollar:		
Year end rate	1.7423	1.7745
Average rate	1.7182	1.7072

3 SEGMENTAL ANALYSIS

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Group disposed of its North America segment, which operates coach and bus operations in the United States and Canada, on 16 April 2019. That segment is therefore presented as discontinued operations. Previously reported figures have been re-presented and restated to show the North America segment as if it had been discontinued with effect from 30 April 2017, the start of the prior year.

3 SEGMENTAL ANALYSIS (CONTINUED)

(a) Revenue

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 note 3(c).

Due to the nature of the Group's business, the origin and destination of revenue (the United Kingdom) is the same in all cases. As the Group predominantly sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

The vast majority of the UK Bus (London) revenue is from Transport for London.

Revenue from continuing operations, split by class and segment, was as follows:

Year ended 27 April 2019	Passenger revenue £m	Contract revenue £m	Other £m	Total £m
UK Bus (regional operations)	1,002.0	40.0	1.3	1,043.3
UK Bus (London)	0.3	252.5	-	252.8
Total bus operations	1,002.3	292.5	1.3	1,296.1
UK Rail	546.2	-	43.3	589.5
Total Group revenue	1,548.5	292.5	44.6	1,885.6
Intra-Group revenue - UK Bus (regional operations)	-	(6.7)	-	(6.7)
Reported Group revenue	1,548.5	285.8	44.6	1,878.9

Year ended 28 April 2018 (restated)	Passenger revenue £m	Contract revenue £m	Other £m	Total £m
UK Bus (regional operations)	976.7	35.8	1.3	1,013.8
UK Bus (London)	0.1	251.7	-	251.8
Total bus operations	976.8	287.5	1.3	1,265.6
UK Rail	1,479.4	-	76.6	1,556.0
Total Group revenue	2,456.2	287.5	77.9	2,821.6
Intra-Group revenue - UK Bus (regional operations)	-	(3.6)	-	(3.6)
Reported Group revenue	2,456.2	283.9	77.9	2,818.0

3 SEGMENTAL ANALYSIS (CONTINUED)

(b) Operating profit

Operating profit from continuing operations, split by segment, was as follows:

	Audited			Audited		
	Year to 27 April 2019			Year to 28 April 2018 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	117.0	(19.0)	98.0	112.9	-	112.9
UK Bus (London)	10.7	(5.0)	5.7	13.3	-	13.3
Total bus operations	127.7	(24.0)	103.7	126.2	-	126.2
UK Rail	26.4	(0.7)	25.7	24.9	(49.0)	(24.1)
	154.1	(24.7)	129.4	151.1	(49.0)	102.1
Group overheads	(13.6)	(0.9)	(14.5)	(15.3)	-	(15.3)
Restructuring costs	(2.5)	-	(2.5)	(3.2)	-	(3.2)
Total operating profit of continuing Group companies	138.0	(25.6)	112.4	132.6	(49.0)	83.6
Share of joint ventures' profit after finance costs, finance income and taxation	23.3	-	23.3	27.1	-	27.1
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	161.3	(25.6)	135.7	159.7	(49.0)	110.7

(c) Joint ventures

The share of profit from joint ventures was further split as follows:

	Audited	Audited
	Year to 27 April 2019 £m	Year to 28 April 2018 £m
Virgin Rail Group (UK Rail)		
Operating profit	25.7	30.0
Finance income (net)	0.8	0.4
Taxation	(5.2)	(4.5)
	21.3	25.9
Citylink (UK Bus, regional operations)		
Operating profit	2.5	1.5
Taxation	(0.5)	(0.3)
	2.0	1.2
Share of profit of joint ventures after finance costs, finance income and taxation	23.3	27.1

3 SEGMENTAL ANALYSIS (CONTINUED)

(d) Gross assets and liabilities

Assets and liabilities, split by segment, were as follows:

	Audited			Audited		
	As at 27 April 2019			As at 28 April 2018		
	Gross assets	Gross liabilities	Net assets / (liabilities)	Gross assets	Gross liabilities	Net assets / (liabilities)
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	931.8	(321.6)	610.2	945.2	(271.4)	673.8
UK Bus (London)	74.0	(144.7)	(70.7)	68.5	(117.3)	(48.8)
UK Rail	50.3	(207.3)	(157.0)	192.8	(427.4)	(234.6)
	1,056.1	(673.6)	382.5	1,206.5	(816.1)	390.4
Central functions	50.5	(29.0)	21.5	22.9	(45.2)	(22.3)
Joint ventures	19.9	-	19.9	25.2	-	25.2
Borrowings and cash	170.4	(433.0)	(262.6)	238.2	(643.8)	(405.6)
Taxation	-	(32.9)	(32.9)	-	(67.0)	(67.0)
Continuing operations	1,296.9	(1,168.5)	128.4	1,492.8	(1,572.1)	(79.3)
Discontinued operations - North America	-	-	-	404.9	(143.9)	261.0
Total (including discontinued)	1,296.9	(1,168.5)	128.4	1,897.7	(1,716.0)	181.7

4 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET AMORTISATION

The Group highlights amounts before non-software intangible asset amortisation and exceptional items as well as clearly reporting the results in accordance with IFRS. Exceptional items are defined in note 22.

The items shown in the columns headed "Intangibles (exc software) and exceptional items" on the face of the consolidated income statement can be further analysed as follows:

	Audited			Audited		
	Year to 27 April 2019			Year to 28 April 2018 (restated)		
	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items	Exceptional items	Intangible asset (exc software) amortisation	Intangibles (exc software) and exceptional items
	£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS						
Operating costs and other operating income						
Non-software intangible asset amortisation	-	(0.3)	(0.3)	-	-	-
Equalisation of guaranteed minimum pension benefits	(25.3)	-	(25.3)	-	-	-
Onerous contract provision and adjustment to asset and liability carrying values regarding Virgin Trains East Coast	-	-	-	(49.0)	-	(49.0)
	(25.3)	(0.3)	(25.6)	(49.0)	-	(49.0)
Non-operating exceptional items						
UK Bus (regional operations) business closure	-	-	-	(1.7)	-	(1.7)
Finance costs						
Finance costs in relation to early redemption of debt	(6.1)	-	(6.1)	-	-	-
Intangible asset expenses (exc software) and exceptional items before taxation	(31.4)	(0.3)	(31.7)	(50.7)	-	(50.7)
Tax effect	22.5	-	22.5	(13.4)	-	(13.4)
Intangible asset expenses (exc software) and exceptional items after taxation	(8.9)	(0.3)	(9.2)	(64.1)	-	(64.1)
DISCONTINUED OPERATIONS						
Reduction in liability for North America legal claims	-	-	-	1.2	-	1.2
Impairment of North America goodwill	(86.2)	-	(86.2)	-	-	-
Loss on disposal of North America Division	(23.8)	-	(23.8)	-	-	-
North America depreciation saving	16.4	-	16.4	-	-	-
Tax effect	-	-	-	(0.2)	-	(0.2)
Total exceptional items and intangible asset (excl software) amortisation	(102.5)	(0.3)	(102.8)	(63.1)	-	(63.1)

5 DISCONTINUED OPERATIONS

On 20 December 2018, the Group announced that an agreement had been reached to sell the North American business, which consists of a number of previously wholly owned subsidiaries.

On 16 April 2019, the sale of the North American business was completed. The North American business was classified as discontinued operations from 20 December 2018.

The results for the North American business from the start of the year to the date of its disposal are as follows:

	Audited Year to 27 April 2019			Audited Year to 28 April 2018		
	Performance pre intangibles and exceptional items £m	Intangibles (exc software) and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles (exc software) and exceptional items (note 4) £m	Results for the year £m
Discontinued operations						
Revenue	456.6	-	456.6	470.9	-	470.9
Operating costs and other operating income	(436.8)	(69.8)	(506.6)	(449.9)	1.2	(448.7)
Operating profit/(loss) before restructuring costs	19.8	(69.8)	(50.0)	21.0	1.2	22.2
Restructuring costs	(0.2)	-	(0.2)	(0.8)	-	(0.8)
Profit/(loss) before interest and taxation	19.6	(69.8)	(50.2)	20.2	1.2	21.4
Finance costs	(3.8)	-	(3.8)	(4.0)	-	(4.0)
Finance income	0.1	-	0.1	0.3	-	0.3
Profit/(loss) before taxation	15.9	(69.8)	(53.9)	16.5	1.2	17.7
Taxation	(0.4)	-	(0.4)	(1.8)	(0.2)	(2.0)
	15.5	(69.8)	(54.3)	14.7	1.0	15.7
Loss on disposal of North American business	-	(23.8)	(23.8)	-	-	-
Taxation on disposal of North American business	-	-	-	-	-	-
Profit/(loss) after tax from discontinued operations	15.5	(93.6)	(78.1)	14.7	1.0	15.7

The sale of the North American business was concluded prior to 27 April 2019. As a result, there are no assets classified as held for sale as at 27 April 2019.

The tax charge on discontinued operations is lower than the standard rate of corporate income tax in North America (of approximately 26%) applied to the profit before tax, due to the utilisation of previously unrecognised tax losses in the US.

The major classes of assets and liabilities disposed, along with the loss on disposal, were as follows:

	Year to 27 April 2019 £m
Property, plant and equipment	268.2
Goodwill	10.1
Other intangible assets	1.5
Trade and other receivables	46.6
Current tax asset	0.2
Cash	26.6
Trade and other payables	(79.3)
Borrowings	(54.4)
Provisions	(68.8)
Total net assets disposed of	150.7
Cash consideration received	102.0
Deferred payment instrument received	22.3
Recycled gains from foreign currency translation reserve	8.6
Costs of disposal	
- paid in year ended 27 April 2019	(1.6)
- included as payable as at 27 April 2019	(4.4)
Proceeds less costs, on disposal	126.9
Loss on disposal of business	(23.8)

5 DISCONTINUED OPERATIONS (CONTINUED)

The effect of the disposal on consolidated net debt was:

	Year to 27 April 2019 £m
Cash consideration received in year	102.0
Costs of disposal paid in year	(1.6)
Cash transferred with disposed subsidiaries	(26.6)
Effect on cash	73.8
Borrowings transferred with disposed subsidiaries	54.4
Effect on consolidated net debt	128.2

6 DIVIDENDS

Dividends on ordinary shares are shown below.

	Audited Year to 27 April 2019 pence per share	Audited Year to 28 April 2018 pence per share	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Amounts recognised as distributions in the year				
Dividends on ordinary shares:				
Final dividend in respect of the previous year	3.9	8.1	22.4	46.5
Interim dividend in respect of the current year	3.8	3.8	21.7	21.8
Amounts recognised as distributions to equity holders in the year	7.7	11.9	44.1	68.3
Dividends declared or proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares:				
Final dividend in respect of the current year	3.9	3.9	22.3	22.4

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 5 December 2018 and paid on 6 March 2019. The Board has proposed a final dividend of 3.9p per ordinary share payable on 2 October 2019 to shareholders on the register at 23 August 2019.

The total amount of £22.3m shown above as being the final dividend in respect of the year to 27 April 2019 has been calculated by multiplying the proposed final dividend of 3.9p per ordinary share by the number of ordinary shares in issue (excluding shares held in treasury) as at 27 April 2019. Since 27 April 2019, the Company has, and may continue to, repurchase some of its own ordinary shares. The actual total amount of the final dividend will be based on the number of ordinary shares in issue (excluding shares held in treasury) as at 23 August 2019 and is expected to be less than the £22.3m shown above.

7 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.

	Audited Year to 27 April 2019 No. of shares million	Audited Year to 28 April 2018 No. of shares million
Basic weighted average number of ordinary shares, excluding treasury shares	573.2	573.4
Dilutive ordinary shares		
- Executive Participation Plan	2.7	2.7
- Long Term Incentive Plan	0.7	-
Diluted weighted average number of ordinary shares	576.6	576.1

7 EARNINGS PER SHARE (CONTINUED)

Adjusted EPS is calculated by adding back non-software intangible asset amortisation and exceptional items (after taking account of taxation and the non-controlling interest) as shown on the consolidated income statement. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The reconciliation of net profit for the basic EPS calculation to net profit for the adjusted EPS calculation is shown below.

	Audited			Audited		
	Year to 27 April 2019	Discontinued operations	Total of all operations	Year to 28 April 2018 (restated)	Discontinued operations	Total of all operations
	Continuing operations £m	£m	£m	Continuing operations £m	£m	£m
Profit attributable to ordinary equity holders of the parent for basic EPS calculation	99.7	(78.1)	21.6	54.8	15.7	70.5
Non-software intangible asset amortisation (note 4)	0.3	-	0.3	-	-	-
Exceptional items before tax (note 4)	31.4	93.6	125.0	50.7	(1.2)	49.5
Tax effect of intangible asset amortisation and exceptional items (note 4)	(22.5)	-	(22.5)	13.4	0.2	13.6
Non-controlling interest in exceptional items	2.0	-	2.0	(5.6)	-	(5.6)
Profit for adjusted EPS calculation	110.9	15.5	126.4	113.3	14.7	128.0

8 GOODWILL

The movements in goodwill were as follows:

	Audited	Audited
	Year to 27 April 2019 £m	Year to 28 April 2018 £m
Net book value at beginning of year	142.1	148.2
Acquired through business combinations	0.3	-
Impairment charged to income statement	(86.2)	-
Disposal of subsidiaries	(10.1)	-
Foreign exchange movements	5.1	(6.1)
Net book value at end of year	51.2	142.1

Goodwill arose in the year ended 27 April 2019 on a business combination. The business combination and its effect on cash flow was not material.

9 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Cost		
At beginning of year	136.6	163.1
Additions	4.4	16.0
Disposal of subsidiaries	(9.0)	-
Disposals	(98.2)	(41.5)
Foreign exchange movements	0.5	(1.0)
At end of year	34.3	136.6
Accumulated amortisation		
At beginning of year	(92.2)	(118.1)
Amortisation charged to income statement	(9.6)	(12.7)
Impairment charged to income statement	-	(0.8)
Disposal of subsidiaries	7.5	-
Disposals	70.1	38.4
Foreign exchange movements	(0.4)	1.0
At end of year	(24.6)	(92.2)
Net book value at beginning of year	44.4	45.0
Net book value at end of year	9.7	44.4

10 PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment were as follows:

	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Cost		
At beginning of year	2,143.5	2,178.2
Additions	117.2	135.5
Disposal of subsidiaries	(591.1)	-
Disposals	(119.3)	(136.8)
Foreign exchange movements	28.3	(33.4)
At end of year	1,578.6	2,143.5
Accumulated depreciation		
At beginning of year	(1,006.4)	(987.9)
Depreciation charged to income statement		
- Pre-exceptional charge	(131.4)	(132.9)
- Exceptional "saving" (see note 4)	16.4	-
Impairment charged to income statement	(0.5)	(3.7)
Disposal of subsidiaries	322.9	-
Disposals	69.2	101.3
Foreign exchange movements	(14.8)	16.8
At end of year	(744.6)	(1,006.4)
Net book value at beginning of year	1,137.1	1,190.3
Net book value at end of year	834.0	1,137.1

11 INTERESTS IN JOINT VENTURES

The movements in the carrying value of interests in joint ventures were as follows:

	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Net book value		
At beginning of year	25.2	25.7
Share of recognised profit	23.3	27.1
Share of actuarial losses on defined benefit schemes, net of tax	(2.8)	(0.6)
Share of other comprehensive (expense)/income on joint ventures' cash flow hedges	(0.4)	0.2
Dividends received in cash	(25.4)	(27.2)
At end of year	19.9	25.2

A loan payable to joint venture, Scottish Citylink Limited, of £1.7m (2018: £1.7m) is included within current liabilities under the caption "Trade and other payables".

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

These condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the Group's consolidated financial statements for the year ended 27 April 2019. There have been no material changes in any of the Group's significant financial risk management policies since 28 April 2018.

Liquidity risk

The contractual undiscounted cash outflows for financial liabilities will be set out in the Group's 2019 Annual Report.

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 price (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 represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 27 April 2019.

	Level 2 £m	Level 3 £m	Total £m
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	22.3	22.3
Financial derivatives	27.7	-	27.7
Total assets	27.7	22.3	50.0
Liabilities			
Financial derivatives	(2.0)	-	(2.0)
Accruals – embedded derivative	(0.7)	-	(0.7)
Total liabilities	(2.7)	-	(2.7)

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 28 April 2018.

	Level 2 £m	Level 3 £m	Total £m
Assets			
Financial derivatives	41.4	-	41.4
Available for sale financial assets			
Equity securities	-	2.7	2.7
Total assets	41.4	2.7	44.1
Liabilities			
Financial derivatives	(0.5)	-	(0.5)

There were no transfers between levels during the year ended 27 April 2019.

The table below provides a comparison of carrying amounts and fair values of all of the Group's financial instruments.

	Audited		Audited	
	Carrying value		Fair value	
	27 April 2019 £m	28 April 2018 £m	27 April 2019 £m	28 April 2018 £m
Financial assets				
Financial assets measured at fair value through other comprehensive income				
– Investments in equity instruments	-	2.7	-	2.7
Financial assets measured at fair value through profit or loss				
– Non-current assets				
– Other receivables	22.3	-	22.3	-
Financial assets measured at amortised cost				
– Non-current assets				
– Other receivables	12.3	0.2	12.3	0.2
– Current assets				
– Accrued income	32.9	45.4	32.9	45.4
– Trade receivables, net of impairment	36.6	105.2	36.6	105.2
– Other receivables	5.6	12.0	5.6	12.0
– Cash and cash equivalents	170.4	238.2	170.4	238.2
Total financial assets	280.1	403.7	280.1	403.7
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
– Current liabilities				
– Accruals	(0.7)	-	(0.7)	-
Financial liabilities measured at amortised cost				
– Non-current liabilities				
– Borrowings	(411.2)	(606.9)	(428.1)	(636.6)
– Current liabilities				
– Trade payables	(59.8)	(129.7)	(59.8)	(129.7)
– Accruals	(265.7)	(340.8)	(265.7)	(340.3)
– Loan from joint venture	(1.7)	(1.7)	(1.7)	(1.7)
– Loan from non-controlling interest	-	(16.5)	-	-
– Borrowings	(21.8)	(36.9)	(21.8)	(36.9)
Total financial liabilities	(760.9)	(1,132.5)	(777.8)	(1,145.2)
Net financial liabilities	(480.8)	(728.8)	(497.7)	(741.5)

Financial derivatives with bank counterparties are not shown in the above table.

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair values of financial assets and financial liabilities shown in the table are determined as follows:

- The £2.7m carrying value as at 28 April 2018 of equity investments was measured at cost, which based on then recent transactions was considered to be a reasonable approximation of fair value.
- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables (excluding the Deferred Payment Instrument) is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- A Deferred Payment Instrument was received as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of November 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business is unsecured and ranks behind all of their secured lenders. As a result the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £22.3m as at 27 April 2019.
- The carrying value of trade payables, accruals and loan from joint venture is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- Contractual arrangements in place regarding the £16.5m loan from a non-controlling interest and related accrued interest of £0.5m mean that the Directors considered as at 28 April 2018 that it was very unlikely that the counterparty would be able to recover any portion of the loan or that the Group would be required to repay that loan. In the year ended 27 April 2019, any loan amounts owed by the Group to the non-controlling interest have been released as described in note 19(vi).
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price at the balance sheet date.
- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate finance lease liabilities (included in borrowings as at 28 April 2018) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

13 RETIREMENT BENEFITS

The Group contributes to a number of pension schemes. The principal defined benefit occupational pension schemes are as follows:

- The Stagecoach Group Pension Scheme ("SPS");
- The South West Trains section of the Railways Pension Scheme ("RPS") although the Group's participation in that ceased in August 2017;
- The Island Line section of the Railways Pension Scheme ("RPS") although the Group's participation in that ceased in August 2017;
- The East Midlands Trains section of the Railways Pension Scheme ("RPS");
- The East Coast Main Line section of the Railways Pension Scheme ("RPS") although the Group's participation in that ceased in June 2018; and
- A number of UK Local Government Pension Schemes ("LGPS").

The Directors believe that separate consideration should be given to the RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the related rail franchises. In addition, under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of the RPS. The employees' share of the deficit (or surplus) is reflected as an adjustment to the RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of 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 "franchise adjustment" is the portion 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).

In addition, the Group contributed £45.7m (2018: £33.4m) to a number of defined contribution schemes in the year ended 27 April 2019.

13 RETIREMENT BENEFITS (CONTINUED)

The movements for the year ended 27 April 2019 in the net pre-tax retirement benefit liabilities recognised in the balance sheet were as follows:

	Audited					Total £m
	Funded schemes				Unfunded plans £m	
	SPS £m	RPS £m	LGPS £m	Other £m		
(Liability) / asset at beginning of year	(125.6)	4.2	(12.0)	(4.8)	(4.0)	(142.2)
Disposal of subsidiaries	-	-	-	1.7	-	1.7
Rail franchise charges	-	2.5	-	-	-	2.5
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 cost	(0.8)	(0.1)	-	-	-	(0.9)
Net interest expense	(3.8)	(1.9)	(0.3)	(0.2)	(0.1)	(6.3)
Unwinding of franchise adjustment	-	1.6	-	-	-	1.6
Employers' contributions and settlements	7.1	8.0	7.6	4.1	0.3	27.1
Recognised in the consolidated statement of comprehensive income	(36.5)	0.5	0.1	0.1	(0.4)	(36.2)
(Liability) / asset at end of year	(187.7)	1.8	(6.6)	(1.0)	(4.2)	(197.7)

The net liability shown above is presented in the consolidated balance sheet as:

	Audited As at 27 April 2019 £m	Audited As at 28 April 2018 £m
Retirement benefit asset	1.8	4.6
Retirement benefit obligations	(199.5)	(146.8)
Net retirement benefit liability	(197.7)	(142.2)

14 ORDINARY SHARE CAPITAL

At 27 April 2019, there were 576,099,960 ordinary shares in issue (2018: 576,099,960). This figure includes 3,458,907 (2018: 2,756,662) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

15 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED BY OPERATIONS

The operating profit of Group companies reconciles to cash generated by operations as follows:

	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Operating profit/(loss) of Group companies		
- Continuing operations	112.4	83.6
- Discontinued operations	(50.2)	21.4
	62.2	105.0
Intangible asset amortisation	9.6	12.7
Pre-exceptional depreciation	131.4	132.9
Impairment of property, plant and equipment	0.5	3.7
Impairment of intangible assets	-	0.8
Exceptional items (no cash effect)	95.1	47.8
EBITDA of Group companies before exceptional items	298.8	302.9
Loss/(gain) on disposal of plant and equipment	0.3	(3.2)
Non-exceptional equity-settled share based payment expense	1.4	1.2
Operating cashflows before working capital movements	300.5	300.9
Decrease in inventories	8.6	4.5
Decrease in receivables	46.4	203.2
Decrease in payables	(165.7)	(226.4)
Decrease in provisions	(56.2)	(84.7)
Differences between employer contributions and pre-exceptional pension expense in operating profit	(6.5)	10.4
Cash generated by operations	127.1	207.9

16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

The decrease in cash and cash equivalents reconciles to the movement in net debt as follows:

	Audited Year to 27 April 2019 £m	Audited Year to 28 April 2018 £m
Decrease in cash and cash equivalents	(70.5)	(73.9)
Cash flow from movement in borrowings	177.0	108.0
	106.5	34.1
Borrowings transferred on disposal of subsidiaries	54.4	-
New finance leases	(9.4)	(27.2)
Foreign exchange movements	(8.0)	7.6
Other movements	(1.0)	(0.9)
Decrease in net debt	142.5	13.6
Opening net debt	(395.8)	(409.4)
Closing net debt	(253.3)	(395.8)

During the year, the Group entered into finance lease arrangements in respect of new assets with a total capital value at inception of the contracts of £9.4m (2018: £27.2m), as a result of which new finance lease liabilities of £9.4m (2018: £27.2m) were recognised.

17 ANALYSIS OF NET DEBT

The analysis provided below shows the analysis of net debt as defined in note 22. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Audited						
	Opening £m	Cashflows £m	New finance leases £m	Foreign exchange movements £m	Disposal of subsidiaries £m	(Charged)/ credited to income statement £m	Closing £m
Cash and cash equivalents - other	219.7	(70.1)	-	2.7	-	-	152.3
Cash and cash equivalents – pledged as collateral	18.5	(0.4)	-	-	-	-	18.1
Cash at bank and in hand	238.2	(70.5)	-	2.7	-	-	170.4
Hire purchase and finance lease obligations	(71.7)	20.7	(9.4)	(3.3)	54.4	-	(9.3)
Bank loans and loan notes	(58.4)	40.2	-	-	-	-	(18.2)
Bonds and notes	(503.9)	116.1	-	(7.4)	-	(1.0)	(396.2)
Net debt	(395.8)	106.5	(9.4)	(8.0)	54.4	(1.0)	(253.3)
Accrued interest on bonds	(9.5)	20.9	-	-	-	(20.7)	(9.3)
Effect of fair value hedges	(0.3)	-	-	-	-	0.3	-
Net borrowings (IFRS)	(405.6)	127.4	(9.4)	(8.0)	54.4	(21.4)	(262.6)

The cash collateral balance as at 27 April 2019 of £18.1m (2018: £18.5m) comprises balances held in trust in respect of loan notes of £18.1m (2018: £18.1m) and North America restricted cash balances of £Nil (2018: £0.4m). In addition, cash includes train operating company cash of £121.6m (2018: £171.2m) of which £Nil (2018: £25.8m) is cash held by Virgin Trains East Coast that may only be used for innovation projects approved by the UK Department for Transport. Under the terms of the franchise agreements, other than with the Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach any franchise liquidity ratios.

18 COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

Capital commitments contracted for the purchase of property, plant and equipment but not provided for at 27 April 2019 were £61.3m (2018: £61.2m).

(ii) Rail bonds

At 27 April 2019, the Group has provided performance bonds backed by insurance arrangements of £10.0m (2018: £15.0m) and season ticket bonds backed by bank facilities or insurance arrangements of £7.5m (2018: £12.3m) to the Department for Transport in relation to the Group's rail franchise operations. Liabilities for deferred season ticket income, which the season ticket bonds are intended to cover, are reflected in the consolidated balance sheet. In addition, provision was made in the consolidated balance sheet as at 28 April 2018 in respect of the £21.0m Virgin Trains East Coast performance bond.

(iii) Legal actions

On 27 February 2019, class action proceedings were filed with the UK Competition Appeal Tribunal ("CAT") against Stagecoach South Western Trains Limited ("SSWT"), a subsidiary of the Company that formerly operated train services under franchise. The claimant has applied to the CAT for a collective proceedings order, which, if it were granted, would allow his claim to proceed to a full trial. Equivalent claims have been brought against First MTR South Western Trains Limited, which succeeded SSWT as the operator of the South Western franchised train services, and London & South Eastern Railway. It is alleged that SSWT and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for Transport for London ("TfL") Travelcard holders wishing to travel outside TfL fare zones. The proposed claim seeks compensation for all those who have allegedly been affected by the train operating companies' allegedly anti-competitive behaviour. The total sought across the three defendants is around £93m. SSWT is arguing against the granting of a collective proceedings order. No provision is held as at 27 April 2019 (2018: £Nil) in respect of this matter.

The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 27 April 2019, the accruals in the consolidated financial statements for such claims total £6.4m (2018: £2.7m).

18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(iv) *Contingent liabilities re former North America Division*

The Group sold its North American business in April 2019. The Group provided warranties and indemnities in connection with the sale, under which the Purchaser can, in certain circumstances, make claims against the Group. Except for matters for which liabilities are recorded in the consolidated balance sheet, no claims have been notified to the Group or are expected by the Group under those warranties and indemnities. In addition, the Group has the following contingent liabilities in respect of its former North American business:

- The North American business receives claims in respect of traffic incidents and employee incidents. It protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies (the "Uninsured Element"). The North America business is liable for costs of settling the Uninsured Element of claims. In the event that the business was unable to meet its liabilities for claims then the insurers would be responsible for meeting those liabilities for the Uninsured Element of claims. To protect themselves against that risk (being, essentially the credit risk of the North America business), the insurers demand collateral typically in the form of letters of credit and guarantees. In connection with the sale of the North America business, the Group agreed to continue to arrange the letters of credit required by the insurers in respect of claims relating to periods ending on or before April 2019. The Group indemnifies the banks that issue those letters of credit against any losses suffered by the banks. The Group has also provided continuing guarantees to the insurers in respect of claims relating to periods ending on or before 31 July 2019. As at 27 April 2019, the North America business had provided for £68.2m in respect of claims to which the letters of credit and Stagecoach Group guarantees would apply and for which no liability is reflected in the consolidated balance sheet (2018: £Nil).
- The Group continues to guarantee the North American business' obligations under certain vehicle lease arrangements. The estimated amount guaranteed by the Group in respect of such arrangements as at 27 April 2019 for which no liability is reflected in the consolidated balance sheet was £1.5m (2018: £Nil).

19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the year ended 27 April 2019 are provided below, except for those relating to the remuneration of the Directors and management.

(i) *Virgin Rail Group Holdings Limited - Non-Executive Directors*

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 27 April 2019, the Group earned fees of £248,000 (2018: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 27 April 2019, the Group had £135,500 (2018: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £1.4m (2018: £Nil) from the group headed by Virgin Rail Group Holdings Limited and as at 27 April 2019 had £0.4m (2018: £Nil) payable in this respect.

(ii) *West Coast Trains Limited*

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see above). In the year ended 27 April 2019, East Midlands Trains Limited (a subsidiary of the Company) had purchases totalling £0.3m (2018: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were £0.5m (2018: immaterial). The outstanding amounts payable as at 27 April 2019 and 28 April 2018 were immaterial.

During the year ended 27 April 2019, Stagecoach South Western Trains Limited (a subsidiary of the Company) sold services of £Nil (2018: £0.1m) to West Coast Trains Limited and as at 27 April 2019, had £Nil receivable in respect of this (2018: £Nil).

(iii) *Alexander Dennis Limited*

Until May 2019 when they sold their holdings, Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively held, via companies that they control, 55.1% (2018: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director) was a director of its holding company until 3 January 2019) controlled a further 33.2% (2018: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown was a director of Alexander Dennis Limited nor did they have any involvement in the management of Alexander Dennis Limited. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 27 April 2019, the Group purchased £61.7m (2018: £63.5m) of vehicles from Alexander Dennis Limited and £26.2m (2018: £13.9m) of spare parts and other services. As at 27 April 2019, the Group had £0.2m (2018: £0.5m) payable to Alexander Dennis Limited, along with outstanding orders of £59.9m (2018: £28.9m).

19 RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) *Pension Schemes*

Details of contributions made to pension schemes are contained in note 13.

(v) *Scottish Citylink Coaches Limited*

A non-interest bearing loan of £1.7m (2018: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 27 April 2019. The Group earned £20.5m in the year ended 27 April 2019 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2018: £18.0m). The Group also collected revenue of £17.5m on behalf of Scottish Citylink Coaches Limited in the year ended 27 April 2019 (2018: £18.0m). As at 27 April 2019, the Group had a net £1.5m payable (2018: £0.4m receivable) to Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) *East Coast Main Line Company Limited*

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and entered into various arm's length transactions with other Group companies.

In the year ended 27 April 2019, other Group companies earned £3.0m (2018: £20.1m) from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services. Other Group companies had a net payable to East Coast Main Line Company Limited of £0.3m as at 27 April 2019 (2018: receivable of £1.5m).

As previously reported, an inter-company loan was provided by Stagecoach Group plc to East Coast Main Line Company Limited but as at 28 April 2018, the loan was not expected to be recovered by Stagecoach Group plc and provision was made against the full receivable in the separate financial statements of the parent company. A loan from Virgin Holdings Limited to Stagecoach Group plc, and the related accrued interest, was only repayable by Stagecoach Group plc to the extent of 10% of any amounts recovered by Stagecoach Group plc of its loan to East Coast Main Line Company Limited. During the year ended 27 April 2019, Stagecoach Group plc settled its loan amount due to Virgin Holdings Limited through the assignment of 10% of its receivable due from East Coast Main Line Company Limited. As East Coast Main Line Company Limited was unable to settle any of the loans, all amounts were treated as irrecoverable and released on cessation of the Virgin Trains East Coast franchise. Furthermore, Stagecoach Group plc paid £21.0m to the Department for Transport in respect of the Virgin Trains East Coast performance bond, of which £2.1m was funded by a payment to Stagecoach Group plc from Virgin Holdings Limited in respect of its 10% share. The £19.1m effect of the payment from Virgin Holdings Limited in respect of the bond and the release of its loan to East Coast Main Line Company Limited is shown in the Consolidated Statement of Changes in Equity as part of shareholder transactions with non-controlling interest. In addition, Stagecoach Group plc paid £1.7m to Virgin Holdings Limited in the year ended 27 April 2019 in relation to the East Coast Main Line Company Limited and the end of its franchise and had a payable of £0.6m as at 27 April 2019 (2018: £Nil) in respect of that. Stagecoach Group plc had an outstanding receivable of £Nil as at 27 April 2019 in respect of its loan to East Coast Main Line Company Limited (2018: £165.0m). The interest receivable on the loan for the year ended 27 April 2019 was £Nil (2018: £3.4m) and the accrued interest outstanding at 27 April 2019 was £Nil (2018: £4.9m). Related to that, the Group had an outstanding payable for £Nil as at 27 April 2019 in respect of the loan from Virgin Holdings Limited (2018: £16.5m) and the accrued interest outstanding at 27 April 2019 was £Nil (2018: £0.5m).

20 POST BALANCE SHEET EVENTS

Details of the final dividend proposed are given in note 6.

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In the period since the balance sheet date, from 28 April 2019 to 24 June 2019 inclusive, the Group has purchased 6,529,996 of its ordinary shares under that programme at a total cost of £8.5m. The shares are held in treasury.

21 STATUTORY FINANCIAL STATEMENTS

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 27 April 2019 within the meaning of section 434 of the Companies Act 2006 and has been extracted from the full financial statements for the years ended 27 April 2019 and 28 April 2018 respectively.

Statutory financial statements for the year ended 28 April 2018, which received an unqualified audit report, have been delivered to the Registrar of Companies.

21 STATUTORY FINANCIAL STATEMENTS (CONTINUED)

The reports of the auditors on the financial statements for each of the years ended 28 April 2018 and 27 April 2019 were unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006. The financial statements for the year ended 27 April 2019 will be delivered to the Registrar of Companies and made available to all shareholders in due course. These financial statements will also be available on the Group's website and from the registered office of the Company at 10 Dunkeld Road, Perth PH1 5TW.

The Board of Directors approved this announcement on 26 June 2019.

22 DEFINITIONS

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 27 April 2019 and for comparative amounts shown in this document for prior years.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding non-software intangible asset amortisation and exceptional items, by the basic weighted average number of shares in issue in the year.

For the year ended 27 April 2019 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance pre intangibles (exc software) and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 7 to the condensed 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 those are calculated are also provided in note 7.

Like-for-like amounts

Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year amount for those businesses and individual operating units that have been part of the Group throughout both years.

Like-for-like revenue growth for the year ended 27 April 2019 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each continuing segment is shown in note 3(a) to the condensed financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

		Reported revenue	Exclude effect of business closed	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	1,043.3	(1.6)	-	1,041.7
UK Bus (London)	£m	252.8	-	-	252.8
UK Rail	£m	589.5	-	(145.4)	444.1

		Reported revenue (restated)	Exclude effect of business closed	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	1,013.8	(6.7)	-	1,007.1
UK Bus (London)	£m	251.8	-	-	251.8
UK Rail	£m	1,556.0	-	(1,121.9)	434.1

The figures above for the year to 28 April 2018 have been restated to reflect the application of IFRS 15 (see note 1).

22 DEFINITIONS (CONTINUED)

Operating profit

Operating profit for the Group as a whole is profit before non-operating exceptional items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group's share of joint ventures' profit/loss after taxation. For continuing operations, both total 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 division within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, non-software intangible asset amortisation, exceptional items and restructuring costs. The operating profit (or loss) for each continuing segment is directly identifiable from note 3(b) to the condensed financial statements and for discontinued operations from note 5.

Operating margin

Operating margin for a particular business unit or division within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from the financial statements – see notes 3(a), 3(b) and 5 to the condensed financial statements. The revenue, operating profit (or loss) and operating margin for each continuing segment are also shown on page 5 of this document.

Pre-exceptional EBITDA

Pre-exceptional EBITDA is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items.

A reconciliation of pre-exceptional EBITDA for the year ended 27 April 2019, and the comparative prior year, to the financial statements is shown on page 11 of this document.

EBITDA from Group companies before exceptional items

EBITDA from Group companies before exceptional items is earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit from joint ventures).

EBITDA from Group companies before exceptional items is directly identifiable from the financial statements – see note 15 to the condensed financial statements.

Net finance charges

Net finance charges are finance costs less finance income, each as shown on the face of the consolidated income statement for continuing operations and in note 5 for discontinued operations.

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude accrued interest and the effect of fair value hedges on the carrying value of borrowings.

The components of gross debt are shown in note 17 to the condensed financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net debt

Net debt (or net funds) is the net of cash/cash equivalents and gross debt (see above).

The components of net debt are shown in note 17 to the condensed financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment on net debt. Its reconciliation to the consolidated financial statements is explained on page 13 of this document.

22 DEFINITIONS (CONTINUED)

(b) Other definition

The following other definition is also used in this document:

Exceptional items

Exceptional items means items which individually or, if of a similar type, in aggregate need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.