

## Stagecoach Group plc – Preliminary results for the year ended 2 May 2020

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

### Financial summary

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

<sup>+</sup> See definitions in note 22 to the condensed financial statements.

### Financial highlights – 53 weeks ended 2 May 2020

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

### Operational highlights

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

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

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

**Martin Griffiths, Stagecoach Group Chief Executive, said:**

"We have achieved a creditable set of financial results in what has been one of the most challenging and sobering periods for citizens, communities and economies across the globe in living memory.

"Throughout these difficult times, our priority has firmly remained the safety and wellbeing of our people and our customers and protecting the long-term sustainability of our business. We are proud of the incredible response of our people and other key workers to the COVID-19 pandemic and the part they have played in getting the country through the worst. Our thoughts are with the families of our transport colleagues and others who we have lost to COVID-19.

"Prior to the COVID-19 pandemic, the business was on track to meet its expectations for the full year. We made good progress in delivering on our three key strategic objectives: to maximise our core business potential, manage change through our people and technology, and grow by diversifying, while maintaining our relentless focus on safety and customer service.

"In responding to the more recent global challenges, we have taken decisive action so that the business remains in as strong a position as possible and well placed to secure the significant long-term opportunities we see for public transport.

"Supportive short-term actions by government and our local authority partners have helped protect public transport networks, which are critical to the country. We have also been encouraged by the good momentum created by the positive direction of government bus policy and investment.

"Despite recent events, it is critical that all partners continue to work together to prioritise better mobility, maintain the cleaner air and take action to protect the future of our planet as part of the plan for global recovery. We are ready and committed to play our part in creating further value for our investors, customers, employees, communities and the environment."

ENDS

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A pre-recorded presentation in relation to the results announcement will be available from 7:30am on 22 July 2020 at:

<https://www.investis-live.com/stagecoach/5ef1fea57b676e1e00c1e404/elele>

**Notes to editors**

**Stagecoach Group**

- Stagecoach is a leading public transport company, with operations in England, Scotland and Wales.
- We employ around 25,000 people and operate more than 8,300 buses, coaches and trams.
- Stagecoach is Britain's biggest bus and coach operator and it runs the Supertram light rail network in Sheffield.

## **Preliminary management report for the year ended 2 May 2020**

The Directors of Stagecoach Group plc are pleased to present their report on the Company for the year ended 2 May 2020.

### **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”.

### **Overview**

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

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

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

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

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

### **Financial results**

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

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

### **Dividend**

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

## Business strategy

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

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

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

## Transport policy

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

## UK franchised rail market

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

## Funding

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

## Our people

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

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

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

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

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

## Outlook

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

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

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

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

## Summary of financial results

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

### REVENUE – CONTINUING OPERATIONS

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

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

### OPERATING PROFIT – CONTINUING OPERATIONS

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

## Strategic and operating review

### Strategic background and market environment

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

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

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

### Supporting our economy and communities

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

### A more sustainable alternative

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

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

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

## Safety always

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

## COVID-19 impact and response

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

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

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

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

uncertainty in estimating our income for the year ended 2 May 2020 and thereafter.

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

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

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

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

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

## **Strategic objectives and initiatives**

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

## Maximise our core business' potential

### *Maintaining high customer satisfaction*

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

All our customers' claims for refunds related to COVID-19 have been fulfilled.

### *Value travel*

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

### *Multi-journey fares capping*

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

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

### *New bus and coach services*

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

A new partnership between Stagecoach East Midlands and Sherwood Forest NHS Foundation Trust will provide employees with more than 30% off bus travel when they

join the 'smartcommute' scheme. The scheme aims to collaborate with businesses in the region to provide a viable cost-effective bus travel option which will help reduce road congestion, pollution and car parking issues. It has already been successfully implemented with several employers.

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

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

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

### *Corporate sales*

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

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

### *Brand and marketing*

In early 2020, we launched a new brand and associated values as part of a wider commitment to simplify, modernise and enhance the customer experience. It includes a new design for our buses based on customer research around what would make people use public transport more regularly. The findings highlighted that 69% of customers often found it confusing to find the bus they wanted, with a further 37% stating they would use the bus more often if it was simpler and more modern. We have introduced a simplified colour coded

service offer - Local, Longer, and Specialist - to reflect the types of journeys our customers make. Under the banner "Proud to Serve", the changes are designed to complement the multi-million-pound investments we are making in greener buses, smart technology, and better journeys. By increasing brand awareness and relevance and implementing a coordinated marketing and customer strategy, we can improve the end-to-end customer experience and increase our passenger revenue through modal shift. Our marketing activity has tended to be driven and focused locally. While we intend to continue with our local marketing activity, we see significant potential from complementing that with centrally coordinated branding and marketing activity, optimising our position as the UK's largest bus and coach operator. We have been encouraged by the returns on investment that we have achieved from initial central marketing activity during 2019 and are looking to build on that. Our plans include a mix of short-term tactical marketing activity to drive near term sales, as well as generating long-term revenue and profit growth through brand building. We previously reported our intention to increase marketing spend from c.£8m per annum to c.£13m per annum to target passenger revenue growth. We continue to see an opportunity from this element of our strategy and, while the phasing has been changed and some initiatives put on hold as a result of the COVID-19 pandemic, we plan to revisit these.

#### *Government bus policy and investment*

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

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

We are progressing, with bus operator partners, a bold new industry strategy to work with local and central government to get a billion more passenger journeys by bus in England by 2030. It would see every new bus being an ultra-low or zero emission vehicle from 2025. Job seekers and apprentices would benefit from reduced travel costs. Price-capped daily and weekly tickets across multiple operators would mean simpler ticketing for people in urban areas. The industry has

also pledged to work with government to develop innovative, sustainable transport solutions in rural areas that have been heavily impacted by public sector cuts in recent years.

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

#### *Regulatory developments*

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

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

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

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

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

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

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

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

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

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

### *London bus market*

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

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

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

### Manage change through our people and technology

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

### *Investing in our people*

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

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

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

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

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

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

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

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

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

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

## Grow by diversifying

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

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

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

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

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

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

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

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

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

## Financial Review

### UK Bus (regional operations)

#### Summary

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

#### Financial performance

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

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

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

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

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

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

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

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

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

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

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

The movement in operating margin was built up as follows:

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

The main changes in the operating margin shown above are:

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

\* see definitions in note 22 to the condensed financial statements

## Outlook

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

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

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

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

## UK Bus (London)

### Summary

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

### Financial performance

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

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

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

prior year, reflecting favourable service performance and fewer roadworks on our routes.

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

The increase in operating margin was built up as follows:

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

The main changes in the operating margin shown above are:

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

## Outlook

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

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

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

## UK Rail

### Summary

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

### Financial performance

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

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

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

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

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

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

## Outlook

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

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

## Virgin Rail Group

### Summary

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

### Financial performance

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

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

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

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

### Adjusted EBITDA, depreciation and intangible asset amortisation

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

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

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

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

#### Separately disclosed items

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

#### Non-software intangible asset amortisation

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

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

#### Re-organisation costs

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

#### Asset impairment and onerous contract provision

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

#### Discontinued fuel hedges

The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed government advice to avoid all but essential travel in light of the COVID-19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable and hedge accounting was discontinued in mid-March 2020 for certain of the fuel hedges covering the period from mid-March 2020 to April 2021. Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement expense of £12.9m for that, and subsequent movements in the fair value of fuel derivatives that are no longer effective hedges, has been presented as a separately disclosed item.

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

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

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

#### Tax credit

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

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

## Net finance costs

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

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

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

## Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax from continuing operations in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge from continuing operations including our share of joint ventures' tax relative to the Group's profit before tax from continuing operations excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 2 May 2020, excluding separately disclosed items, was 21.1% (2019: 20.0%).

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

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

The effective tax rate on profit from continuing operations, excluding separately disclosed items, of 21.1% is higher than the 19.0% rate of UK corporation tax for the year, principally due to the revaluation of deferred tax balances following the reversal of the UK corporation tax rate reduction from 19.0% to 17.0%. Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to expected corporate tax rates or laws in the UK, we expect the Group's future effective tax rate (excluding separately disclosed items) to be between 18.0% and 20.0%.

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

The areas where the Group sees greatest uncertainty around the amount of tax that is payable relate to the financing of, and transactions with, overseas operations. Liabilities of £10.7m are held as at 2 May 2020 (2019: £13.3m) in respect of these uncertain tax positions. The liabilities include amounts in respect of the legacy financing of overseas operations, whereby the Group has benefitted from the Finance Company Exemption contained in UK Controlled Foreign Company legislation. Whilst the Group has complied with all the requirements of UK tax law, the European Commission has confirmed its view that the UK exemptions are partly contrary to European Union State Aid rules. On 13 June 2019, Her Majesty's Revenue and Customs ("HMRC") applied to annul the decision of the European Commission, and in November 2019, the Group, in line with a number of UK corporates, made a similar appeal.

## Cash flows and net debt

Consolidated net debt (as analysed in note 17 to the condensed financial statements) has, as expected, increased from 27 April 2019, reflecting the impact of adopting the new lease accounting standard, IFRS 16, the effect of share buy-backs, the transfer of cash following the expiry of the East Midlands Trains franchise and additional capital investment, partly offset by continued cash generation from other operations.

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

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

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

Year to 2 May 2020

|                                                          | £m      |
|----------------------------------------------------------|---------|
| Net cash flows from operating activities before taxation | 164.6   |
| Investing activities                                     | (111.7) |
| Financing activities                                     | (61.8)  |
| Other                                                    | (0.9)   |
| Movement in net debt                                     | (9.8)   |
| Opening net debt                                         | (253.3) |
| Adoption of IFRS 16                                      | (89.0)  |
| Closing net debt                                         | (352.1) |

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

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

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

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

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

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

### Financial position and liquidity

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

- We continue to have available liquidity of over £800m. We monitor our liquidity and cash flow daily.

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

Since our regulatory announcement of 28 May 2020, we have seen further positive cash flow (excluding movements in borrowings) of approximately £26m. As at 20 July 2020, our consolidated liquidity position was as follows:

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

### Year-end financial position of the Group

#### Net (liabilities)/assets

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

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

#### Retirement benefits

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

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

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

#### Dividend policy

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

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

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

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

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

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In line with the Company's strong capital discipline, the Board decided in October 2019 to conclude the programme when around £30m of shares had been bought back. The Board was by then satisfied that the programme had largely achieved its objective of making appropriate use of the Group's cash,

whilst retaining a good financial position and maintaining an investment grade credit rating. The Group concluded the programme on 9 October 2019 having invested £30.4m under the programme in acquiring a total of 23,086,035 ordinary shares. The shares are held in treasury.

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

#### **Adoption of new accounting standard for leases**

The Group has adopted International Financial Reporting Standard 16 ("IFRS 16"), Leases, with effect from 28 April 2019. The 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 the impact on the 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 2019 Annual Report set out specific risks and uncertainties in more detail. Further information and updates will be provided in the 2020 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 effects of the COVID-19 situation and the 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.

- 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. It is likely that COVID-19 will accelerate trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram, there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.
- 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. The extent to which COVID-19 related payments from government continue will affect the Group's future profitability and cash flow.
- People and culture - There is a risk that the Group is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision-making.
- Disease – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. This was identified by the Board as a principal risk some years ago but the COVID-19 situation is a clear and substantial crystallisation of the risk.
- 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.
- Climate change – we see public transport as a critical part of the battle against climate change. At the same time, we recognise that climate change presents a number of risks to the Group.
- 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, adjusted EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance 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 at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the year ended 2 May 2020. Although the COVID-19 situation has increased the level of uncertainty facing the Group, we have not identified a material uncertainty regarding the Group's ability to continue as a going concern for at least the next 12 months. Further details of our going concern and longer term viability assessments will be provided in our 2020 Annual Report. As explained in note 21 to the condensed financial statements, the report of the auditors on the financial statements for the year ended 2 May 2020 was unqualified.

## Outlook

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

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

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

**Martin Griffiths**  
**Chief Executive**  
**22 July 2020**

**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, regulatory and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. The ongoing COVID-19 situation means that the level of forward-looking uncertainty is higher than usual. 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 2 May 2020                                     |                                           |                            | Year to 27 April 2019                                  |                                           |                            |
|                                                                                                          | Notes | Performance excluding separately disclosed items<br>£m | Separately disclosed items (note 4)<br>£m | Results for the year<br>£m | Performance excluding separately disclosed items<br>£m | Separately disclosed items (note 4)<br>£m | Results for the year<br>£m |
| <b>CONTINUING OPERATIONS</b>                                                                             |       |                                                        |                                           |                            |                                                        |                                           |                            |
| Revenue                                                                                                  | 3(a)  | 1,417.6                                                | -                                         | 1,417.6                    | 1,878.9                                                | -                                         | 1,878.9                    |
| Operating costs and other operating income                                                               |       | (1,315.5)                                              | (32.5)                                    | (1,348.0)                  | (1,740.9)                                              | (25.6)                                    | (1,766.5)                  |
| <b>Operating profit of Group companies</b>                                                               | 3(b)  | <b>102.1</b>                                           | <b>(32.5)</b>                             | <b>69.6</b>                | 138.0                                                  | (25.6)                                    | 112.4                      |
| Share of profit of joint ventures after finance costs, finance income and taxation                       | 3(c)  | 17.6                                                   | -                                         | 17.6                       | 23.3                                                   | -                                         | 23.3                       |
| <b>Total operating profit: Group operating profit and share of joint ventures' profit after taxation</b> | 3(b)  | <b>119.7</b>                                           | <b>(32.5)</b>                             | <b>87.2</b>                | 161.3                                                  | (25.6)                                    | 135.7                      |
| Finance income                                                                                           |       | 0.9                                                    | -                                         | 0.9                        | 1.5                                                    | -                                         | 1.5                        |
| Finance costs                                                                                            |       | (29.7)                                                 | (17.8)                                    | (47.5)                     | (29.9)                                                 | (6.1)                                     | (36.0)                     |
| <b>Profit before taxation</b>                                                                            |       | <b>90.9</b>                                            | <b>(50.3)</b>                             | <b>40.6</b>                | 132.9                                                  | (31.7)                                    | 101.2                      |
| Taxation                                                                                                 |       | (16.0)                                                 | 12.8                                      | (3.2)                      | (22.0)                                                 | 22.5                                      | 0.5                        |
| <b>Profit from continuing operations</b>                                                                 |       | <b>74.9</b>                                            | <b>(37.5)</b>                             | <b>37.4</b>                | 110.9                                                  | (9.2)                                     | 101.7                      |
| <b>DISCONTINUED OPERATIONS</b>                                                                           |       |                                                        |                                           |                            |                                                        |                                           |                            |
| (Loss)/profit after taxation for the year from discontinued operations                                   | 5     | -                                                      | (1.3)                                     | (1.3)                      | 15.5                                                   | (93.6)                                    | (78.1)                     |
| <b>TOTAL OPERATIONS</b>                                                                                  |       |                                                        |                                           |                            |                                                        |                                           |                            |
| <b>Total profit for the year</b>                                                                         |       | <b>74.9</b>                                            | <b>(38.8)</b>                             | <b>36.1</b>                | 126.4                                                  | (102.8)                                   | 23.6                       |
| <b>Attributable to:</b>                                                                                  |       |                                                        |                                           |                            |                                                        |                                           |                            |
| Equity holders of the parent                                                                             |       | 74.9                                                   | (39.1)                                    | 35.8                       | 126.4                                                  | (104.8)                                   | 21.6                       |
| Non-controlling interest                                                                                 |       | -                                                      | 0.3                                       | 0.3                        | -                                                      | 2.0                                       | 2.0                        |
|                                                                                                          |       | 74.9                                                   | (38.8)                                    | 36.1                       | 126.4                                                  | (102.8)                                   | 23.6                       |
| <b>EARNINGS PER SHARE</b>                                                                                |       |                                                        |                                           |                            |                                                        |                                           |                            |
| <b>Continuing operations</b>                                                                             |       |                                                        |                                           |                            |                                                        |                                           |                            |
| Adjusted basic / Basic                                                                                   | 7     | 13.5p                                                  |                                           | 6.7p                       | 19.3p                                                  |                                           | 17.4p                      |
| Adjusted diluted / Diluted                                                                               | 7     | 13.4p                                                  |                                           | 6.6p                       | 19.2p                                                  |                                           | 17.3p                      |
| <b>Discontinued operations</b>                                                                           |       |                                                        |                                           |                            |                                                        |                                           |                            |
| Adjusted basic / Basic                                                                                   | 7     | -                                                      |                                           | (0.2)p                     | 2.7p                                                   |                                           | (13.6)p                    |
| Adjusted diluted / Diluted                                                                               | 7     | -                                                      |                                           | (0.2)p                     | 2.7p                                                   |                                           | (13.5)p                    |
| <b>Total operations</b>                                                                                  |       |                                                        |                                           |                            |                                                        |                                           |                            |
| Adjusted basic / Basic                                                                                   | 7     | 13.5p                                                  |                                           | 6.4p                       | 22.1p                                                  |                                           | 3.8p                       |
| Adjusted diluted / Diluted                                                                               | 7     | 13.4p                                                  |                                           | 6.4p                       | 21.9p                                                  |                                           | 3.7p                       |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                                                                                                  | Audited<br>Year to<br>2 May 2020<br>£m | Audited<br>Year to<br>27 April 2019<br>£m |
|--------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------|
| <b>Profit for the year</b>                                                                       | <b>36.1</b>                            | <b>23.6</b>                               |
| <b>Items that may be reclassified to profit or loss</b>                                          |                                        |                                           |
| <b>Continuing operations</b>                                                                     |                                        |                                           |
| Cashflow hedges:                                                                                 |                                        |                                           |
| - Net fair value (losses)/gains on cash flow hedges                                              | (71.0)                                 | 16.6                                      |
| - Reclassified and reported in profit for the year                                               | 4.9                                    | (27.3)                                    |
| - Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax           | (0.2)                                  | (0.4)                                     |
| - Tax effect of cash flow hedges                                                                 | 12.4                                   | 2.1                                       |
| <b>Discontinued operations</b>                                                                   |                                        |                                           |
| Cashflow hedges:                                                                                 |                                        |                                           |
| - Net fair value losses on cash flow hedges                                                      | -                                      | (0.1)                                     |
| - Reclassified and reported in profit for the year                                               | -                                      | (3.2)                                     |
| - Tax effect of cash flow hedges                                                                 | -                                      | 0.6                                       |
| Foreign exchange differences on translation of foreign operations (net of hedging)               |                                        |                                           |
| - Foreign exchange differences arising in year                                                   | -                                      | 5.7                                       |
| - Reclassified and reported in profit for the year                                               | -                                      | (8.6)                                     |
| <b>Total items that may be reclassified to profit or loss</b>                                    | <b>(53.9)</b>                          | <b>(14.6)</b>                             |
| <b>Items that will not be reclassified to profit or loss</b>                                     |                                        |                                           |
| <b>Continuing operations</b>                                                                     |                                        |                                           |
| Actuarial losses on Group defined benefit pension schemes                                        | (220.1)                                | (36.0)                                    |
| Tax effect of actuarial losses on Group defined benefit pension schemes                          | 45.7                                   | 6.2                                       |
| Share of actuarial gains/(losses) on joint ventures' defined benefit pension schemes, net of tax | 6.3                                    | (2.8)                                     |
| Net loss on equity instruments designated at fair value through other comprehensive income       | -                                      | (2.7)                                     |
| <b>Discontinued operations</b>                                                                   |                                        |                                           |
| Actuarial losses on Group defined benefit pension schemes                                        | -                                      | (0.2)                                     |
| <b>Total items that will not be reclassified to profit or loss</b>                               | <b>(168.1)</b>                         | <b>(35.5)</b>                             |
| <b>Other comprehensive expense for the year</b>                                                  | <b>(222.0)</b>                         | <b>(50.1)</b>                             |
| <b>Total comprehensive expense for the year</b>                                                  | <b>(185.9)</b>                         | <b>(26.5)</b>                             |
| <b>Attributable to:</b>                                                                          |                                        |                                           |
| Equity holders of the parent                                                                     | (186.2)                                | (28.5)                                    |
| Non-controlling interest                                                                         | 0.3                                    | 2.0                                       |
|                                                                                                  | <b>(185.9)</b>                         | <b>(26.5)</b>                             |

# CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

|                                                |       | Audited        | Audited        |
|------------------------------------------------|-------|----------------|----------------|
|                                                |       | As at          | As at          |
|                                                |       | 2 May 2020     | 27 April 2019  |
|                                                | Notes | £m             | £m             |
| <b>ASSETS</b>                                  |       |                |                |
| <b>Non-current assets</b>                      |       |                |                |
| Goodwill                                       | 8     | 51.9           | 51.2           |
| Other intangible assets                        | 9     | 9.5            | 9.7            |
| Property, plant and equipment                  | 10    | 914.9          | 834.0          |
| Interests in joint ventures                    | 11    | 16.3           | 19.9           |
| Deferred tax asset                             |       | 33.3           | -              |
| Derivative instruments at fair value           |       | -              | 14.2           |
| Retirement benefit asset                       | 13    | -              | 1.8            |
| Other receivables                              |       | 24.8           | 34.6           |
|                                                |       | 1,050.7        | 965.4          |
| <b>Current assets</b>                          |       |                |                |
| Inventories                                    |       | 8.8            | 14.3           |
| Trade and other receivables                    |       | 106.4          | 133.3          |
| Derivative instruments at fair value           |       | 2.9            | 13.5           |
| Cash and cash equivalents                      |       | 348.3          | 170.4          |
|                                                |       | 466.4          | 331.5          |
| <b>Total assets</b>                            | 3(d)  | <b>1,517.1</b> | <b>1,296.9</b> |
| <b>LIABILITIES</b>                             |       |                |                |
| <b>Current liabilities</b>                     |       |                |                |
| Trade and other payables                       |       | 303.7          | 392.6          |
| Current tax liabilities                        |       | 11.0           | 19.0           |
| Borrowings                                     |       | 42.5           | 21.8           |
| Derivative instruments at fair value           |       | 38.6           | 0.2            |
| Deferred tax liabilities                       |       | -              | 0.2            |
| Provisions                                     |       | 51.9           | 36.8           |
|                                                |       | 447.7          | 470.6          |
| <b>Non-current liabilities</b>                 |       |                |                |
| Other payables                                 |       | 10.0           | 4.5            |
| Borrowings                                     |       | 667.5          | 411.2          |
| Derivative instruments at fair value           |       | 26.6           | 1.8            |
| Deferred tax liabilities                       |       | -              | 13.7           |
| Provisions                                     |       | 82.4           | 67.2           |
| Retirement benefit obligations                 | 13    | 413.1          | 199.5          |
|                                                |       | 1,199.6        | 697.9          |
| <b>Total liabilities</b>                       | 3(d)  | <b>1,647.3</b> | <b>1,168.5</b> |
| <b>Net (liabilities)/assets</b>                | 3(d)  | <b>(130.2)</b> | <b>128.4</b>   |
| <b>EQUITY</b>                                  |       |                |                |
| Ordinary share capital                         | 14    | 3.2            | 3.2            |
| Share premium account                          |       | 8.4            | 8.4            |
| Retained earnings                              |       | (460.1)        | (285.4)        |
| Capital redemption reserve                     |       | 422.8          | 422.8          |
| Own shares                                     |       | (69.6)         | (39.4)         |
| Cash flow hedging reserve                      |       | (34.9)         | 18.8           |
| <b>Total equity attributable to the parent</b> |       | <b>(130.2)</b> | <b>128.4</b>   |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                   |       | Ordinary<br>share<br>capital | Share<br>premium<br>account | Retained<br>earnings | Capital<br>redemption<br>reserve | Own<br>shares | Translation<br>reserve | Cash flow<br>hedging<br>reserve | Total equity<br>attributable<br>to parent | Non-<br>controlling<br>interest | Total equity |
|-----------------------------------------------------------------------------------|-------|------------------------------|-----------------------------|----------------------|----------------------------------|---------------|------------------------|---------------------------------|-------------------------------------------|---------------------------------|--------------|
|                                                                                   | Notes | £m                           | £m                          | £m                   | £m                               | £m            | £m                     | £m                              | £m                                        | £m                              | £m           |
| <b>As at 28 April 2018</b>                                                        |       | 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)       |
| <b>Total comprehensive (expense) / income</b>                                     |       | -                            | -                           | (14.3)               | -                                | -             | (2.9)                  | (11.3)                          | (28.5)                                    | 2.0                             | (26.5)       |
| Own ordinary shares purchased into treasury                                       |       | -                            | -                           | -                    | -                                | (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)       |
| <b>As at 27 April 2019</b>                                                        |       | 3.2                          | 8.4                         | (285.4)              | 422.8                            | (39.4)        | -                      | 18.8                            | 128.4                                     | -                               | 128.4        |
| Profit for the year                                                               |       | -                            | -                           | 35.8                 | -                                | -             | -                      | -                               | 35.8                                      | 0.3                             | 36.1         |
| Other comprehensive expense, net of tax                                           |       | -                            | -                           | (168.3)              | -                                | -             | -                      | (53.7)                          | (222.0)                                   | -                               | (222.0)      |
| <b>Total comprehensive (expense) / income</b>                                     |       | -                            | -                           | (132.5)              | -                                | -             | -                      | (53.7)                          | (186.2)                                   | 0.3                             | (185.9)      |
| Own ordinary shares purchased into treasury                                       |       | -                            | -                           | -                    | -                                | (30.2)        | -                      | -                               | (30.2)                                    | -                               | (30.2)       |
| Shareholder transactions with non-controlling interest                            |       | -                            | -                           | -                    | -                                | -             | -                      | -                               | -                                         | (0.3)                           | (0.3)        |
| Cash paid to settle share based payments originally intended to be equity-settled |       | -                            | -                           | (0.5)                | -                                | -             | -                      | -                               | (0.5)                                     | -                               | (0.5)        |
| Credit in relation to equity-settled share based payments                         |       | -                            | -                           | 0.9                  | -                                | -             | -                      | -                               | 0.9                                       | -                               | 0.9          |
| Dividends paid on ordinary shares                                                 | 6     | -                            | -                           | (42.6)               | -                                | -             | -                      | -                               | (42.6)                                    | -                               | (42.6)       |
| <b>As at 2 May 2020</b>                                                           |       | 3.2                          | 8.4                         | (460.1)              | 422.8                            | (69.6)        | -                      | (34.9)                          | (130.2)                                   | -                               | (130.2)      |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                               |              | <b>Audited</b>    | <b>Audited</b>       |
|---------------------------------------------------------------|--------------|-------------------|----------------------|
|                                                               |              | <b>Year to</b>    | <b>Year to</b>       |
|                                                               |              | <b>2 May 2020</b> | <b>27 April 2019</b> |
|                                                               | <i>Notes</i> | <b>£m</b>         | <b>£m</b>            |
| <b>Cash flows from operating activities</b>                   |              |                   |                      |
| Cash generated by operations                                  | 15           | 158.8             | 127.1                |
| Interest paid                                                 |              | (22.4)            | (31.3)               |
| Interest received                                             |              | 0.9               | 3.5                  |
| Dividends received from joint ventures                        |              | 27.3              | 25.4                 |
| <b>Net cash flows from operating activities before tax</b>    |              | <b>164.6</b>      | <b>124.7</b>         |
| Tax paid                                                      |              | -                 | (17.8)               |
| <b>Net cash from operating activities after tax</b>           |              | <b>164.6</b>      | <b>106.9</b>         |
| <b>Cash flows from investing activities</b>                   |              |                   |                      |
| Acquisition of subsidiaries, net of cash acquired             |              | (3.3)             | -                    |
| Disposal of subsidiaries, net of cash disposed of             |              | (2.8)             | 73.8                 |
| Purchase of property, plant and equipment                     |              | (93.3)            | (102.4)              |
| Disposal of property, plant and equipment                     |              | 8.6               | 50.2                 |
| Purchase of intangible assets and other investments           |              | (5.5)             | (4.4)                |
| Disposal of intangible assets                                 |              | 0.5               | 28.1                 |
| <b>Net cash (outflow) / inflow from investing activities</b>  |              | <b>(95.8)</b>     | <b>45.3</b>          |
| <b>Cash flows from financing activities</b>                   |              |                   |                      |
| Purchase of own shares into treasury                          |              | (30.2)            | (1.4)                |
| Repayments of hire purchase and lease finance debt            |              | (28.4)            | (20.7)               |
| Redemption of US Dollar 4.36% Notes – principal               |              | -                 | (116.1)              |
| Drawdown of other borrowings                                  |              | 210.0             | 114.0                |
| Repayment of other borrowings                                 |              | (10.7)            | (154.2)              |
| Loan from joint venture                                       |              | 11.0              | -                    |
| Dividends paid on ordinary shares                             | 6            | (42.6)            | (44.1)               |
| Redemption of tokens                                          |              | -                 | (0.2)                |
| <b>Net cash inflow/(outflow) from financing activities</b>    |              | <b>109.1</b>      | <b>(222.7)</b>       |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |              | <b>177.9</b>      | <b>(70.5)</b>        |
| Cash and cash equivalents at the beginning of year            |              | 170.4             | 238.2                |
| Exchange rate effects                                         |              | -                 | 2.7                  |
| <b>Cash and cash equivalents at the end of year</b>           |              | <b>348.3</b>      | <b>170.4</b>         |

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 53-week period from 28 April 2019 to 2 May 2020. Prior year comparatives are for the 52-week period from 29 April 2018 to 27 April 2019.

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 27 April 2019 with the exception of the new accounting standards set out below.

The Board of Directors approved this announcement on 22 July 2020. This announcement will be available on the Group's website at <http://www.stagecoachgroup.com/investors/financial-analysis/reports/>

#### **New accounting standards adopted during the year**

##### **(i) IFRS 16, Leases**

The Group has adopted IFRS 16, Leases, from 28 April 2019, but has not restated comparatives for the year to 27 April 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 28 April 2019. IFRS 16 replaces International Accounting Standard 17 ("IAS 17"), Leases, and establishes new principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases by lessees as either operating leases or finance leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease costs are recognised as depreciation and interest, rather than entirely as an operating cost.

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

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

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

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

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

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

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

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

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

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

## 1 BASIS OF PREPARATION (CONTINUED)

### *Measurement of lease liabilities under IFRS 16*

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

There has been no change to how the Group accounts for dilapidations on leased items.

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

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

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

### *Adoption of IFRS 16*

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

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

## 1 BASIS OF PREPARATION (CONTINUED)

### *Practical expedients applied on transition to IFRS 16*

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

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

Due to the short remaining duration of the Group's rail franchises at 28 April 2019, all of the lease contracts of the rail franchise businesses have been accounted as short-term leases on transition. These include leases for rolling stock but exclude contracts with Network Rail for access to the railway infrastructure (track, stations and depots), which do not meet the definition of a lease under IFRS 16, reflecting the fact that Network Rail, rather than the franchise train operator, directs how and for what purposes the assets are used.

The Group is the lessee of certain properties where the applicable lease agreements provide the Group with the right to end the lease prior to the end of the full contractual term of the lease. Judgement was required in assessing whether and when the Group was likely to end each lease early. The Group expects to end three property leases at the next rent-break dates and the Group has accounted for those leases accordingly. The Group expects all other leases to continue to the end of their contractual terms.

### *Impact of IFRS 16 on Financial Statements*

#### *Impact on transition*

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

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

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

|                                                                                          | £m          |
|------------------------------------------------------------------------------------------|-------------|
| Right-of-use assets included within land and buildings                                   | 33.6        |
| Right-of-use assets included within passenger service vehicles                           | 50.1        |
| Right-of-use assets included within other plant and equipment                            | 4.4         |
| <b>Total right-of-use assets included within property, plant and equipment (note 10)</b> | <b>88.1</b> |

## 1 BASIS OF PREPARATION (CONTINUED)

The lease liabilities recognised as at 28 April 2019 can be reconciled as follows:

|                                                                                                                             | £m     |
|-----------------------------------------------------------------------------------------------------------------------------|--------|
| Operating lease commitments disclosed under IAS 17 as at 27 April 2019                                                      | 110.2  |
| Short-term lease commitments straight-line expensed under IFRS 16                                                           | (13.3) |
| Lease commitments for low-value assets straight-line expensed under IFRS 16                                                 | (0.4)  |
| Re-assessment of operating lease options to terminate lease                                                                 | 14.0   |
| Right-use-assets made available to the Group on or after 28 April 2019 and committed as an operating lease at 27 April 2019 | (4.0)  |
| Effect of discounting                                                                                                       | (17.5) |
| Lease liabilities recognised as at 28 April 2019 for leases formerly accounted for as operating leases                      | 89.0   |
| Hire purchase liabilities recognised under IAS 17 at 27 April 2019                                                          | 9.3    |
| Lease liabilities recognised as at 28 April 2019                                                                            | 98.3   |

### *Impact for the year to 2 May 2020*

In respect of leases that would previously have been classified as operating leases, the Group has recognised £78.6m right-of-use assets and £80.3m of lease liabilities as at 2 May 2020.

The cash flow statement includes the following cash outflow in relation to leases and the related interest expense:

|                               | Year to 2 May<br>2020<br>£m | Year to 27<br>April 2019<br>£m |
|-------------------------------|-----------------------------|--------------------------------|
| Total cash outflow for leases | 46.2                        | 102.3                          |

The consolidated income statement includes the following depreciation charges and other costs relating to leases:

|                                                   | Year to 2 May<br>2020<br>£m | Year to 27<br>April 2019*<br>£m |
|---------------------------------------------------|-----------------------------|---------------------------------|
| <b>Depreciation</b>                               |                             |                                 |
| Land and buildings                                | 4.4                         | -                               |
| Passenger service vehicles                        | 20.0                        | 3.1                             |
| Other plant and equipment                         | 2.2                         | -                               |
| <b>Total depreciation for right-of-use assets</b> | 26.6                        | 3.1                             |
| Operating lease costs recognised under IAS 17     | -                           | 81.4                            |
| Expense relating to short-term leases             | 14.8                        | -                               |
| Expense relating to leases of low-value assets    | 0.2                         | -                               |
| Lease costs included within operating profit      | 41.6                        | 84.5                            |
| Interest expense included in finance costs        | 2.8                         | 0.2                             |
| Lease costs included within profit before tax     | 44.4                        | 84.7                            |

\*The comparative figures for the year to 27 April 2019 were prepared under IAS 17 and exclude the effect resulting from the recognition of the right-of-use assets on 28 April 2019.

The expense relating to short-term leases for the year to 2 May 2020 includes £13.0m for short-term leases in respect of trains and rolling stock. This will not recur in the year to 1 May 2021 as the Group's rail franchises have now all ended.

IFRS 16 has had a negligible impact on profit before tax but increases the Group's interest costs by £2.7m and increases the Group's operating profit by £1.8m in the year ended 2 May 2020 relative to what they would have been under IAS 17.

### **(ii) IFRIC 23, Uncertainty over Income Tax Treatments**

IFRIC 23 was issued in June 2017 and was implemented by the Group from 28 April 2019. The interpretation clarifies that if it is considered probable that a tax authority will accept an uncertain tax treatment, the tax charge should be calculated on that basis. If it is not considered probable, the effect of the uncertainty should be estimated and reflected in the tax charge applying either the 'most likely outcome' or 'expected value' methodology. In assessing the uncertainty, it is assumed that the tax authority will have full knowledge of all information related to the matter. The Group has assessed the potential impact of the new interpretation. The application of IFRIC 23 on the opening balance of retained earnings as at 28 April 2019 has not resulted in a material change to the amounts held in the consolidated balance sheet for uncertain tax positions.

## 2 FOREIGN CURRENCIES

The principal rates of exchange applied to the consolidated financial statements were:

|                   | Year to<br>2 May<br>2020 | Year to<br>27 April<br>2019 |
|-------------------|--------------------------|-----------------------------|
| <b>US Dollar:</b> |                          |                             |
| Year end rate     | 1.2542                   | 1.2935                      |
| Average rate      | 1.2664                   | 1.3047                      |

## 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 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).

### (a) Revenue

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

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 2 May 2020                                 | Commercial<br>passenger<br>revenue<br>£m | Concessionary<br>revenue<br>£m | Tendered &<br>School revenue<br>£m | Contract &<br>other revenue<br>£m | Total<br>£m |
|-------------------------------------------------------|------------------------------------------|--------------------------------|------------------------------------|-----------------------------------|-------------|
| UK Bus (regional operations)                          | 611.5                                    | 256.6                          | 104.4                              | 39.4                              | 1,011.9     |
| UK Bus (London)                                       | 0.2                                      | -                              | -                                  | 246.0                             | 246.2       |
| Total bus operations                                  | 611.7                                    | 256.6                          | 104.4                              | 285.4                             | 1,258.1     |
| UK Rail                                               | 150.1                                    | -                              | -                                  | 11.0                              | 161.1       |
| Total Group revenue                                   | 761.8                                    | 256.6                          | 104.4                              | 296.4                             | 1,419.2     |
| Intra-Group revenue - UK Bus<br>(regional operations) | -                                        | -                              | -                                  | (1.6)                             | (1.6)       |
| Reported Group revenue                                | 761.8                                    | 256.6                          | 104.4                              | 294.8                             | 1,417.6     |

  

| Year ended 27 April 2019                              | Commercial<br>passenger<br>revenue<br>£m | Concessionary<br>revenue<br>£m | Tendered &<br>School revenue<br>£m | Contract &<br>other revenue<br>£m | Total<br>£m |
|-------------------------------------------------------|------------------------------------------|--------------------------------|------------------------------------|-----------------------------------|-------------|
| UK Bus (regional operations)                          | 656.4                                    | 244.8                          | 100.3                              | 41.8                              | 1,043.3     |
| UK Bus (London)                                       | 0.3                                      | -                              | -                                  | 252.5                             | 252.8       |
| Total bus operations                                  | 656.7                                    | 244.8                          | 100.3                              | 294.3                             | 1,296.1     |
| UK Rail                                               | 546.2                                    | -                              | -                                  | 43.3                              | 589.5       |
| Total Group revenue                                   | 1,202.9                                  | 244.8                          | 100.3                              | 337.6                             | 1,885.6     |
| Intra-Group revenue - UK Bus<br>(regional operations) | -                                        | -                              | -                                  | (6.7)                             | (6.7)       |
| Reported Group revenue                                | 1,202.9                                  | 244.8                          | 100.3                              | 330.9                             | 1,878.9     |

### 3 SEGMENTAL ANALYSIS (CONTINUED)

#### (b) Operating profit

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

|                                                                                  | Audited                                          |                                     |                      | Audited                                          |                                     |                      |
|----------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------|----------------------|--------------------------------------------------|-------------------------------------|----------------------|
|                                                                                  | Year to 2 May 2020                               |                                     |                      | Year to 27 April 2019                            |                                     |                      |
|                                                                                  | Performance excluding separately disclosed items | Separately disclosed items (note 4) | Results for the year | Performance excluding separately disclosed items | Separately disclosed items (note 4) | Results for the year |
|                                                                                  | £m                                               | £m                                  | £m                   | £m                                               | £m                                  | £m                   |
| UK Bus (regional operations)                                                     | 90.6                                             | (14.5)                              | 76.1                 | 117.0                                            | (19.0)                              | 98.0                 |
| UK Bus (London)                                                                  | 16.1                                             | -                                   | 16.1                 | 10.7                                             | (5.0)                               | 5.7                  |
| Total bus operations                                                             | 106.7                                            | (14.5)                              | 92.2                 | 127.7                                            | (24.0)                              | 103.7                |
| UK Rail                                                                          | 4.4                                              | (17.3)                              | (12.9)               | 26.4                                             | (0.7)                               | 25.7                 |
|                                                                                  | 111.1                                            | (31.8)                              | 79.3                 | 154.1                                            | (24.7)                              | 129.4                |
| Group overheads                                                                  | (8.1)                                            | (0.7)                               | (8.8)                | (13.6)                                           | (0.9)                               | (14.5)               |
| Restructuring costs                                                              | (0.9)                                            | -                                   | (0.9)                | (2.5)                                            | -                                   | (2.5)                |
| <b>Total operating profit of Group companies</b>                                 | <b>102.1</b>                                     | <b>(32.5)</b>                       | <b>69.6</b>          | <b>138.0</b>                                     | <b>(25.6)</b>                       | <b>112.4</b>         |
| Share of joint ventures' profit after finance costs, finance income and taxation | 17.6                                             | -                                   | 17.6                 | 23.3                                             | -                                   | 23.3                 |
| <b>Total operating profit:</b>                                                   |                                                  |                                     |                      |                                                  |                                     |                      |
| <b>Group operating profit and share of joint ventures' profit after taxation</b> | <b>119.7</b>                                     | <b>(32.5)</b>                       | <b>87.2</b>          | <b>161.3</b>                                     | <b>(25.6)</b>                       | <b>135.7</b>         |

#### (c) Joint ventures

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

|                                                                                           | Audited            | Audited               |
|-------------------------------------------------------------------------------------------|--------------------|-----------------------|
|                                                                                           | Year to 2 May 2020 | Year to 27 April 2019 |
|                                                                                           | £m                 | £m                    |
| <b>Virgin Rail Group (UK Rail)</b>                                                        |                    |                       |
| Operating profit                                                                          | 18.9               | 25.7                  |
| Finance income (net)                                                                      | 0.4                | 0.8                   |
| Taxation                                                                                  | (3.5)              | (5.2)                 |
|                                                                                           | 15.8               | 21.3                  |
| <b>Citylink (UK Bus, regional operations)</b>                                             |                    |                       |
| Operating profit                                                                          | 2.3                | 2.5                   |
| Taxation                                                                                  | (0.5)              | (0.5)                 |
|                                                                                           | 1.8                | 2.0                   |
| <b>Share of profit of joint ventures after finance costs, finance income and taxation</b> | <b>17.6</b>        | <b>23.3</b>           |

### 3 SEGMENTAL ANALYSIS (CONTINUED)

#### (d) Gross assets and liabilities

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

|                              | Audited          |                   |                            | Audited             |                   |                            |
|------------------------------|------------------|-------------------|----------------------------|---------------------|-------------------|----------------------------|
|                              | As at 2 May 2020 |                   |                            | As at 28 April 2019 |                   |                            |
|                              | Gross assets     | Gross liabilities | Net assets / (liabilities) | Gross assets        | Gross liabilities | Net assets / (liabilities) |
|                              | £m               | £m                | £m                         | £m                  | £m                | £m                         |
| UK Bus (regional operations) | 949.0            | (490.3)           | 458.7                      | 931.8               | (321.6)           | 610.2                      |
| UK Bus (London)              | 128.5            | (225.9)           | (97.4)                     | 74.0                | (144.7)           | (70.7)                     |
| UK Rail                      | 5.1              | (138.4)           | (133.3)                    | 50.3                | (207.3)           | (157.0)                    |
|                              | 1,082.6          | (854.6)           | 228.0                      | 1,056.1             | (673.6)           | 382.5                      |
| Central functions            | 36.6             | (71.7)            | (35.1)                     | 50.5                | (29.0)            | 21.5                       |
| Joint ventures               | 16.3             | -                 | 16.3                       | 19.9                | -                 | 19.9                       |
| Borrowings and cash          | 348.3            | (710.0)           | (361.7)                    | 170.4               | (433.0)           | (262.6)                    |
| Taxation                     | 33.3             | (11.0)            | 22.3                       | -                   | (32.9)            | (32.9)                     |
|                              | 1,517.1          | (1,647.3)         | (130.2)                    | 1,296.9             | (1,168.5)         | 128.4                      |

Central assets and liabilities include interest payable and receivable and other net assets of the holding company and other head office companies. Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra-Group balances, cash, borrowings, taxation, interest payable and interest receivable.

## 4 SEPARATELY DISCLOSED ITEMS

### (a) Summary of separately disclosed items

The Group highlights amounts before certain “separately disclosed items” as defined in note 22.

The items in respect of continuing operations shown in the columns headed “Separately disclosed items” on the face of the consolidated income statement can be further analysed as follows:

|                                                       | Audited                                             |                                        |                                        | Audited                                             |                                        |                                        |
|-------------------------------------------------------|-----------------------------------------------------|----------------------------------------|----------------------------------------|-----------------------------------------------------|----------------------------------------|----------------------------------------|
|                                                       | Year to 2 May 2020                                  |                                        |                                        | Year to 27 April 2019                               |                                        |                                        |
|                                                       | Non-software<br>intangible<br>asset<br>amortisation | Other<br>separately<br>disclosed items | Total<br>separately<br>disclosed items | Non-software<br>intangible<br>asset<br>amortisation | Other<br>separately<br>disclosed items | Total<br>separately<br>disclosed items |
|                                                       | £m                                                  | £m                                     | £m                                     | £m                                                  | £m                                     | £m                                     |
| <b>CONTINUING OPERATIONS</b>                          |                                                     |                                        |                                        |                                                     |                                        |                                        |
| <b>Operating costs and other operating income</b>     |                                                     |                                        |                                        |                                                     |                                        |                                        |
| Non-software intangible asset amortisation            | (0.7)                                               | -                                      | (0.7)                                  | (0.3)                                               | -                                      | (0.3)                                  |
| Re-organisation costs                                 | -                                                   | (2.4)                                  | (2.4)                                  | -                                                   | -                                      | -                                      |
| Impairment of assets and onerous contracts            | -                                                   | (16.5)                                 | (16.5)                                 | -                                                   | -                                      | -                                      |
| Discontinuation of fuel hedge accounting              | -                                                   | (12.9)                                 | (12.9)                                 | -                                                   | -                                      | -                                      |
| Equalisation of guaranteed minimum pension benefits   | -                                                   | -                                      | -                                      | -                                                   | (25.3)                                 | (25.3)                                 |
|                                                       | (0.7)                                               | (31.8)                                 | (32.5)                                 | (0.3)                                               | (25.3)                                 | (25.6)                                 |
| <b>Finance costs</b>                                  |                                                     |                                        |                                        |                                                     |                                        |                                        |
| Change in fair value of Deferred Payment instrument   | -                                                   | (17.8)                                 | (17.8)                                 | -                                                   | -                                      | -                                      |
| Finance costs in relation to early redemption of debt | -                                                   | -                                      | -                                      | -                                                   | (6.1)                                  | (6.1)                                  |
|                                                       | -                                                   | (17.8)                                 | (17.8)                                 | -                                                   | (6.1)                                  | (6.1)                                  |
| <b>Separately disclosed items before taxation</b>     | (0.7)                                               | (49.6)                                 | (50.3)                                 | (0.3)                                               | (31.4)                                 | (31.7)                                 |
| Taxation effect                                       | -                                                   | 12.8                                   | 12.8                                   | -                                                   | 22.5                                   | 22.5                                   |
| <b>Separately disclosed items after taxation</b>      | (0.7)                                               | (36.8)                                 | (37.5)                                 | (0.3)                                               | (8.9)                                  | (9.2)                                  |

### (b) Re-organisation costs

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

### (c) Impairment of assets and onerous contracts

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

### (d) Discontinuation of fuel hedge accounting

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

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

#### **4 SEPARATELY DISCLOSED ITEMS (CONTINUED)**

##### **(e) Equalisation of guaranteed minimum pension benefits**

On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The judgement has implications for many defined benefit schemes, including those in which the Stagecoach Group participates. We worked with our actuarial advisors to understand the implications of the High Court judgement for the schemes in which the Group participates and recorded a £25.3m pre-tax expense in the year ended 27 April 2019 to reflect our best estimate of the effect on our reported pension liabilities.

The Directors made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost that should be reflected through the consolidated income statement and that any subsequent change in the estimate of that should be recognised in other comprehensive income. The judgement was based on the fact that the reported pension liabilities for the Stagecoach Group Pension Scheme as at 28 April 2018 did not include any amount in respect of GMP equalisation.

##### **(f) Change in fair value of Deferred Payment Instrument**

A Deferred Payment Instrument was received as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business is unsecured and ranks behind all of its secured lenders. The carrying value of the instrument was £22.3m as at 27 April 2019. At 2 May 2020, the carrying value of the instrument was estimated to be £4.5m, resulting in a loss of £17.8m being recognised as finance costs in the year ended 2 May 2020. COVID-19 has adversely affected the fair value of the instrument.

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

##### **(g) Finance costs in relation to early redemption of debt**

On 18 October 2012, the Group issued US\$150m of 4.36% Notes as a private placement. The Notes were due to be redeemed at their principal amount on 18 October 2022.

Following the sale of the Group's North America business on 16 April 2019, the Group decided to repay the Notes early. Accordingly, the Group repaid all of the outstanding US\$150m Notes on 25 April 2019. Consistent with the terms of the Notes, in repaying the Notes earlier than their scheduled redemption date, the Group paid a "make whole" premium of US\$7.6m (£6.1m) in excess of the US\$150m principal amount. That "make whole" premium has been reported as a separately disclosed item in the year ended 27 April 2019.

##### **(h) Taxation effect**

The separately disclosed tax credit for the year ended 2 May 2020 includes the tax effect of the pre-tax separately disclosed items, as well as a tax credit of £3.4m in respect of tax losses relating to an expired rail franchise.

## 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 were as follows:

|                                                      | Audited<br>Year to 2 May 2020<br>Separately<br>disclosed items<br>and results for the<br>year<br>£m | Performance<br>excluding separately<br>disclosed items<br>£m | Audited<br>Year to 27 April 2019<br>Separately<br>disclosed items<br>£m | Results<br>for the year<br>£m |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------|
| <b>Discontinued operations</b>                       |                                                                                                     |                                                              |                                                                         |                               |
| Revenue                                              | -                                                                                                   | 456.6                                                        | -                                                                       | 456.6                         |
| Operating costs and other operating income           | -                                                                                                   | (436.8)                                                      | (69.8)                                                                  | (506.6)                       |
| Operating profit/(loss) before restructuring costs   | -                                                                                                   | 19.8                                                         | (69.8)                                                                  | (50.0)                        |
| Restructuring costs                                  | -                                                                                                   | (0.2)                                                        | -                                                                       | (0.2)                         |
| Profit/(loss) before interest and taxation           | -                                                                                                   | 19.6                                                         | (69.8)                                                                  | (50.2)                        |
| Finance costs                                        | -                                                                                                   | (3.8)                                                        | -                                                                       | (3.8)                         |
| Finance income                                       | -                                                                                                   | 0.1                                                          | -                                                                       | 0.1                           |
| Profit/(loss) before taxation                        | -                                                                                                   | 15.9                                                         | (69.8)                                                                  | (53.9)                        |
| Taxation                                             | -                                                                                                   | (0.4)                                                        | -                                                                       | (0.4)                         |
|                                                      | -                                                                                                   | 15.5                                                         | (69.8)                                                                  | (54.3)                        |
| Loss on disposal of North American business          | (1.3)                                                                                               | -                                                            | (23.8)                                                                  | (23.8)                        |
| Taxation on disposal of North American business      | -                                                                                                   | -                                                            | -                                                                       | -                             |
| (Loss)/profit after tax from discontinued operations | (1.3)                                                                                               | 15.5                                                         | (93.6)                                                                  | (78.1)                        |

The tax charge on discontinued operations for the year to 27 April 2019 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.

A breakdown of the major classes of assets and liabilities disposed, along with the loss on disposal and effect on net debt is included within the 2019 annual report.

## 6 DIVIDENDS

Dividends on ordinary shares are shown below.

|                                                                                                                | <b>Audited</b><br><b>Year to</b><br><b>2 May 2020</b><br><b>pence</b><br><b>per share</b> | <b>Audited</b><br><b>Year to</b><br><b>27 April 2019</b><br><b>pence</b><br><b>per share</b> | <b>Audited</b><br><b>Year to</b><br><b>2 May 2020</b><br><b>£m</b> | <b>Audited</b><br><b>Year to</b><br><b>27 April 2019</b><br><b>£m</b> |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------|
| <b>Amounts recognised as distributions in the year</b>                                                         |                                                                                           |                                                                                              |                                                                    |                                                                       |
| Dividends on ordinary shares:                                                                                  |                                                                                           |                                                                                              |                                                                    |                                                                       |
| Final dividend in respect of the previous year                                                                 | <b>3.9</b>                                                                                | 3.9                                                                                          | <b>21.7</b>                                                        | 22.4                                                                  |
| Interim dividend in respect of the current year                                                                | <b>3.8</b>                                                                                | 3.8                                                                                          | <b>20.9</b>                                                        | 21.7                                                                  |
| <b>Amounts recognised as distributions to equity holders in the year</b>                                       | <b>7.7</b>                                                                                | 7.7                                                                                          | <b>42.6</b>                                                        | 44.1                                                                  |
| <b>Dividends declared or proposed but neither paid nor included as liabilities in the financial statements</b> |                                                                                           |                                                                                              |                                                                    |                                                                       |
| Dividends on ordinary shares:                                                                                  |                                                                                           |                                                                                              |                                                                    |                                                                       |
| Final dividend in respect of the current year                                                                  | -                                                                                         | 3.9                                                                                          | -                                                                  | 22.3                                                                  |

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 11 December 2019 and paid on 4 March 2020. The Board has proposed no final dividend in respect of the year ended 2 May 2020.

During the year ended 2 May 2020, £21.7m was paid in respect of the final dividend of 3.9p per ordinary share for year ended 27 April 2019. That amount is less than the £22.3m shown for the proposed final dividend in the consolidated financial statements for the year ended 27 April 2019. The difference is due to the purchase by the Company of some of its own ordinary shares during the half-year ended 26 October 2019. That resulted in fewer ordinary shares being eligible for the final dividend than was assumed in preparing the consolidated financial statements for the year ended 27 April 2019.

## 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                                           | Audited                                              |
|-----------------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------|
|                                                                             | Year to<br>2 May 2020<br>No. of shares<br>million | Year to<br>27 April 2019<br>No. of shares<br>million |
| Basic weighted average number of ordinary shares, excluding treasury shares | 555.3                                             | 573.2                                                |
| Dilutive ordinary shares                                                    |                                                   |                                                      |
| - Executive Participation Plan                                              | 3.0                                               | 2.7                                                  |
| - Long Term Incentive Plan                                                  | 1.1                                               | 0.7                                                  |
| <b>Diluted weighted average number of ordinary shares</b>                   | <b>559.4</b>                                      | <b>576.6</b>                                         |

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

|                                                                                        | Audited                        |                                  |                                  | Audited                        |                                  |                                  |
|----------------------------------------------------------------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------|----------------------------------|----------------------------------|
|                                                                                        | Year to 2 May 2020             |                                  |                                  | Year to 27 April 2019          |                                  |                                  |
|                                                                                        | Continuing<br>operations<br>£m | Discontinued<br>operations<br>£m | Total of all<br>operations<br>£m | Continuing<br>operations<br>£m | Discontinued<br>operations<br>£m | Total of all<br>operations<br>£m |
| Profit attributable to ordinary equity holders of the parent for basic EPS calculation | 37.1                           | (1.3)                            | 35.8                             | 99.7                           | (78.1)                           | 21.6                             |
| Non-software intangible asset amortisation (note 4)                                    | 0.7                            | -                                | 0.7                              | 0.3                            | -                                | 0.3                              |
| Other separately disclosed items before tax (notes 4 and 5)                            | 49.6                           | 1.3                              | 50.9                             | 31.4                           | 93.6                             | 125.0                            |
| Tax effect of separately disclosed items (note 4)                                      | (12.8)                         | -                                | (12.8)                           | (22.5)                         | -                                | (22.5)                           |
| Non-controlling interest in separately disclosed items                                 | 0.3                            | -                                | 0.3                              | 2.0                            | -                                | 2.0                              |
| <b>Profit for adjusted EPS calculation</b>                                             | <b>74.9</b>                    | <b>-</b>                         | <b>74.9</b>                      | <b>110.9</b>                   | <b>15.5</b>                      | <b>126.4</b>                     |

## 8 GOODWILL

The movements in goodwill were as follows:

|                                        | Audited                        | Audited                           |
|----------------------------------------|--------------------------------|-----------------------------------|
|                                        | Year to<br>2 May<br>2020<br>£m | Year to<br>27 April<br>2019<br>£m |
| Net book value at beginning of year    | 51.2                           | 142.1                             |
| Acquired through business combinations | 0.7                            | 0.3                               |
| Impairment charged to income statement | -                              | (86.2)                            |
| Disposal of subsidiaries               | -                              | (10.1)                            |
| Foreign exchange movements             | -                              | 5.1                               |
| <b>Net book value at end of year</b>   | <b>51.9</b>                    | <b>51.2</b>                       |

Goodwill arose in the year ended 2 May 2020 on a business combination. The business combination and its effect on cash flow was not material.

## 9 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

|                                            | Audited<br>Year to<br>2 May<br>2020<br>£m | Audited<br>Year to<br>27 April<br>2019<br>£m |
|--------------------------------------------|-------------------------------------------|----------------------------------------------|
| <b>Cost</b>                                |                                           |                                              |
| At beginning of year                       | 34.3                                      | 136.6                                        |
| Additions                                  | 5.5                                       | 4.4                                          |
| Disposal of subsidiaries                   | -                                         | (9.0)                                        |
| Disposals                                  | (6.0)                                     | (98.2)                                       |
| Foreign exchange movements                 | -                                         | 0.5                                          |
| <b>At end of year</b>                      | <b>33.8</b>                               | <b>34.3</b>                                  |
| <b>Accumulated amortisation</b>            |                                           |                                              |
| At beginning of year                       | (24.6)                                    | (92.2)                                       |
| Amortisation charged to income statement   | (5.2)                                     | (9.6)                                        |
| Disposal of subsidiaries                   | -                                         | 7.5                                          |
| Disposals                                  | 5.5                                       | 70.1                                         |
| Foreign exchange movements                 | -                                         | (0.4)                                        |
| <b>At end of year</b>                      | <b>(24.3)</b>                             | <b>(24.6)</b>                                |
| <b>Net book value at beginning of year</b> | <b>9.7</b>                                | <b>44.4</b>                                  |
| <b>Net book value at end of year</b>       | <b>9.5</b>                                | <b>9.7</b>                                   |

## 10 PROPERTY, PLANT AND EQUIPMENT

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

|                                                                                                                   | Audited<br>Year to<br>2 May<br>2020<br>£m | Audited<br>Year to<br>27 April<br>2019<br>£m |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------|
| <b>Cost</b>                                                                                                       |                                           |                                              |
| At beginning of year                                                                                              | 1,578.6                                   | 2,143.5                                      |
| Recognition of right-of-use assets on adoption of IFRS 16, "Leases"                                               | 88.1                                      | -                                            |
|                                                                                                                   | <b>1,666.7</b>                            | <b>2,143.5</b>                               |
| Additions – purchased assets                                                                                      | 91.7                                      | 117.2                                        |
| Additions – right-of-use assets                                                                                   | 15.9                                      | -                                            |
| Acquired through business combinations                                                                            | 2.9                                       | -                                            |
| Disposal of subsidiaries                                                                                          | -                                         | (591.1)                                      |
| Disposals                                                                                                         | (88.9)                                    | (119.3)                                      |
| Foreign exchange movements                                                                                        | -                                         | 28.3                                         |
| <b>At end of year</b>                                                                                             | <b>1,688.3</b>                            | <b>1,578.6</b>                               |
| <b>Accumulated depreciation</b>                                                                                   |                                           |                                              |
| At beginning of year                                                                                              | (744.6)                                   | (1,006.4)                                    |
| Depreciation charged to income statement                                                                          |                                           |                                              |
| - Charge excluding separately disclosed items                                                                     | (109.2)                                   | (131.4)                                      |
| - "Saving" in depreciation during the period that the North America business was accounted for as "held for sale" | -                                         | 16.4                                         |
| Impairment charged to income statement                                                                            | (0.8)                                     | (0.5)                                        |
| Disposal of subsidiaries                                                                                          | -                                         | 322.9                                        |
| Disposals                                                                                                         | 81.2                                      | 69.2                                         |
| Foreign exchange movements                                                                                        | -                                         | (14.8)                                       |
| <b>At end of year</b>                                                                                             | <b>(773.4)</b>                            | <b>(744.6)</b>                               |
| <b>Net book value at beginning of year</b>                                                                        | <b>834.0</b>                              | <b>1,137.1</b>                               |
| <b>Net book value at end of year</b>                                                                              | <b>914.9</b>                              | <b>834.0</b>                                 |

## 11 INTERESTS IN JOINT VENTURES

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

|                                                                                      | Audited<br>Year to<br>2 May<br>2020<br>£m | Audited<br>Year to<br>27 April<br>2019<br>£m |
|--------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------|
| <b>Net book value</b>                                                                |                                           |                                              |
| At beginning of year                                                                 | 19.9                                      | 25.2                                         |
| Share of recognised profit                                                           | 17.6                                      | 23.3                                         |
| Share of actuarial gains/(losses) on defined benefit schemes, net of tax             | 6.3                                       | (2.8)                                        |
| Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax | (0.2)                                     | (0.4)                                        |
| Dividends received in cash                                                           | (27.3)                                    | (25.4)                                       |
| <b>At end of year</b>                                                                | <b>16.3</b>                               | <b>19.9</b>                                  |

A loan payable to joint venture, Scottish Citylink Coaches, of £1.7m (2019: £1.7m) and a loan payable to joint venture, Virgin Rail Group, of £11.0m (2019: £Nil) are 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 2 May 2020. There have been no material changes in any of the Group's significant financial risk management policies since 27 April 2019.

### Liquidity risk

The contractual undiscounted cash outflows for financial liabilities will be set out in the Group's 2020 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 2 May 2020.

|                                                           | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|-----------------------------------------------------------|---------------|---------------|-------------|
| <b>Assets</b>                                             |               |               |             |
| Deferred Payment Instrument from disposal of subsidiaries | -             | 4.5           | 4.5         |
| Financial derivatives                                     | 2.9           | -             | 2.9         |
| Other debtors – embedded derivative                       | 5.8           | -             | 5.8         |
| <b>Total assets</b>                                       | <b>8.7</b>    | <b>4.5</b>    | <b>13.2</b> |
| <b>Liabilities</b>                                        |               |               |             |
| Financial derivatives                                     | (65.2)        | -             | (65.2)      |

There were no transfers between levels during the year ended 2 May 2020.

## 12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The carrying amounts of financial assets and financial liabilities and their respective fair values were:

|                                                                            | Audited<br>Carrying value |                     | Audited<br>Fair value |                     |
|----------------------------------------------------------------------------|---------------------------|---------------------|-----------------------|---------------------|
|                                                                            | 2 May 2020<br>£m          | 27 April 2019<br>£m | 2 May 2020<br>£m      | 27 April 2019<br>£m |
| <b>Financial assets</b>                                                    |                           |                     |                       |                     |
| <b>Financial assets measured at fair value through profit or loss</b>      |                           |                     |                       |                     |
| – Non-current assets                                                       |                           |                     |                       |                     |
| – Other receivables – Deferred Payment Instrument                          | 4.5                       | 22.3                | 4.5                   | 22.3                |
| – Current assets                                                           |                           |                     |                       |                     |
| – Other receivables – embedded derivative                                  | 5.8                       | -                   | 5.8                   | -                   |
| <b>Financial assets measured at amortised cost</b>                         |                           |                     |                       |                     |
| – Non-current assets                                                       |                           |                     |                       |                     |
| – Other receivables                                                        | 20.3                      | 12.3                | 20.3                  | 12.3                |
| – Current assets                                                           |                           |                     |                       |                     |
| – Accrued income                                                           | 22.5                      | 32.9                | 22.5                  | 32.9                |
| – Trade receivables, net of impairment                                     | 21.4                      | 36.6                | 21.4                  | 36.6                |
| – Other receivables                                                        | 3.9                       | 5.6                 | 3.9                   | 5.6                 |
| – Cash and cash equivalents                                                | 348.3                     | 170.4               | 348.3                 | 170.4               |
| <b>Total financial assets</b>                                              | <b>426.7</b>              | <b>280.1</b>        | <b>426.7</b>          | <b>280.1</b>        |
| <b>Financial liabilities</b>                                               |                           |                     |                       |                     |
| <b>Financial liabilities measured at fair value through profit or loss</b> |                           |                     |                       |                     |
| – Current liabilities                                                      |                           |                     |                       |                     |
| – Accruals – embedded derivative                                           | -                         | (0.7)               | -                     | (0.7)               |
| <b>Financial liabilities measured at amortised cost</b>                    |                           |                     |                       |                     |
| – Non-current liabilities                                                  |                           |                     |                       |                     |
| – Borrowings                                                               | (667.5)                   | (411.2)             | (663.1)               | (428.1)             |
| – Current liabilities                                                      |                           |                     |                       |                     |
| – Trade payables                                                           | (25.4)                    | (59.8)              | (25.4)                | (59.8)              |
| – Accruals                                                                 | (178.4)                   | (265.7)             | (178.4)               | (265.7)             |
| – Loans from joint ventures                                                | (12.7)                    | (1.7)               | (12.7)                | (1.7)               |
| – Borrowings                                                               | (42.5)                    | (21.8)              | (42.5)                | (21.8)              |
| <b>Total financial liabilities</b>                                         | <b>(926.5)</b>            | <b>(760.9)</b>      | <b>(922.1)</b>        | <b>(777.8)</b>      |
| <b>Net financial liabilities</b>                                           | <b>(499.8)</b>            | <b>(480.8)</b>      | <b>(495.4)</b>        | <b>(497.7)</b>      |

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 carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables (excluding the Deferred Payment Instrument and the embedded derivative) is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- A Deferred Payment Instrument was received as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of 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 £4.5m as at 2 May 2020.
- The carrying value of the embedded derivative is its fair value determined with reference to the fair value of offsetting financial derivatives as confirmed by the applicable counterparty banks.
- The carrying value of trade payables, accruals and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price at the balance sheet date.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 ("IFRS 7"), Financial Instruments: Disclosure, does not require the disclosure of fair values for leases.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

## 13 RETIREMENT BENEFITS

### (a) Overview

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 East Midlands Trains section of the Railways Pension Scheme ("RPS") although the Group's participation in that ceased in August 2019;
- 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").

In addition, the Group contributed £47.4m (2019: £45.7m) to a number of defined contribution schemes in the year ended 2 May 2020.

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

|                                  | <b>Audited</b> | <b>Audited</b>  |
|----------------------------------|----------------|-----------------|
|                                  | <b>As at</b>   | <b>As at</b>    |
|                                  | <b>2 May</b>   | <b>27 April</b> |
|                                  | <b>2020</b>    | <b>2019</b>     |
|                                  | <b>£m</b>      | <b>£m</b>       |
| Retirement benefit asset         | -              | 1.8             |
| Retirement benefit obligations   | <b>(413.1)</b> | <b>(199.5)</b>  |
| Net retirement benefit liability | <b>(413.1)</b> | <b>(197.7)</b>  |

### 13 RETIREMENT BENEFITS (CONTINUED)

#### (b) Gross pension scheme assets and obligations

The gross pension scheme assets and the present value of the schemes' obligations as at 2 May 2020 were as follows:

|                              | Audited        |            |             |                         | Total<br>£m |
|------------------------------|----------------|------------|-------------|-------------------------|-------------|
|                              | Funded schemes |            |             | Unfunded<br>plans<br>£m |             |
|                              | SPS<br>£m      | LGPS<br>£m | Other<br>£m |                         |             |
| Fair value of scheme assets  | 1,284.4        | 345.3      | 17.8        | -                       | 1,647.5     |
| Present value of obligations | (1,688.5)      | (313.3)    | (21.5)      | (2.8)                   | (2,026.1)   |
|                              | (404.1)        | 32.0       | (3.7)       | (2.8)                   | (378.6)     |
| Asset ceiling                | -              | (34.3)     | (0.2)       | -                       | (34.5)      |
| Pension liability before tax | (404.1)        | (2.3)      | (3.9)       | (2.8)                   | (413.1)     |

#### (c) Movements in net pre-tax retirement benefit liabilities

The movements for the year ended 2 May 2020 in the net pre-tax retirement benefit liabilities were as follows:

|                                                                  | Audited        |           |            |                         | Total<br>£m |
|------------------------------------------------------------------|----------------|-----------|------------|-------------------------|-------------|
|                                                                  | Funded schemes |           |            | Unfunded<br>plans<br>£m |             |
|                                                                  | SPS<br>£m      | RPS<br>£m | LGPS<br>£m | Other<br>£m             |             |
| (Liability) / asset at beginning of year                         | (187.7)        | 1.8       | (6.6)      | (1.0)                   | (197.7)     |
| Current service cost                                             | (4.5)          | (4.3)     | (0.9)      | (1.5)                   | (11.2)      |
| Past service credit                                              | -              | -         | -          | -                       | 1.1         |
| Administration cost                                              | (0.8)          | -         | -          | -                       | (0.8)       |
| Net interest expense                                             | (4.8)          | (0.6)     | (0.1)      | (0.1)                   | (5.7)       |
| Unwinding of franchise adjustment                                | -              | 0.6       | -          | -                       | 0.6         |
| Employers' contributions and settlements                         | 6.7            | 3.0       | 7.2        | 1.9                     | 20.7        |
| Recognised in the consolidated statement of comprehensive income | (213.0)        | (0.5)     | (3.4)      | (3.2)                   | (220.1)     |
| Transfer                                                         | -              | -         | 1.5        | -                       | (1.5)       |
| Liability at end of year                                         | (404.1)        | -         | (2.3)      | (3.9)                   | (413.1)     |

#### (d) Scheme valuations

The latest actuarial valuations of the two sections of SPS were completed as at 30 April 2017. The combined deficit across the two sections on the Trustees' technical provisions basis was £19.1m, comprising scheme assets of £1,398.3m less benefit obligations of £1,417.4m. The weighted average discount rate applied in determining the value of those benefit obligations was 4.5%. The discount rate reflects the asset allocation of SPS and its strong track record of investment returns.

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2019. The combined deficit across those schemes on the funding basis agreed by each of the Administering Authorities was £1.5m, comprising scheme assets of £360.8m less benefit obligations of £362.3m. The weighted average discount rate applied in determining the value of those benefit obligations was 2.0%.

The latest actuarial valuations of the relevant franchise train operating company sections of RPS were completed as at 31 December 2016. The weighted average discount rate applied in determining the value of the benefit obligations for the purpose of those valuations was 6.1%.

Neither the valuations on the Trustees' technical provisions basis nor the net liabilities reflected in the financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

## 14 ORDINARY SHARE CAPITAL

At 2 May 2020, there were 576,099,960 ordinary shares in issue (2019: 576,099,960). This figure includes 25,912,949 (2019: 3,458,907) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In line with the Company's strong capital discipline, the Board decided in October 2019 to conclude the programme when around £30m of shares had been bought back. The Board was by then satisfied that the programme had largely achieved its objective of making appropriate use of the Group's cash, whilst retaining a good financial position and maintaining an investment grade credit rating. In the year ended 27 April 2019, the Group purchased 165,779 ordinary shares pursuant to the programme, at a total cost of £0.2m. Since then, during the year ended 2 May 2020, the Group purchased 22,920,256 ordinary shares pursuant to that programme, at a total cost of £30.2m. The Group concluded the programme on 9 October 2019 having invested £30.4m under the programme in acquiring a total of 23,086,035 ordinary shares. The shares are held in treasury.

## 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<br>Year to<br>2 May<br>2020<br>£m | Audited<br>Year to<br>27 April<br>2019<br>£m |
|--------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------|
| Operating profit/(loss) of Group companies                                                       |                                           |                                              |
| - Continuing operations                                                                          | 69.6                                      | 112.4                                        |
| - Discontinued operations                                                                        | -                                         | (50.2)                                       |
|                                                                                                  | 69.6                                      | 62.2                                         |
| Separately disclosed items                                                                       | 32.5                                      | 95.4                                         |
| Depreciation, excluding separately disclosed items                                               | 109.2                                     | 131.4                                        |
| Software amortisation                                                                            | 4.5                                       | 9.3                                          |
| Impairment of property, plant and equipment, excluding separately disclosed items                | 0.3                                       | 0.5                                          |
| EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA")                  | 216.1                                     | 298.8                                        |
| Cash effect of separately disclosed items                                                        | (2.4)                                     | -                                            |
| (Gain) / loss on disposal of property, plant and equipment, excluding separately disclosed items | (0.9)                                     | 0.3                                          |
| Share based payment movements                                                                    | 0.9                                       | 1.4                                          |
| Operating cashflows before working capital movements                                             | 213.7                                     | 300.5                                        |
| Decrease in inventories                                                                          | 5.5                                       | 8.6                                          |
| Decrease in receivables                                                                          | 24.7                                      | 46.4                                         |
| Decrease in payables                                                                             | (90.8)                                    | (165.7)                                      |
| Increase/(decrease) in provisions                                                                | 15.5                                      | (56.2)                                       |
| Differences between employer contributions and pension expense in adjusted operating profit      | (9.8)                                     | (6.5)                                        |
| <b>Cash generated by operations</b>                                                              | <b>158.8</b>                              | <b>127.1</b>                                 |

## 16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

The increase/(decrease) in cash and cash equivalents reconciles to the movement in net debt as follows:

|                                                         | Audited<br>Year to<br>2 May 2020<br>£m | Audited<br>Year to<br>27 April 2019<br>£m |
|---------------------------------------------------------|----------------------------------------|-------------------------------------------|
| Increase/(decrease) in cash and cash equivalents        | 177.9                                  | (70.5)                                    |
| Cash flow from movement in borrowings                   | (170.9)                                | 177.0                                     |
|                                                         | 7.0                                    | 106.5                                     |
| Recognition of lease liabilities on adoption of IFRS 16 | (89.0)                                 | -                                         |
| Borrowings transferred on disposal of subsidiaries      | -                                      | 54.4                                      |
| New leases in year                                      | (15.9)                                 | (9.4)                                     |
| Foreign exchange movements                              | -                                      | (8.0)                                     |
| Other movements                                         | (0.9)                                  | (1.0)                                     |
| (Increase)/decrease in net debt                         | (98.8)                                 | 142.5                                     |
| Opening net debt                                        | (253.3)                                | (395.8)                                   |
| Closing net debt                                        | (352.1)                                | (253.3)                                   |

## 17 NET DEBT AND CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The Group considers its liabilities arising from financing activities to be those items included within borrowings shown on the consolidated balance sheet. The table below summarises the changes in liabilities arising from financing activities.

The table below also summarises the changes in cash and net debt (as defined in note 22).

|                                                                                                 | Opening<br>£m | Impact of<br>adoption of<br>IFRS 16<br>£m | Cashflows<br>£m | New leases<br>£m | Charged to<br>income<br>statement<br>£m | Closing<br>£m |
|-------------------------------------------------------------------------------------------------|---------------|-------------------------------------------|-----------------|------------------|-----------------------------------------|---------------|
| <b>Liabilities arising from financing activities</b>                                            |               |                                           |                 |                  |                                         |               |
| <b>Borrowings</b>                                                                               |               |                                           |                 |                  |                                         |               |
| Lease liabilities                                                                               | (9.3)         | (89.0)                                    | 28.4            | (15.9)           | -                                       | (85.8)        |
| Bank loans and loan notes                                                                       | (18.2)        | -                                         | (199.3)         | -                | -                                       | (217.5)       |
| Bonds                                                                                           |               |                                           |                 |                  |                                         |               |
| - Principal                                                                                     | (400.0)       | -                                         | -               | -                | -                                       | (400.0)       |
| - Unamortised costs & discounts on issue                                                        | 3.8           | -                                         | -               | -                | (0.9)                                   | 2.9           |
| Gross debt                                                                                      | (423.7)       | (89.0)                                    | (170.9)         | (15.9)           | (0.9)                                   | (700.4)       |
| Accrued interest on bonds                                                                       | (9.3)         | -                                         | 16.0            | -                | (16.3)                                  | (9.6)         |
| Total liabilities arising from financial activities                                             | (433.0)       | (89.0)                                    | (154.9)         | (15.9)           | (17.2)                                  | (710.0)       |
| <b>Cash and cash equivalents</b>                                                                |               |                                           |                 |                  |                                         |               |
| Cash and cash equivalents – pledged as collateral                                               | 18.1          | -                                         | (0.6)           | -                | -                                       | 17.5          |
| Cash and cash equivalents – other                                                               | 152.3         | -                                         | 178.5           | -                | -                                       | 330.8         |
| Total cash and cash equivalents                                                                 | 170.4         | -                                         | 177.9           | -                | -                                       | 348.3         |
| <b>Net debt</b> (total gross debt shown above less total cash and cash equivalents shown above) | (253.3)       | (89.0)                                    | 7.0             | (15.9)           | (0.9)                                   | (352.1)       |

The total liabilities arising from financing activities shown above are presented as borrowings in the consolidated balance sheet as follows:

|                                                     | Audited<br>As at<br>2 May 2020<br>£m | Audited<br>As at<br>27 April 2019<br>£m |
|-----------------------------------------------------|--------------------------------------|-----------------------------------------|
| Current liabilities: borrowings                     | 42.5                                 | 21.8                                    |
| Non-current liabilities: borrowings                 | 667.5                                | 411.2                                   |
| Total liabilities arising from financing activities | 710.0                                | 433.0                                   |

The cash collateral balance as at 2 May 2020 of £17.5m (2019: £18.1m) comprises balances held in trust in respect of loan notes of £17.5m (2019: £18.1m).

By the year end date of 2 May 2020, all of the major rail franchises previously operated by Group subsidiaries had ended. Therefore, as at 2 May 2020, there is no cash (27 April 2019: £121.6m) held by train operating companies. However, the settlement of train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 2 May 2020, the consolidated net liabilities included £101.0m of net liabilities in respect of such items. Accordingly, if all such items were to be settled at their 2 May 2020 carrying values, consolidated net debt would increase by £101.0m. Consolidated net debt plus those outstanding train operating company net liabilities as at 2 May 2020 was £453.1m.

## 18 COMMITMENTS AND CONTINGENCIES

### (i) *Capital commitments*

Capital commitments contracted for the purchase of property, plant and equipment but not provided for at 2 May 2020 were £35.6m (2019: £61.3m).

### (ii) *Rail bonds*

At 2 May 2020, the Group has provided performance bonds backed by insurance arrangements of £Nil (2019: £10.0m) and season ticket bonds backed by bank facilities or insurance arrangements of £Nil (2019: £7.5m) to the Department for Transport in relation to the Group's expired 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.

### (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 from SSWT and First MTR South Western Trains Limited is around £57m. SSWT is arguing against the granting of a collective proceedings order. The case has been stayed by the CAT pending the Supreme Court's decision in *Merricks v Mastercard*, which will clarify the test to be applied by the CAT in determining whether a collective proceedings order should be granted or denied. That case was heard in May 2020 and the judgement is still awaited. No provision is held as at 2 May 2020 (2019: £Nil) in respect of this matter.

The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 2 May 2020, the liabilities in the consolidated financial statements for such matters total £7.8m (2019: £6.4m) in addition to those covered by the claims provisions.

### (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 which have been recorded in the consolidated financial statements, no claims have been notified to the Group or are expected by the Group under those warranties and indemnities. In addition, the Group has the following contingent liabilities in respect of its former North American business:

- The North American business receives claims in respect of traffic incidents and employee incidents. It protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies (the "Uninsured Element"). The North America business is liable for costs of settling the Uninsured Element of claims. In the event that the business was unable to meet its liabilities for claims then the insurers would be responsible for meeting those liabilities for the Uninsured Element of claims. To protect themselves against that risk (being, essentially the credit risk of the North America business), the insurers demand collateral typically in the form of letters of credit and guarantees. In connection with the sale of the North America business, the Group agreed to continue to provide the guarantees and arrange the letters of credit required by the insurers in respect of claims relating to periods ending on or before April 2019. The Group indemnifies the banks that issue those letters of credit against any losses suffered by the banks. The Group has also provided continuing guarantees to the insurers in respect of claims relating to periods ending on or before 30 April 2019. As at 2 May 2020, the North America business had provided for £59.2m (2019: £68.2m) in respect of claims to which the letters of credit and Stagecoach Group guarantees would apply and for which no liability is reflected in the consolidated balance sheet (2019: £Nil).
- The Group guaranteed the North American business' obligations under certain vehicle lease arrangements after the disposal of the business. The guarantee by the Group in respect of such arrangements as at 2 May 2020 for which no liability is reflected in the consolidated balance sheet was £Nil (2019: £1.5m).

## 19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the year ended 2 May 2020 are provided below, except for those relating to the remuneration of the Directors and management.

(i) *Virgin Rail Group Holdings Limited - 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 2 May 2020, the Group earned fees of £0.2m (2019: £0.2m) from Virgin Rail Group Holdings Limited in this regard. As at 2 May 2020, the Group had £Nil (2019: £0.1m) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group purchased £1.7m in the year ended 2 May 2020 (2019: £1.7m) from the group headed by Virgin Rail Group Holdings Limited and sales were immaterial (2019: £0.5m). As at 2 May 2020, the Group had £Nil (2019: £0.4m) payable in this respect.

Additionally, the group headed by Virgin Rail Group Holdings Limited advanced the Group a loan of £11.0m (2019: £Nil) of which all was outstanding at 2 May 2020 (2019: £Nil). The loan accrues interest at commercial rates and during the year ended 2 May 2020, the interest accrued was immaterial (2019: £Nil).

(ii) *Alexander Dennis Limited*

Until May 2019 when they sold their holdings, Sir Brian Souter (Non-Executive Director) and Dame Ann Gloag (Non-Executive Director until 31 December 2019) collectively held, via companies that they control, 55.1% (2019: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director until 31 December 2019) was a director of its holding company until 3 January 2019) controlled a further 33.2% (2019: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Dame Ann Gloag or Sir Ewan Brown was a director of Alexander Dennis Limited nor did they have any involvement in the management of Alexander Dennis Limited. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the period from 28 April 2019 to 28 May 2019, the date at which Alexander Dennis ceased to be a related party, the Group purchased £5.0m (2019: £61.7m) of vehicles from Alexander Dennis Limited and £1.5m (2019: £26.2m) of spare parts and other services. As at 27 April 2019, £0.2m was payable to Alexander Dennis Limited.

(iii) *Pension Schemes*

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

(iv) *Scottish Citylink Coaches Limited*

A non-interest bearing loan of £1.7m (2019: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 2 May 2020. The Group earned £21.2m in the year ended 2 May 2020 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2019: £20.5m). The Group also collected revenue of £18.3m on behalf of Scottish Citylink Coaches Limited in the year ended 2 May 2020 (2019: £17.5m). As at 2 May 2020, the Group had net £Nil payable (2019: £1.5m) to Scottish Citylink Coaches Limited, excluding the loan referred to above.

(v) *East Coast Main Line Company Limited*

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

In the year ended 2 May 2020, other Group companies earned £0.6m (2019: £3.0m) from East Coast Main Line Company Limited in respect of the provision of certain services. Other Group companies had a net payable to East Coast Main Line Company Limited of £Nil as at 2 May 2020 (2019: £0.3m). In addition, East Coast Main Line Company Limited has advanced the Company a loan of £30.0m (2019: £Nil) of which £30.0m was outstanding as at 2 May 2020 (2019: £Nil). During the year ended 2 May 2020, the interest paid on the loan was £0.1m (2019: £Nil) and the amount of accrued interest outstanding as at 2 May 2020 was immaterial (2019: £Nil).

## 19 RELATED PARTY TRANSACTIONS (CONTINUED)

### (v) *East Coast Main Line Company Limited (continued)*

As previously reported, an inter-company loan was provided by Stagecoach Group plc to East Coast Main Line Company Limited but as at 28 April 2018, the loan was not expected to be recovered by Stagecoach Group plc and provision was made against the full receivable in the separate financial statements of the parent company. A loan from Virgin Holdings Limited to Stagecoach Group plc, and the related accrued interest, was only repayable by Stagecoach Group plc to the extent of 10% of any amounts recovered by Stagecoach Group plc of its loan to East Coast Main Line Company Limited. During the year ended 27 April 2019, Stagecoach Group plc settled its loan amount due to Virgin Holdings Limited through the assignment of 10% of its receivable due from East Coast Main Line Company Limited. As East Coast Main Line Company Limited was unable to settle any of the loans, all amounts were treated as irrecoverable and released on cessation of the Virgin Trains East Coast franchise. Furthermore, Stagecoach Group plc paid £21.0m to the Department for Transport in respect of the Virgin Trains East Coast performance bond, of which £2.1m was funded by a payment to Stagecoach Group plc from Virgin Holdings Limited in respect of its 10% share. The £19.1m effect of the payment from Virgin Holdings Limited in respect of the bond and the release of its loan to East Coast Main Line Company Limited is shown in the consolidated statement of changes in equity as part of shareholder transactions with non-controlling interest in the year to 27 April 2019. Stagecoach Group plc paid £0.5m (2019: £1.7m) to Virgin Holdings Limited in the year ended 2 May 2020 in relation to East Coast Main Line Company Limited and the end of its franchise and had a payable of £0.2m as at 2 May 2020 (2019: £0.6m) in respect of that.

### (vi) *Transport2 (UK) Limited trading as Coachhire.com*

During the year ended 2 May 2020, the Group earned £0.1m (2019: immaterial) from Transport2 (UK) Limited and had an immaterial amount receivable as at 2 May 2020 (2019: immaterial). Sir Brian Souter, a Non-Executive Director, indirectly owns 54.0% (2019: 54.0%) of the share capital of Transport2 (UK) Limited.

## 20 POST BALANCE SHEET EVENTS

During May 2020, the Company issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. The Company repaid its outstanding bank loans from the net proceeds of the issuances and placed the remainder of the net proceeds in bank deposits and money market funds.

Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to the Group's Sheffield Supertram business that were not taken account of in estimating the Supertram onerous contract provision recorded in the consolidated balance sheet as at 2 May 2020. The amount of such payments is subject to uncertainty but we currently estimate them at £2.2m. The Group expects to recognise these payments as income in the year ending 1 May 2021. Further COVID-related payments might also be confirmed.

On 17 June 2020, the High Court ruled against the Group in respect of its claims against the Secretary of State for Transport regarding his decision to disqualify the Group from three rail franchise competitions.

## 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 2 May 2020 within the meaning of section 434 of the Companies Act 2006 and has been extracted from the full financial statements for the years ended 2 May 2020 and 27 April 2019 respectively.

Statutory financial statements for the year ended 27 April 2019, which received an unqualified audit report, have been delivered to the Registrar of Companies.

The reports of the auditors on the financial statements for each of the years ended 27 April 2019 and 2 May 2020 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 2 May 2020 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 22 July 2020.

## 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 2 May 2020 and for comparative amounts shown in this document for prior years.

#### **Adjusted earnings per share**

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding separately disclosed items, by the basic weighted average number of shares in issue in the year.

For the year ended 2 May 2020 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance excluding separately disclosed items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 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 these are calculated are also provided in note 7.

#### **Like-for-like amounts**

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

Like-for-like revenue growth for the year ended 2 May 2020 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each continuing segment is shown in note 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:

|                              |    | Year ended 2 May 2020 |                                |                                 |                 |                       |
|------------------------------|----|-----------------------|--------------------------------|---------------------------------|-----------------|-----------------------|
|                              |    | Reported revenue      | Exclude effect of acquisitions | Exclude expired rail franchises | Exclude week 53 | Like-for-like revenue |
| UK Bus (regional operations) | £m | 1,011.9               | (0.5)                          | -                               | (8.8)           | 1,002.6               |
| UK Bus (London)              | £m | 246.2                 | -                              | -                               | (4.5)           | 241.7                 |
| UK Rail                      | £m | 161.1                 | -                              | (148.0)                         | (0.1)           | 13.0                  |

|                              |    | Year ended 27 April 2019 |                                   |                                 |                       |
|------------------------------|----|--------------------------|-----------------------------------|---------------------------------|-----------------------|
|                              |    | Reported revenue         | Exclude effect of business closed | Exclude expired rail franchises | Like-for-like revenue |
| UK Bus (regional operations) | £m | 1,043.3                  | (1.6)                             | -                               | 1,041.7               |
| UK Bus (London)              | £m | 252.8                    | -                                 | -                               | 252.8                 |
| UK Rail                      | £m | 589.5                    | -                                 | (575.3)                         | 14.2                  |

#### **Operating profit**

Operating profit for the Group as a whole is profit before non-operating separately disclosed items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group's share of joint ventures' profit/loss after taxation. For continuing operations, both total operating profit and operating profit from Group companies are shown on the face of the consolidated income statement. For discontinued operations, operating profit/(loss) is shown in note 5.

Operating profit (or loss) for a particular business unit or segment within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, separately disclosed items and restructuring costs. The operating profit (or loss) for each continuing segment is directly identifiable from note 3(b) to the condensed financial statements and for discontinued operations from note 5.

## 22 DEFINITIONS (CONTINUED)

### (a) Alternative performance measures (continued)

#### ***Operating margin***

Operating margin for a particular business unit or segment within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from 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.

#### ***Adjusted EBITDA***

Adjusted EBITDA is earnings before interest, taxation, depreciation, software amortisation and separately disclosed items.

A reconciliation of adjusted EBITDA for the year ended 2 May 2020, and the comparative prior year, to the financial statements is shown on page 15 of this document.

#### ***Adjusted EBITDA from Group companies***

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

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

#### ***Net finance costs***

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

#### ***Adjusted net finance costs***

Adjusted net finance costs are net finance costs (see above) excluding separately disclosed items.

#### ***Gross debt***

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

The components of gross debt are shown in note 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.

Gross debt as at 2 May 2020 includes lease liabilities in respect of leases that prior to the adoption of IFRS 16 would be regarded as operating leases. No such lease liabilities are reflected in gross debt as at 27 April 2019.

#### ***Net debt***

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

The components of net debt are shown in note 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, new leases and sales of property, plant and equipment on net debt.

In the year ended 2 May 2020 (but not for the year ended 27 April 2019), net capital expenditure includes new lease liabilities arising in the year on leases that prior to the adoption of IFRS 16 would have been regarded as operating leases.

## 22 DEFINITIONS (CONTINUED)

### (b) Other definition

The following other definition is also used in this document:

#### ***Separately disclosed items***

Separately disclosed items means:

- Non-software intangible asset amortisation;
- Items which individually or, if of a similar type, in aggregate need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group; and
- Changes in the fair value of the Deferred Payment Instrument received in relation to the sale of the North America Division in April 2019 (see note 4). Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the holder of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group's financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.