Stagecoach Group Annual Report
and Financial Statements 2023

Stagecoach

Strategic and operational highlights

- Growth in passenger demand in UK Bus (regional bus)
  - £2 fare cap schemes supporting increased demand for bus
  - Free bus travel scheme for under-22s is supporting strong growth in bus travel by young people in Scotland
- Proactive management of labour shortages and re-shaping of local bus networks to reflect new travel patterns
- Expansion in contracted London bus operations
  - Acquisition of two businesses with more than 300 buses and 28 routes contracted with Transport for London, providing good strategic fit with existing depot footprint
- Positive long-term outlook, leveraging the benefits of new ownership and supportive government policy and funding

Financial highlights

- Growth in adjusted profit reflecting recovery in passenger volumes and payments from national governments to protect public transport services for customers
- Net debt plus net train operating company liabilities down from £271.0m (restated) to £265.8m, notwithstanding additions to net debt resulting from two acquisitions of businesses in London and the resumption of dividends during the year
- Substantial strengthening of pensions position:
  - Pensions assets (net of taxes) of £195.9m at 29 April 2023, a £214.9m improvement in the year
  - Proactive de-risking of pension schemes

Contents

Financial summary

	"Adjusted" results Results excluding separately disclosed items*		"Statutory" results	
	2023 **£m**	2022 (restated) £m	**2023** **£m**	2022 (restated) £m
Revenue	**1,372.6**	1,176.5	**1,372.6**	1,176.5
Total operating profit	**77.8**	72.8	**47.5**	82.8
Net finance costs	**(22.1)**	(28.6)	**(21.5)**	(27.6)
Profit before taxation	**55.7**	44.2	**26.0**	55.2

* See definitions in note 32 to the consolidated financial statements.
** See details of restatement in note 1(b).

1. Strategic report

1.1 Introduction

Stagecoach Group Limited ("the Company") is the parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group Limited ("the Directors") are pleased to present their report on the Group for the year ended 29 April 2023.

This section contains the Strategic report, which includes the information that the Group is required to produce to meet the need for a strategic report in accordance with the Companies Act 2006. The Directors' report is set out in section 2.

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

1.2 Cautionary statement

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

1.3 Overview

Introduction
We have delivered a positive set of financial results for the year ended 29 April 2023 as we work in partnership with national and local government to maximise the opportunities from public transport for consumers and the country while navigating the current economic environment. This past year has seen a continuing trend of closer engagement with local transport authorities in re-shaping our local bus networks to reflect new travel patterns and investing in services to make them more attractive to existing and new customers.

There has been a recovery in demand for our public transport services, with year-on-year growth in regional bus passenger journeys of 17.3% during the year. Concessionary travel volumes have recovered less quickly than fare-paying passenger volumes, although we are seeing positive growth in bus travel under the Scottish Government's under-22 free bus travel scheme.

UK Bus (regional operations)
Our services are central to delivering economic growth, social equity and objectives around improved air quality and decarbonisation. This is reflected in the continued government investment in buses, in particular, as we transition to a net zero future.

We are continuing with the delivery of Bus Service Improvement Plans across England along with our partner regional and local transport authorities. In addition, we are pleased to have seen a positive impact from the £2 single fares initiatives in England by the Department for Transport and several metro mayor combined authorities.

In Scotland, we are seeing positive growth in bus travel linked to the under-22 free bus travel scheme, and we have also been working with Transport Scotland and other operators on a marketing campaign to boost bus use. The Scottish Government has also recently launched the second phase of the Scottish Zero Emission Bus Challenge Fund ("ScotZEB"), with up to £58m of funding available. The Welsh Government has announced a further £46m to support the existing Bus Emergency Scheme ("BES") and successor arrangements for the year to 31 March 2024.

We are continuing to engage with our national and local government partners on the importance of long-term investment in bus networks, and around policy proposals we believe will help maximise the potential of public transport for the country. We published new research in November 2022 on modal shift, which demonstrates that consumers support partnership working between local authorities and bus operators to deliver a balanced package of incentives. It is clear this approach can deliver significant modal shift from car to public transport and active travel.

We fully established our new dedicated UK customer contact centre during the year, and have rolled out new flexible ticketing options for passengers. We are progressing a £48m investment in around 200 Euro VI buses and we plan to increase our electric bus fleet by over 80% by the end of 2023. This follows the launch of the UK's first all-electric bus city in Inverness in February 2023, with other all-electric bus cities to follow.

In June 2023, it was announced that we had been awarded three contracts from Transport for Greater Manchester ("TfGM") under its new franchising system. We are delighted with this outcome and look forward to operating these services under TfGM's new Bee network from the Middleton, Oldham and Queens Road depots from March 2024.

Stagecoach is also continuing to lead the sector on transport innovation. During the year, we have expanded our involvement in the development of autonomous bus technology. As well as completing initial passenger trials of our CAVForth project in East Scotland and confirming plans to extend the route, we have partnered with local transport authorities on new UK Government-backed trials in Cambridge and Sunderland.

UK Bus (London)
We have grown our operations in London with the acquisition of bus operations previously operated by Kelsian Group and HCT Group. In total, these operations involve around 950 employees and more than 300 buses, and we have taken over responsibility for delivering 28 routes on behalf of Transport for London ("TfL"). The depot locations are a good strategic fit for our existing London operation and extend the area previously served.

1. Strategic report (continued)

Trading in our London bus operations has been challenging with a substantial reduction in profitability over the course of the year, consistent with the experience of other operators in that market. The London bus business is contracted to run specified services on behalf of Transport for London and cannot unilaterally reduce service levels. Accordingly, staff shortages have resulted in higher levels of lost mileage and weaker operational performance, which have resulted in higher contractual penalties and lower quality incentive income. In addition, staff and other costs have increased significantly because of the staff shortages, as well as high inflation. However, we expect profitability to recover over the medium-term as we address labour market challenges, benefit from lagged inflationary increases in contract revenues and seek to re-price contracts as they are tendered.

Macro-economic factors
We are actively managing the current inflationary environment by taking a balanced approach to protecting our customers and employees from the cost-of-living pressures as far as possible, while ensuring we maintain properly funded and sustainable bus networks.

Our proactive steps to manage labour shortages in the UK economy has also resulted in a more reliable level of service for customers. During the year we have recruited and trained more than 4,000 new bus drivers to protect our services. We remain grateful for the huge commitment and professionalism of our people who are delivering services safely in our communities day in, day out.

Financial results
For the year ended 29 April 2023, revenue grew to £1,372.6m (2022: £1,176.5m) and adjusted total operating profit grew to £77.8m (2022 restated: £72.8m). Revenue excludes COVID-19 grant income from government, which is reported as other operating income. The growth in revenue reflects recovering passenger demand across our regional bus and tram services as pandemic-related restrictions have eased and confidence has returned, as well as the effect of new businesses acquired in London during the year. The growth in adjusted total operating profit reflects that revenue growth and payments from governments to support the recovery of public transport networks vital to the future of the country, partly offset by the reduced profitability in London arising from staff shortages and the lagged inflationary increases in contract revenues. Unadjusted operating profit was £47.5m (2022 restated: £82.8m), with the decrease principally due to the growth in adjusted total operating profit being offset by transaction costs in the year related to the two offers to acquire the Company, and non-recurring separately disclosed gains in the prior year.

During the year net debt increased slightly from £230.8m (restated) to £241.1m, reflecting the resumption of dividends and impact of acquisitions of two bus businesses in London, largely offset by good underlying cash generation.

In addition, we saw a substantial strengthening of our pensions position during the year, as we made excellent progress on de-risking our pensions schemes. At 29 April 2023, our net pre-deferred tax pension assets were £195.9m, a £214.9m improvement over the year.

Dividend
In light of the Group's substantial available liquidity and its strong recovery in financial performance and position, the Board has proposed and paid dividends of £47.5m in respect of the year ended 29 April 2023.

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, other than the desire to maintain sufficient liquidity to fund available capital expenditure and growth opportunities, taking into account expected cash flow from the business together with the ongoing commitment to seek to maintain an investment grade credit rating.

Outlook
We remain positive on the long-term outlook for Stagecoach and our sector, despite the short-term macro-economic challenges. National and local government transport strategies in England, Scotland and Wales provide a good platform for long-term growth and will require closer partnership between bus operators and transport authorities, particularly through an expansion of bus service franchising. Public transport, and buses in particular, will be critical to delivering a greener, healthier and more inclusive country, and more connected local communities.

We are confident that our strong financial position and our continuing momentum means that we can deliver further benefits to our customers, employees, investors and wider stakeholders.

Summary of financial results
Revenue, split by segment, is summarised below and excludes COVID-19 grant income from government. COVID-19 grant income is reported within other operating income:

Revenue

	2023 £m	2022 £m	Growth %
UK Bus (regional operations)	**1,029.9**	892.2	15.4%
UK Bus (London)	**327.5**	272.6	20.1%
UK Rail	**15.2**	11.7	
	1,372.6	1,176.5	

1. Strategic report (continued)

Operating profit, split by segment, is summarised below:

Operating profit

	2023 £m	2023 % margin	2022 (restated – see note 1(b)) £m	2022 % margin
UK Bus (regional operations)	**77.0**	**7.5%**	57.9	6.5%
UK Bus (London)	**0.4**	**0.1%**	20.8	7.6%
UK Rail	**4.4**		0.2	
Group overheads	**(9.5)**		(9.3)	
Restructuring costs	**(0.1)**		(0.2)	
Operating profit before joint ventures and separately disclosed items	**72.2**		69.4	
Joint ventures – share of profit after tax				
WCT Group (formerly Virgin Rail Group)	**0.2**		2.9	
Citylink	**4.8**		0.4	
Crown Sightseeing	**0.6**		0.1	
Total operating profit before separately disclosed items	**77.8**		72.8	
Non-software intangible asset amortisation	**(0.9)**		–	
Other separately disclosed items	**(29.4)**		10.0	
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**47.5**		82.8	

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

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group and its business model

Stagecoach Group's purpose

What we do
We operate bus, coach and tram services covering locations across the UK.

Why we do it
Our purpose is to connect communities to the people and places that matter most. We aim to connect people in a sustainable way, which is better for the environment. To achieve that, we seek to provide safe, high quality, sustainable and reliable transport at good value for money for customers.

We support, directly and indirectly, many businesses and thousands of sustainable jobs.

How we create stakeholder value
By applying our commitment to operational and commercial excellence, we aim to provide a great experience to our customers and our people. Through our sustainable transport services, we can create a healthier environment for our communities. We believe that in these ways, we can create long-term sustainable value for shareholders and other stakeholders.

Stagecoach Group is a leading public transport group. The Group employs around 23,000 people and operates bus, coach and tram services. The Group has three main segments – UK Bus (regional operations), UK Bus (London) and UK Rail.

We offer greener, smarter travel in the UK and our principal business is providing passenger transport services, primarily by transporting people by bus, coach or tram.

This section 1.4.1 summarises the Group's business model. The remaining parts of section 1.4 are also important to an understanding of our business model and we cross-reference them where appropriate.

Stagecoach Group Limited is a private limited company that is incorporated, domiciled and has its registered office in Scotland. Until 28 June 2022, the Company's ordinary shares traded on the London Stock Exchange. The Company is now owned by Inframobility UK Bidco Limited, which is indirectly owned by an international infrastructure fund managed and advised by DWS Infrastructure.

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

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

Business culture

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

Our culture encourages sensible risk taking while managing risks appropriately and responding to risks that do crystallise. It is inevitable and appropriate for a group of its size that the Group has a number of policies and procedures to ensure appropriate behaviours but these are designed to avoid stifling our agility. More information on the Group's core values and policies is provided in section 1.7.6 of this Annual Report.

1. Strategic report (continued)

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

Sources of revenue

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

We also receive other income, which may include income from:
- property rental;
- selling advertising space on vehicles and premises we operate;
- government grant income to support transport networks affected by the COVID-19 situation.

Key costs and inputs

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

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

Our other major operating costs are:
- diesel and electricity to fuel or power our buses, coaches and trams;
- insurance costs and claims costs;
- materials and consumables, including replacement parts for vehicles;
- depreciation charges for the vehicles, properties and technology that we operate.

Competitive advantages

We see our key sources of competitive advantage as being:
- Our operational excellence – providing safe, reliable, good quality, value for money, customer-focused transport services;
- Innovation – we have a long record of innovation;
- Our commercial expertise in designing transport networks, pricing our services and marketing our services;
- Our brands – our operational excellence and commercial expertise is reflected in our generally high customer satisfaction scores meaning that our key brands are well regarded in their respective markets;
- Our relationships – we view our relationships with employees, trade unions and government bodies, in particular, as key advantages to our business;
- The economies of scale of being a relatively large transport provider.

Value for other stakeholders

As well as the financial value we generate for our investors, lenders and people, we provide value to a wider group of stakeholders, including:
- Public transport offers environmental benefits versus wide-scale car usage and can contribute to efforts to reduce pollution and improve air quality, benefiting the public in general;
- Our services connect people to jobs, to education, to training, to healthcare, to leisure and to each other. We contribute to social inclusion and our services can be critical for people without access to a car;
- Our business generates significant tax contributions to public finances across employee, sales, corporation, property and other taxes;
- We contribute to charities as well as providing non-financial support to charities and the communities in which we operate.

Risks

We do face a number of risks. Section 1.4.5 sets out the principal risks to the achievement of our strategy and objectives. Our overall risk management approach has not changed as a result of COVID-19.

Key performance indicators

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

Impact of COVID-19

We believe our business model remains appropriate for a post COVID-19 world. Our business model adjusted during the pandemic, with more of our income being from COVID-19 grants from government. We expect our business model will continue to evolve to reflect the opportunities presented from changes in government policy and climate change, and to respond to a closer relationship with government.

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

Group strategy

Our strategy remains focused on maximising our core business' potential in the UK, underpinned by four key areas:
- Optimise our fleet and infrastructure
- Pursue franchising and growth opportunities
- Enhance customer experience
- Build a lean and agile model and invest in our people

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

UK Bus (regional operations)

Description	The UK Bus (regional operations) business connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. The business operates a fleet of around 6,700 buses and coaches across a number of regional operating units. Each regional operating unit is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates inter-urban services linking major towns within its regional operating company areas. Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro. The joint venture is responsible for the Scottish Citylink express coach network and megabus.com branded services to, from and within the UK. Stagecoach owns 37.5% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 62.5%. The joint venture is the leading retailer of scheduled, inter-city coach services in Scotland.
Regulatory environment	The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985 and since varied by the Bus Services Act 2017 (see below). This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality. The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the revenue is ordinarily from customers paying for their own travel by bus. The business also operates tendered services, including schools contracts, on behalf of local authorities. Pre-COVID, around 10% of the UK Bus (regional operations) revenue was receivable from local authorities in respect of such tendered and school services. For some services, the Group receives revenue from passengers as well as tendered revenue from a local authority. Pre-COVID, around 24% of the UK Bus (regional operations) revenue was earned from statutory concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying older people and people with disabilities, at no charge to the passenger, on the same bus services that are also available to the wider public. The Group would typically receive both revenue from passengers and also, concessionary revenue from a local authority in respect of a single bus service and in some cases, may also receive tendered revenue for the same service. Responsibility for buses in the UK is devolved. The devolved governments in Scotland and Wales have responsibility for buses in their areas. In England, outside London, the Department for Transport oversees buses but with local authorities playing an important role. The Bus Services Act 2017 provides a legislative framework to help bus operators and local authorities in England to improve local bus services. It includes several possible models for bus services: Advanced Quality Partnerships, Enhanced Partnerships and franchising. Franchising is an established model for providing bus services and is used in London and in many cities and regions across Europe. In a franchising scheme, local authorities will determine the details of the services to be provided – where they run, when they run and the standards of the services. Typically bus operators provide their services under contract to the local authority who can let whatever sort of contract it feels is appropriate. No other local bus services can operate in the franchised area without the agreement of the franchising authority.
Strategy	The strategy of the UK Bus (regional operations) business is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 26% of the UK bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that in 2021, there was an average of 757 trips per person per year, up from 739 in 2020, principally reflecting the recovery following the COVID-19 pandemic. Trips by car or van accounted for 80% of distance travelled, bus trips accounted for only 3%, rail trips accounted for 9% and walking, cycling and other modes accounted for 8%. There therefore continues to be a significant market opportunity to stimulate modal shift from car to bus. According to the NTS in 2021, around 25% of bus journeys outside of London were for commuting and business, 27% for shopping, 12% for education, 24% for leisure, 12% were for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.
Macroeconomic factors	Although the UK Bus (regional operations) revenue is not immune to macroeconomic changes, it is less exposed than many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) face competition for customers not only from other operators of buses and coaches but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are FirstGroup, National Express Group, Go-Ahead Group and Arriva. New, potential, sources of competition are emerging, often enabled by digital developments. Newer competitors include ride-sharing websites, digitally-driven taxi services and aggregators of travel services.

1. Strategic report (continued)

UK Bus (regional operations)

Future market developments	Although we see ongoing forecasting uncertainty in relation to passenger demand and cost inflation, we expect continued good profitability for the year ending 27 April 2024, as we return to a more commercial model for regional bus services, underpinned by greater certainty around government funding for the year ahead. 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. 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. The business does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.5. Technological developments present both opportunities and threats to growing passenger volumes. While people's reducing propensity to travel is a risk to the business, there are positive long-term conditions for further growth in demand for UK bus services created by population growth, increasing urbanisation, rising road congestion, supportive government policy and public concerns for the environment. 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)

Description	The Group is the second largest operator in the London bus market, operating from 13 depots with a fleet of over 1,600 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for inflation) and generally taking the cost and capital risk. Bus operators bid to win contracts and each contract is typically for a five to seven year period and some have the potential to be extended by two years. The UK Bus (London) business currently has over 120 separate contracts to provide bus services on behalf of Transport for London – this spreads the risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 17.6% of the bus operating mileage contracted by Transport for London. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy. The financial performance of the business has been impacted adversely in the current year due to upwards wage pressure, consistent with the challenges facing other sectors of the UK economy.
Competition	UK Bus (London) faces competition to win Transport for London contracts from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metroline, RATP and Abellio.
Future market developments	We have significantly expanded our London business during the year ended 29 April 2023, with the acquisition of bus operations previously operated by Kelsian Group and HCT Group. In total, these operations involve around 950 employees and more than 300 buses, and we have taken over responsibility for delivering 28 routes on behalf of Transport for London. While financial pressure on Transport for London does present risks for the business, we have not significantly changed our London bus strategy. In the short-term, revenue growth could come from inflationary contract price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. While bus mileage reductions by Transport for London present a risk to the business, positive government policy on public transport can contribute to a positive long-term outlook for the business.

Rail

Description	The Group continues progressing with the unwinding of the affairs of its former UK franchised rail businesses as we seek to exit from this segment of our operations. The Group's rail operations are now limited to the Sheffield Supertram operation of a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024.

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

Stagecoach Group has a range of resources and relationships, including contractual relationships that underpin its business and support its strategy.

These assist in giving the Group a competitive advantage in the markets in which it operates.

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

We conduct customer research to monitor our performance and to determine how we can improve the quality, delivery and accessibility of our services.

We are passionate about providing good customer service and our businesses have regular and ongoing discussions with bus user groups. This includes presentations from managers on aspects of our service as well as consultation and information sharing on particular issues.

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

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

The financial community
Our investors and lenders are critical to our business success. We provide updates to them on our performance.

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

Government and regulatory bodies
Our managers have ongoing relationships with national and local government to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. We work with local authorities, including passenger transport executives, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas. We work closely with the Department for Transport, the Scottish Government, Transport Scotland, the Welsh Government and Transport for London.

We contract with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis.

We have constructive dialogue with organisations such as the Campaign for Better Transport.

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

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

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

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

Licences
We hold various licences giving authority to operate our public transport services and these are maintained up to date as required.

Transport and industry representation groups
We are active members of industry groups, such as the Confederation of Passenger Transport UK and UKTram.

1.4.5 The challenges we face (principal risks and uncertainties)

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

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

The Board of Directors determines the nature and extent of the principal risks that it is willing for the Group to take in achieving its strategic objectives. Information on the risk management process is provided in section 2.5 of this Annual Report. The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group. Where appropriate, the principal risks and uncertainties below include emerging risks.

1. Strategic report (continued)

The Group's principal risks and uncertainties remain consistent with the prior year.

<table>
<tr><th>Description of risk</th><th>Management of risk</th><th>Developments in year ended 29 April 2023 and since</th><th>Section in Annual Report</th></tr>
<tr><td colspan="4">Major event such as a serious accident</td></tr>
<tr><td>There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action.

A series of less severe incidents could have similar consequences.</td><td>While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.</td><td>• We have implemented a new driver risk management system across our operating companies to enhance our monitoring and support of driver performance.</td><td></td></tr>
<tr><td colspan="4">Economy</td></tr>
<tr><td>The economic environment in the geographic areas in which the Group operates affects the demand for the Group's services. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy.

The COVID-19 situation had a substantial, adverse effect on the UK economy, though we currently have limited visibility over its longer term economic effect, which may lead to a prolonged period of 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.

Ongoing geopolitical risk may prolong high levels of inflation, on both pay and other costs, impacting profit margins while also potentially suppressing passenger demand due to reduced disposable income.</td><td>Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk.

Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.

Hedging arrangements are in place to manage volatility in fuel and electricity costs.

Inflation and other economic factors are considered when pricing our services.</td><td>• Current higher inflation presents both opportunities and risks to the Group. Our fuel hedging programme provides our cost base with some short to medium-term protection from higher fuel prices. Our past experience is that higher fuel prices drive incremental demand for bus and tram services over other modes of transportation. Combined with a wider cost of living crisis, in many cases, bus and tram travel presents a cheaper mode of travel than car use, and we are positioning our marketing to focus on our good value fares. The principal risk from higher inflation is around the availability and cost of staff, which is discussed further under "People and culture".</td><td>1.3, 1.5.1 and 1.6</td></tr>
<tr><td colspan="4">Terrorism</td></tr>
<tr><td>There have been multiple acts of terrorism on public transport systems and other terrorist attacks that, whilst not directly targeting public transport, have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.</td><td>The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.</td><td>• No significant matters to report.</td><td></td></tr>
</table>

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
Changing customer habits			
There are opportunities for the Group to shape its services and its interaction with its customers in response to changes in customer habits such as their working patterns and shopping. People travel on the Group's bus and tram services for a variety of reasons, including in some cases, to get to and from work and/or to get to and from shopping locations. Changes in people's working patterns, shopping habits and/or other preferences could affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. For example, increases in the proportion of working time that people spend at home, or in the level of shopping undertaken online, could affect demand for travel. A sustained reduction in international travel may boost the appeal of "staycations", and increase demand for our services. It is likely that the longer term effects of 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.	The Group monitors trends in revenue and journey numbers across its businesses. In forecasting future revenue and journey numbers, including in respect of bids for new contracts, the Group considers research and evidence on changing customer behaviour. The Group will, from time to time, vary its timetables, pricing, range of ticket types and transport networks in response to actual or anticipated changes in demand.	• We have rolled out a major investment in new Optibus software across our operating companies, which helps plan the bus networks of the future to match the changes in how people travel emerging from the COVID-19 pandemic. It will help deliver more efficient timetables and rosters that offer passengers both attractive frequencies and reliability.	1.5.1 and 1.6

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/ liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. The Board oversees the Group's overall pensions strategy and participates in major decisions on the funding and design of pension schemes.	• We saw a substantial strengthening of our pensions position during the year, as we made excellent progress on de-risking our pension schemes. At 29 April 2023, our net pre-deferred tax pension assets were £195.9m, a £214.9m improvement over the year. • The Stagecoach Group Pension Scheme is the Group's largest defined benefit pension scheme exposure comprising almost 90% of the total retirement benefit obligations. During the year, the Trustees took advantage of the exceptional rise in gilt yields to transition from its equity and multi-asset led growth strategy to a liability-driven investment ("LDI") strategy, locking in an overall funding surplus with hedging ratios achieved of 96 – 97% of interest and inflation liabilities. • To update and to align to its new investment and funding strategies, the Scheme undertook an out-of-cycle valuation as at 31 October 2022. This showed a funding surplus of £87.3m, being a further improvement on the 30 September 2021 out-of-cycle valuation surplus of £48.7m. At the balance sheet date, taking the various sections in aggregate, the Scheme was fully funded at around 106% against its long term self-sufficiency target using a gilts plus 0.5% discount rate. • As a result of the improved funding and hedged positions, the Scheme Trustees and employers agreed amendments to the long term Funding Agreement providing for the employers to make deficit payments to the Scheme of £4.4m spread over 12 months from 1 May 2023. Further to this the employers have agreed in principle to make payments into an escrow account of £4.1m for each of FY2024/25 and FY2025/26, to be used to underpin the funding position of the Scheme through to April 2031, when the escrow funds may be released back to the employers or paid into the Scheme depending on its funding position.	1.3, 1.5.10.2
Insurance and claims environment			
The Group receives claims in respect of traffic incidents and employee claims. The Group protects itself against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of deductibles ("excess") and loss corridors on insurance policies. There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. There is also a risk of fines and other regulatory action in relation to incidents.	The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.	• The Group continues to retain some of the risks associated with the US insurance and claims arrangements that were in place prior to the disposal of its US business in April 2019 through its exposure to letters of credit and guarantees being left in place in respect of current insurance policies for up to five years post-disposal. The quantum of the risk continues to reduce as the US business settles claims.	

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
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. Section 1.7.2.4.1 of this Annual Report sets out in more detail our assessment of climate change risks.	Section 1.7.2.5.2 of this Annual Report sets out how we are managing climate change risks.	• We see the transition of our bus fleet to zero emission vehicles, and the related activities, as the principal measures we are taking to reduce carbon emissions. This requires collaboration between operators and government, and we are pleased to have utilised the Zero Emission Buses Regional Areas ("ZEBRA") scheme in England and the Zero Emission Bus Challenge Fund ("ScotZEB") in Scotland to support investment new zero emission buses. • Section 1.7.2 more broadly sets out the impact of the Group's business on the environment, our environmental policy, actions we are taking to reduce our impact on the environment and the effectiveness of our environmental policies. • There has been a continued increase in the impact and occurrence of extreme weather events, including floods and wildfires, which increases the risk that we incur additional costs or experience service disruption to our services.	1.7.2

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
Regulatory changes and availability of public funding			
Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects. There remains a possibility that some bus services in the UK outside London become subject to franchising (whereby a government body specifies the bus services and puts them out to tender) compared to the current model where commercial bus operators are free to design and operate their own services. Similarly, many of the Group's businesses benefit from Government investment in bus and tram services, including grants, tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to political, regulatory or other reasons. In the year ended 29 April 2023, the UK Bus (regional operations) earned £56.7m of bus operating grants. Those operations also earned £126.5m in tender/school revenue and £268.5m in concessionary revenue from local government bodies. Also, the vast majority of the reported revenue of the UK Bus (London operations) is earned from contracts with Transport for London. The Group is also receiving significant payments from government to support the recovery of public transport services following the impact of the COVID-19 situation. There is a risk that the extent of the payments available to the Group reduces faster than improvements in the underlying financial performance of its businesses. That could adversely affect the Group's financial performance and financial position. There is a risk that government policy decisions to improve air quality and/or lessen road congestion result in increased capital expenditure and/or operating costs for the Group and that such additional costs are not fully offset by increased revenue. There is also a risk that the Group suffers financial or reputational damage as a result of non-compliance with laws or regulations or as a result of the Group having a different interpretation of laws or regulations from others. In addition, in the case of tax, there is a risk the Group suffers reputational damage because of how others perceive the Group's approach to a tax matter even where the Group has complied with the applicable laws and regulations.	Management, including at a senior level, has been closely engaged with government and industry colleagues throughout the COVID-19 pandemic and beyond. Engagement has focused on ensuring the health and wellbeing of our people and customers, determining the appropriate level of services to operate, and discussing the level of payments from government for those services. Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in trade bodies and government forums. The Group seeks to maintain good, cooperative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it, but also capitalise on potential growth opportunities. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	• The Group has received COVID-19 related payments from government for periods since mid-March 2020, which has enabled the continuation of transport services as customer demand has continued to recover. We have received Bus Recovery Grant ("BRG") support for local bus services in England throughout the year, whereby funding was allocated to operators with reference to revenue and mileage operated. The Department for Transport has announced that further funding will be available for bus services in England until 2025. • The COVID-19 Support Grant Restart ("CSG") payments for continuing bus services in Scotland ended on 31 March 2023. • In Wales, a voluntary partnership arrangement, Bus Emergency Scheme 3 ("BES 3"), runs until July 2023. A successor scheme, Bus Transition Fund, will run until March 2024 to support continuing bus services. • We have worked closely with local transport authorities to help shape Bus Service Improvement Plans ("BSIPs") submitted to the Department for Transport in October 2021 as part of the National Bus Strategy for England. The BSIPs include initiatives to deliver better services and grow bus use, and envisage local transport authorities either entering into enhanced partnerships with operators or pursuing franchising schemes. While this additional funding has the potential to reverse the long-term decline in passenger volumes, there is a risk that franchising of bus services or new partnership working could adversely affect the revenue and profit of the Group's existing bus businesses in England (outside London). Equally, we recognise that franchising also presents us with opportunities for growth. • The Mayor of Greater Manchester decided in March 2021 to proceed with plans for a bus franchising scheme in the region. We have participated in the tenders for the first two tranches of Manchester bus franchises, and were delighted to be informed in June 2023 that we have been successful in our bids for the Middleton, Oldham and Queens Road depots, which will commence in March 2024. Other parts of the country that are actively considering proposals for bus franchising, include North East England, Yorkshire, Merseyside and Wales.	

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
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.	As explained in section 1.7.6 of this Annual Report, we have clear, established corporate values, which are set out in our Code of Conduct. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. Our whistleblowing policy and guide helps employees understand their rights and responsibilities. It sets out how the Group will investigate any concerns raised and the action it may take. We have employment policies in place as described in section 1.7.3.2 of this Annual Report. Employees' roles and responsibilities are defined and we aim to reward employee contributions through fair pay and benefits. We recognise the value and benefit of having an inclusive and diverse workforce, as further explained in section 1.7.4 of this Annual Report. Training, development and succession planning arrangements are in place, which take account of the potential future skills that the business may require. The Board monitors the Group's culture, including through, the results of staff surveys, reports from the Risk Assurance function, reports of any employee fraud and reports from the whistleblowing process.	• Following the marked increase in driver turnover during the previous year, we reviewed our recruitment strategy during the year ended 29 April 2023 to increase attraction and reach through digital marketing campaigns to support improvement of the diversity of frontline employees. • Improvements have been made to the Workday recruitment system to provide a quicker and more user friendly candidate application and provide greater insights on source of application. to inform future advertising decisions. • We have a targeted campaign to ensure high diversity and gender split of new starts on Stagecoach Graduate programme 2023. • Our sustainability strategy includes goals and targets around workforce diversity, training and development, internal succession, employee wellbeing and recruitment.	1.4.1, 1.7.3, 1.7.4 and 1.7.6
Disease			
There is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. Such a fall in demand would have a negative impact on the Group's revenue and financial performance. This was identified by the Board as a principal risk some years ago but the COVID-19 situation was a clear and substantial crystallisation of the risk.	The Group has plans in place to respond to any significant outbreak of disease. As a result, it was able to respond swiftly and decisively to the COVID-19 situation.	• No significant matters to report.	
Information security			
There is a risk that confidential and/or commercially sensitive information relating to and/or held by the Group is subject to unauthorised access, use, disclosure, modification, perusal, recording or destruction. There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.	An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts. Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.	• We have assessed our information security maturity against the NIST Cyber Security Framework, and increased the number of security domains assessed, as we make continued improvements in this area.	

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 29 April 2023 and since	Section in Annual Report
Information technology			
The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group. An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue.	The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new digital platforms and continues to look to ensure that it secures reliable service provision.	• We continue to make targeted investment in fleet and technology enhancements, and were pleased to introduce a new asset management systems for our engineering and fleet activities during the year.	
Competition			
Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business. We face competition for customers not only from other operators of trams, coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Developments in new technology and/or new business models could affect the competitive environment in which the Group operates. Technological developments could enable new competitors and/or business models to be developed that disrupt or compete with the Group's business. Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key segments.	We monitor competitive developments in each of our markets and respond as appropriate. That includes monitoring developments in technology and business models that could affect the competitive landscape. We work with local authorities, including passenger transport executives and regional transport committees, in the delivery and planning of bus and tram services.	• Private car usage has recovered more quickly than public transport as the country recovers from the pandemic. We believe this is partly attributable to the messaging during the pandemic to discourage use of public transport. Over the longer term, we believe there is an opportunity to stimulate modal shift from car to public transport over time, through public policy initiatives, like the National Bus Strategy for England.	

Details of the Group's treasury risks are discussed in note 23 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1.4.6 How we measure our performance (key performance indicators)

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level to measure the Group's progress in achieving its objectives. The most important of these KPIs at a Group level focus on five key areas:
- Profitability
- Organic growth
- Safety
- Service delivery
- Carbon saved by modal shift

KPI 1 – profitability

The overall strategy of the Group is intended to promote the success of the Group and create long-term value to shareholders. In the shorter term, we measure progress towards this overall aspiration by monitoring Earnings before Interest, Tax, Depreciation and Amortisation before separately disclosed items.

KPI 2 – organic growth

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

KPIs 3 and 4 – safety and service delivery

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

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

KPI 5 – carbon saved by modal shift

The Board uses a number of metrics in respect of climate change matters. We view carbon saved by modal shift as a key metric because it captures not only the direct emissions from our operations, but also the emissions saved from replacing car journeys with public transport. Details of the metrics we use to manage relevant climate-related risks and opportunities are set out in section 1.7.2.6 of this Annual Report.

Profitability

Earnings before Interest, Tax, Depreciation and Amortisation, before separately disclosed items ("Adjusted EBITDA") is used to measure the profitability of the Group for the year.

Adjusted EBITDA was as follows:

	Year ended 29 April 2023 £m	Year ended (restated) 30 April 2022	Year ended 1 May 2021
Adjusted EBITDA	**190.3**	183.9	166.7

Sections 1.3 and 1.5 of this Annual Report include comments on the development of the Group's profitability.

Organic growth

The following measures of organic growth are monitored:

- UK Bus (regional operations) – growth in passenger journeys measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- UK Bus (London) – growth in revenue measured as the percentage increase in revenue relative to the equivalent period in the previous year.

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

Throughout this Annual Report, references to passenger volume growth mean growth determined on the basis set out here. Passenger journey metrics reported involve a degree of estimation. All of the organic growth KPIs are normalised to exclude businesses that have not been held by the Group for the whole of the relevant year and the preceding year. The growth figures are also normalised for differences in the number of days in each year.

	Target	**Year ended 29 April 2023 Growth %**	Year ended 30 April 2022 Growth %	Year ended 1 May 2021 Growth %
UK Bus (regional operations) like-for-like passenger journeys growth	Positive growth each year	**17.3%**	79.9%	(58.0)%
UK Bus (London) like-for-like revenue growth		**1.3%**	4.2%	8.3%

We have continued to see a recovery in passenger demand across our UK Bus (regional operations) during the year ended 29 April 2023. The higher growth in passenger journeys in the year ended 30 April 2022 reflected the impact of the easing of COVID-19 restrictions across the UK.

The significant increase in UK Bus (London) revenue in the years ended 30 April 2022 and 1 May 2021 principally reflects the commencement of new contracts won in the prior years. In addition, the revenue growth in the year ended 1 May 2021 is boosted from operating a full service from the early part of that year, having made temporary reductions in collaboration with Transport for London at the outset of the pandemic. Revenue for the year ended 29 April 2023 has been suppressed in London due to the impact of higher contractual penalties and lower quality incentive income, which is attributable to the operating challenges arising from staff shortages.

Safety

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

Two of the more important safety KPIs are reported below:

	Target	**Year ended 29 April 2023**	Year ended 30 April 2022	Year ended 1 May 2021
UK Bus (regional operations) – number of avoidable accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**32.0**	26.5	16.7
UK Bus (London) – number of avoidable accidents per 1 million miles travelled		**41.9**	42.5	34.1

We believe the low levels of avoidable accidents across both our UK Bus (regional operations) and UK Bus (London) businesses in the year ended 1 May 2021 principally reflects the impact of COVID-19, due to a decrease in private road vehicle usage, reflecting government restrictions around non-essential travel. Accordingly, we had expected increases in the number of avoidable accidents across all our businesses, as traffic levels and passenger journeys on our services increased as we recovered from the pandemic. The level of avoidable accidents across our UK Bus (regional bus) business is higher than we experienced pre-COVID, and we believe that is partly attributable to increased levels of staff turnover, with driver inexperience being a leading cause of minor property-related incidents. In addition, we consider heightened traffic congestion is another factor which is driving the increase in reported accidents.

Service delivery

Our measures of service delivery include reliability measured as the percentage of planned vehicle miles to be operated that were operated.

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

The service delivery KPIs were as follows:

	Target	**Year ended 29 April 2023 %**	Year ended 30 April 2022 %	Year ended 1 May 2021 %
UK Bus (regional operations) reliability	**>99.0%**	**96.9%**	97.5%	99.7%
UK Bus (London) reliability	**>99.0%**	**97.7%**	98.5%	99.2%

During the year ended 29 April 2023, operational reliability across the business has been adversely impacted by staff shortages, resulting in higher lost mileage than we would typically expect in our business. The improved operational reliability in the year ended 1 May 2021 reflects the reduced disruption to bus services due to less traffic congestion during the COVID-19 pandemic and increased vehicle availability whilst lower levels of vehicle mileage were being operated.

1. Strategic report (continued)

1.5 Financial review

1.5.1 UK Bus (regional operations)

Summary

- Strong growth in revenue and operating profit reflecting recovering customer demand and payments from government for continuing bus services
- Operationally challenging period with lost mileage arising from staff shortages
- Positive long-term outlook for the business

Financial performance

The financial performance of the UK Bus (regional operations) for the year ended 29 April 2023 is summarised below:

	2023 £m	2022 £m	Change
Revenue	**1,029.9**	892.2	15.4%
Like-for-like revenue*	**1,018.8**	877.1	16.2%
Operating profit*	**77.0**	57.9	33.0%
Operating margin*	**7.5%**	6.5%	100bp

* See definitions in note 32 to the consolidated financial statements – segment operating profit and operating margin excludes separately disclosed items.

We have been pleased with the recovery in passenger demand for our services, which has contributed to the rise in operating profit from the prior year. We continue to see journeys by fare-paying passengers currently recovering faster than concessionary journeys, supported by government initiatives such as the £2 fare cap schemes. We continue to progress a number of ticketing initiatives to reflect the changes we are seeing in travel patterns.

It has been an operationally challenging year for the business, with staff shortages resulting in planned reductions in our services and unplanned cancellations of services. Staff shortages are being seen across the economy, and combined with higher inflation, is feeding higher pay demands. We have selectively increased fares to reflect increased costs, while aiming to take a balanced approach that recognises the cost of living pressures on many of our customers.

The operating profit for the year includes £87.1m of COVID-related bus support scheme grant income from governments (2022: £108.3m). We have continued to benefit from the financial commitments made by governments across the UK to secure the continuity of bus services while passenger volumes recover, and we welcome the recently announced two-year funding settlement for operators in England, which provides increased certainty in planning our services.

Like-for-like vehicle miles operated in the year were 6.2% lower than the prior year, reflecting adjustments to our network to take account of customer demand and staff shortages. Like-for-like revenue per vehicle mile increased 23.9% and like-for-like revenue per journey reduced 1.0%. The increase in revenue per mile reflects the COVID-related increase in year-on-year revenue despite the year-on-year decrease in vehicle mileage. The reduction in revenue per journey is largely attributable to the rise in concessionary journey numbers not being matched by an equivalent increase in concessionary revenue, recognising that prior year concessionary revenue payments were maintained at close to pre-COVID revenue rates despite the substantially lower concessionary journey numbers in the prior year.

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

	2023 £m	2022 £m	Change
Commercial on and off bus revenue	**555.7**	472.7	17.6%
Concessionary revenue	**268.5**	248.5	8.0%
Commercial & concessionary revenue	**824.2**	721.2	14.3%
Tendered and school revenue	**126.5**	110.7	14.3%
Contract and other revenue	**68.1**	45.2	50.7%
Like-for-like revenue	**1,018.8**	877.1	16.2%

The year-on-year recovery in passenger demand for our bus services is reflected in the growth in commercial revenue.

As expected, having generally maintained concessionary revenue payments at closer to pre-COVID levels during the pandemic, public authorities have been reducing their concessionary revenue payments during the period to better reflect the reductions in concessionary patronage. This reduction in concessionary revenue has been more than offset by revenue received from the Department for Transport and combined authorities in respect of £2 fare cap schemes, in addition to the introduction of the under-22 free bus travel scheme in Scotland, which has seen strong growth in travel by young people.

The substantial increase in tendered and school revenue reflects some previously commercial services being converted to tendered services, in addition to a continuation of the effects of operators exiting the market and growth in demand responsive transport ("DRT") contracts.

The principal reasons for the increase in contract and other revenue from the prior year are the work undertaken for the 2022 Commonwealth Games and contracted coach services for the Scottish Citylink Coaches Limited joint venture, in respect of megabus services in England and Wales.

Outlook

We will continue to work collaboratively with national and local governments across the country to re-shape local bus networks to reflect new travel patterns.

Although we see ongoing forecasting uncertainty in relation to passenger demand and cost inflation, we currently forecast continued good regional bus profitability for the year ahead, as we return to a more commercial model for regional bus services. We are delighted with our recent wins in the Manchester franchising market and look forward to commencing these new contracts in March 2024.

We continue to see positive long-term prospects for the business, and believe the current economic environment is helping to demonstrate the good value of our public transport services and encourage modal shift away from the car.

1.5.2 UK Bus (London)

Summary

- Short-term financial performance challenging arising from impact of staff shortages
- Significant expansion with acquisitions from Kelsian Group and HCT Group

Financial performance

The financial performance of UK Bus (London) for the year ended 29 April 2023 is summarised below:

	2023 £m	2022 £m	Change
Revenue	**327.5**	272.6	20.1%
Like-for-like revenue	**276.1**	272.6	1.3%
Operating profit	**0.4**	20.7	(98.1)%
Operating margin	**0.1%**	7.6%	(750)bp

The financial performance of our London business has been disappointing. The significant reduction in profit reflects the operational challenges experienced during the year due to the effects of upward wage pressure and increased staff turnover and staff shortages. The impact of lost mileage has resulted in significant contractual penalties and lost quality incentive income. We expect profitability to improve as we address labour market challenges, benefit from lagged inflationary increases in contract revenues and seek to re-price contracts as they are tendered.

Our tender results during the year have been satisfactory, and we continuously review our bid models, contract pricing and cost efficiency to identify opportunities to further improve our performance on tenders for Transport for London contracts. We will continue to tender at contract prices that reflect our revised cost base and are designed to deliver financial returns that reflect the capital investment required.

We have significantly expanded our operations in London with the acquisition of bus operations previously operated by Kelsian Group and HCT Group, growing our business by around 950 employees and more than 300 buses. The consolidated financial statements reflect the provisional acquisition accounting for the acquired businesses, including the recognition of onerous contract provisions for loss-making Transport for London contracts assumed by the Group as part of the transactions. However, we forecast cost synergies from integrating the acquired businesses and expect them to boost our long-term London bus profitability. Further detail on the acquisitions is provided in note 9 to the consolidated financial statements.

Outlook

We expect a modest improvement in financial performance in the year ending 27 April 2024, with the benefit from higher inflation indexation of contract revenue. We believe the business will recover its profitability over the medium-term, and we see good prospects for growth from the integration of our recent acquisitions.

1.5.3 UK Rail

Summary

- Continuing positive progress on unwinding our former train operating companies
- Strong recovery in passenger demand at Sheffield Supertram

Financial performance

The financial performance of UK Rail for the year ended 29 April 2023 is summarised below:

	2023 £m	2022 £m	Change
Revenue	**15.2**	11.7	29.9%
Like-for-like revenue	**14.9**	11.3	31.9%
Operating profit	**4.4**	0.2	

The like-for-like revenue is in respect of the ongoing Sheffield Supertram business, with the year-on-year increase principally reflecting the recovery in passenger demand as COVID-related restrictions have been eased.

The operating profit for the year reflects further positive progress in concluding matters in relation to our former rail franchises.

Outlook

In October 2022, South Yorkshire Mayoral Combined Authority decided to transition the Supertram system in Sheffield to a publicly owned operator when the Group's concession ends in 2024. We are proud of the service we have delivered over the past 25 years and will continue to work hard to deliver a safe, high quality and professional service to our customers, meet our obligations and ensure a smooth transition to the new operator. We continue to hold an onerous contract provision for the estimated net costs of fulfilling our contractual obligation. The business is anticipated to incur losses in fulfilling its contractual obligations over the remaining period of its concession to March 2024, reflecting the withdrawal of COVD-19 related grant funding in the second half of last year.

Our commercial and business development team continues to explore, and bid for, new opportunities in the UK. We will continue to balance the costs of those business development activities with our assessment of the prospective risk-reward of the available opportunities.

1. Strategic report (continued)

1.5.4 Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items ("adjusted EBITDA") increased to £190.3m (2022 restated: £183.9m). Adjusted EBITDA can be reconciled to the financial statements as follows:

	2023 £m	2022 (restated – see note 1(b)) £m
Total operating profit	**47.5**	82.8
Separately disclosed items	**30.3**	(10.0)
Software amortisation	**1.0**	1.4
Depreciation	**106.9**	104.9
Impairment losses	**3.3**	4.4
Add back joint venture finance income & tax	**1.3**	0.4
Adjusted EBITDA	**190.3**	183.9

The year-on-year increase in adjusted EBITDA principally reflects the recovery in passenger demand for public transport in response to the easing of COVID-19 restrictions, partially offset by reduced profitability in London due to the impact of staff shortages.

Depreciation and software amortisation of £107.9m is higher than the £106.3m for the prior year, and principally reflects the increase in capital expenditure, following a period of constrained investment during the COVID-19 pandemic.

1.5.5 Separately disclosed items

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

Reassessment of onerous contract provision
As at 1 May 2021, an onerous contract provision of £13.3m was held in respect of the Sheffield Supertram concession.

In estimating that onerous contract provision, COVID-related payments to the Group's Sheffield Supertram business from the Department for Transport and South Yorkshire Combined Mayoral Authority were only taken account of to the extent they were confirmed on or prior to the applicable balance sheet date. We have re-assessed the amount of the onerous contract provision as at 29 April 2023, taking account of the further COVID-related payments and other developments that affect the estimated net cost of fulfilling the contractual obligations. That re-assessment resulted in a £0.9m increase (2022: £5.3m reduction) in the level of the provision, with the reduction, as well as the £1.9m (2022: operating loss £1.6m) of Sheffield Supertram's other operating profit in the year, credited to the consolidated income statement for the year ended 29 April 2023 and presented as a separately disclosed item.

Transaction costs
The Group has recorded expenses of £18.2m, predominantly professional fees, accelerated shared based payment expenses (see below) and accelerated management incentives, in relation to the offer from DWS Infrastructure and the lapsed all-share combination with National Express Group plc (2022: £8.6m). Due to the non-recurring nature of the expenses, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the expenses incurred.

Acquisition costs
£0.2m (2022: £Nil) of costs incurred in connection with the acquisition of two London bus businesses in the year ended 29 April 2023 have been presented as a separately disclosed item, because the costs are not related to the ongoing trading of the Group and due to the irregularity of business acquisitions.

Restructuring and associated costs
Following the acquisition of the Group during the year a detailed review of the Group's structure and operations was undertaken. This included the use of an external consultancy agency along with the management experience of the new owner. The Group expects to implement the remaining actions arising from that review during the year ending 27 April 2024.

In the year ended 29 April 2023 the Group incurred redundancy and related costs of £9.5m and management and external consultancy costs of £1.7m.

Expired rail franchises
As part of concluding matters in relation to its former involvement in the UK train operating market, the Group has recorded a separately disclosed loss of £2.3m in the year ended 29 April 2023 (2022: £7.0m gain). The loss is presented as a separately disclosed item as it relates to costs that were previously recorded as separately disclosed items.

Disposal of megabus retail and Falcon
In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:
- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

We have assessed the assets transferred to Scottish Citylink Coaches and consider them to constitute a business as defined in International Financial Reporting Standard 3 ("IFRS 3"), Business Combinations. The carrying value of the Group's interest in Scottish Citylink has been increased by the cost of the additional investment, being the estimated fair value of the business transferred to Scottish Citylink. The gain resulting from the sale of the business to Scottish Citylink has been recognised in full in the year ended 29 April 2023 and has not been restricted to the extent of the other investor's interest in the joint venture.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the year ended 29 April 2023. Due to the irregular occurrence of business disposals, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the gain realised in respect of the business disposal.

Change in fair value of Deferred Payment Instrument
We received a Deferred Payment Instrument 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 the secured lenders. The carrying value of the instrument was £2.9m as at 30 April 2022. At 29 April 2023, the carrying value of the instrument was estimated to be £3.5m, resulting in a gain of £0.6m being recognised as finance income in the year ended 29 April 2023, compared to a gain of £1.0m recognised as finance income in the year ended 30 April 2022.

Tax
The separately disclosed taxation credit of £4.1m (2022 restated: charge of £16.1m) in relation to the taxation effect of the pre-tax separately disclosed items.

1.5.6 Net finance costs

Net finance costs, excluding separately disclosed items, for the year ended 29 April 2023 were £22.1m (2022: £28.6m) and can be further analysed as follows:

	2023 £m	2022 £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**1.5**	1.4
Lease interest payable	**3.7**	2.5
Interest payable and other finance costs on bonds	**16.8**	16.9
Interest payable on Covid Corporate Financing Facility commercial paper	**–**	1.6
Effect of interest rate swaps	**3.5**	0.3
Unwinding of discount on provisions	**1.9**	1.2
Interest charge on defined benefit pension schemes	**–**	5.4
	27.4	29.3
Finance income		
Interest income on defined benefit pension schemes	**(0.2)**	–
Interest receivable on cash and money market deposits	**(5.1)**	(0.7)
	(5.3)	(0.7)
Net finance costs, excluding separately disclosed items ("adjusted net finance costs")	**22.1**	28.6

The decrease in adjusted net finance costs is principally due to the lower pensions finance charges arising from the prior year reduction in net pension liabilities.

1.5.7 Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge, including our share of joint ventures' tax, relative to the Group's profit before tax excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 29 April 2023, excluding separately disclosed items, was 14.4% (2022: 13.3%).

The tax charge on profit can be analysed as follows:

Year ended 29 April 2023	**Pre-tax profit £m**	**Tax £m**	**Rate %**
Excluding separately disclosed items	**57.0**	**(8.2)**	**14.4%**
Separately disclosed items	**(29.7)**	**4.1**	
With joint venture taxation gross	**27.3**	**(4.1)**	
Reclassify joint venture taxation for reporting purposes	**(1.3)**	**1.3**	
Reported in income statement	**26.0**	**(2.8)**	

The effective tax rate on profit, excluding separately disclosed items, of 14.4% is lower than the 19.5% rate of UK corporation tax for the year, principally due to tax relief for pension contributions where pension schemes are in surplus (and no corresponding deferred tax is recognised) and the benefit of current year tax losses which will be realised at 25% in the future (rather than the current rate of 19.5%).

The cash tax paid in the year of £6.6m (2022: £6.4m) compares to the tax charge for Group companies of £2.8m. The difference of £3.8m principally relates to net fuel hedge gains on fuel derivatives over 2022 and 2023 which impact cash tax paid but not tax charge.

The separately disclosed tax credit of £4.1m (2022 restated: charge of £16.1m) is explained in section 1.5.5.

Taking account of the increase in the rate of UK corporation tax to 25%, which was effective from 1 April 2023, assuming there are no changes to tax laws in the UK and assuming that the composition of the Group remains broadly unchanged, we expect the Group's effective tax rate (excluding separately disclosed items) to be around 24% to 26% going forward.

1.5.8 Cash flows and net debt

Consolidated net debt (as analysed in note 27(c) to the consolidated financial statements) has increased slightly from 30 April 2022. During the year ended 29 April 2023, net debt increased by £10.3m from £230.8m (restated) to £241.1m and net debt plus net train operating company liabilities reduced by £5.2m from £271.0m (restated) to £265.8m. We recognise that the negative underlying cash flow largely reflects the recommencement of dividend payments that were previously paused and an increase in this year's capital expenditure following a period of constraint during the COVID-19 period.

We anticipate increasing capital expenditure in the year ending 27 April 2024, partly reflecting further investment in the transition to zero emission vehicles.

1. Strategic report (continued)

As at 29 April 2023, all of the major rail franchises previously operated by Group subsidiaries had ended. 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 29 April 2023, the consolidated net assets included net liabilities (excluding cash) of £24.7m (2022: £40.2m) in respect of such items. Accordingly, if all items were to be settled at their 29 April 2023 carrying values, consolidated net debt would increase by £24.7m (2022: £40.2m). Consolidated net debt plus those outstanding train operating company net liabilities as at 29 April 2023 was £265.8m (2022: £271.0m restated).

Net cash from operating activities before tax for the year ended 29 April 2023 was £131.3m (2022 restated: £139.8m) and can be further analysed as follows:

	2023 £m	2022 (restated – see note 1(b)) £m
EBITDA of Group companies before separately disclosed items	**183.4**	180.1
Cash effect of current year separately disclosed items	**(16.7)**	(0.1)
Loss on disposal of property, plant and equipment	**1.3**	1.6
Capital grant amortisation	**(3.4)**	(1.5)
Loss on disposal of intangible assets	**0.1**	–
Share based payment movements	**0.2**	3.5
Working capital movements	**(14.0)**	(27.2)
Net interest paid	**(22.1)**	(19.5)
Dividends from joint ventures	**2.5**	2.9
Net cash flows from operating activities before taxation	**131.3**	139.8

The movement in net debt was:

Year ended 29 April 2023	**£m**
Net cash flows from operating activities before taxation	**131.3**
Tax paid	**(6.6)**
Investing activities	**(86.7)**
Financing activities	**(47.5)**
Other	**(0.8)**
Movement in net debt	**(10.3)**
Opening net debt	**(230.8)**
Closing net debt	**(241.1)**

Net cash flows from operating activities were slightly lower than the prior year principally due to the higher costs of separately disclosed items.

The £14.0m working capital outflow in the year ended 29 April 2023 is principally in relation to £12.5m additional pension contributions made in the year (see above), and £10.7m recognised in relation to COVID-19 related payments from governments.

The net impact on net debt of purchases and disposals of property, plant and equipment ("net capital expenditure"), split by segment, was:

	2023 £m	2022 £m
UK Bus (regional operations)	**42.4**	24.3
UK Bus (London)	**34.0**	14.1
Net capital expenditure	**76.4**	38.4

Net capital expenditure reconciles to the consolidated financial statements as follows:

	2023 £m	2022 £m
Cash flow from:		
– Purchase of property, plant and equipment	**66.6**	38.7
– Disposal of property, plant and equipment	**(4.4)**	(1.5)
– Capital grants received	**(19.8)**	(15.4)
Decrease in net debt from disposal (2022: partial disposal) of a lease	**(0.3)**	(2.4)
Increase in net debt from other new leases in year	**13.5**	19.0
Increase in net debt from leases acquired in business combinations	**20.8**	–
Net capital expenditure	**76.4**	38.4

In addition to the amounts shown in the table above, the impact of purchases of intangible assets was £2.9m (2022: £3.1m).

As we transition our bus fleet to zero emission vehicles, in line with our ambition of having a 100% zero emission bus fleet in the UK by 2035, we are mindful of the additional up-front capital cost of zero emission buses (versus their diesel equivalents) as well as the potentially higher total cost of ownership.
We comment on this further in section 1.7.2.4.1.3 of this Annual Report.

1.5.9 Financial position and liquidity

The Group is in a good financial position, as evidenced by:

- We have available liquidity of over £420m.
- We have comfortably complied with the covenants for the year ended 29 April 2023.
- The ratio of net debt at 29 April 2023 to adjusted EBITDA for the year ended 29 April 2023 was 1.3 times (2022: 1.2 times).
- Adjusted EBITDA for the year ended 29 April 2023 was 8.6 times (2022: 6.4 times) to adjusted net finance charges (including our share of joint venture net finance income).
- Two major credit rating agencies – S&P and Moody's – continue to assign investment grade credit ratings to the Group's £400m bonds.

1.5.10 Year-end financial position of the Group

1.5.10.1 Net assets

Net assets as at 29 April 2023 were £497.8m (2022 restated: £402.1m).

The improvement in the net assets reflects the actuarial gains on defined benefit pension schemes, gains on cash flow hedges and the profit for the year ended 29 April 2023.

1.5.10.2 Retirement benefits

The reported net assets of £497.8m (2022 restated: £402.1m) that are shown on the consolidated balance sheet are after taking account of net retirement benefit assets, net of withholding tax payable on surpluses, of £195.9m (2022 restated: £19.0m retirement benefit liabilities), and associated deferred tax assets of £3.5m (2022: £21.6m).

The Group recognised pre-tax actuarial gains of £269.3m in the year (2022 restated: £264.3m), net of withholding tax. The discount rate used to determine pension scheme liabilities as at 29 April 2023 was 4.9%, which was an increase on the discount rate of 3.2% applied as at 30 April 2022.

The Stagecoach Group Pension Scheme is the Group's largest defined benefit pension scheme exposure comprising almost 90% of the total retirement benefit obligations. Following the change of ownership of the Company to a company managed by DWS Infrastructure, and based on a legally binding agreement entered into between the Company and the Trustees, we expected employer funding contributions, in excess of salary related contributions, to increase to £12.5m per annum, increasing at 3% per annum compound, for ten years or until the Scheme's long-term funding objective is met, whichever is earlier. During the year, the Trustees took advantage of the exceptional rise in gilt yields to transition from its equity and multi-asset led growth strategy to a liability-driven investment ("LDI") strategy, locking in an overall funding surplus with hedging ratios achieved of 96 – 97% of interest and inflation liabilities.

To update and to align to its new investment and funding strategies, the Scheme undertook an out-of-cycle valuation as at 31 October 2022. This showed a funding surplus of £87.3m, being a further improvement on the 30 September 2021 out-of-cycle valuation surplus of £48.7m. At the balance sheet date, taking the various sections in aggregate, the Scheme was fully funded at around 106% against its long term self-sufficiency target using a gilts plus 0.5% discount rate.

As a result of the improved funding and hedged positions, the Scheme Trustees and employers agreed amendments to the long term Funding Agreement providing for the employers to make deficit payments to the Scheme of £4.4m spread over 12 months from 1 May 2023. Further to this the employers have agreed in principle to make payments into an escrow account of £4.1m for each of the years to 3 May 2025 and 2 May 2026, to be used underpin the funding position of the Scheme through to April 2031, when the escrow funds may be released back to the employers or paid into the scheme depending on the funding position of the Scheme.

1.5.11 Dividend policy

In light of the Group's substantial available liquidity and its strong recovery in financial performance and position, the Board has proposed and paid dividends of £47.5m in respect of the year ended 29 April 2023.

The Board takes account of the Group performance, financial position and prospects when setting dividends. It does not have a prescribed formula for determining each year's dividends, other than the desire to maintain sufficient liquidity to fund available capital expenditure and growth opportunities, taking into account expected cash flow from the business together with the ongoing commitment to seek to maintain an investment grade credit rating.

1.5.12 Treasury policies and objectives

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

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

1.5.13 Use of non-GAAP measures

Our consolidated financial statements are prepared in accordance with UK-adopted International Accounting Standards. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, adjusted EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful in providing a basis for measuring our financial performance. Note 32 to the consolidated financial statements provides further information on these non-GAAP financial measures.

1. Strategic report (continued)

1.6 Outlook

We remain positive on the long-term outlook for the Group. Public transport delivers the sustainable connectivity people need to access work, education, healthcare, shopping, leisure, and meeting family and friends. As we transition towards a post-pandemic world, we are focused on further rebuilding profitability and adapting our services to meet new and emerging travel patterns.

Whilst the next General Election may lead to some change in the detail of transport policy, there is broad cross-party support for the role that buses play in delivering government objectives on social equity and inclusion, economic development and levelling-up, and in transport decarbonisation. We look forward to playing a central role in delivering government ambitions around decarbonisation, levelling up of communities, driving economic recovery, and securing better health outcomes for citizens.

While there remains some uncertainty around the pace of recovery, there is no change to our expected outlook for the year ending 27 April 2024, with continuing government support to maintain bus networks. We have worked closely with local and national government in maintaining bus services through the pandemic and into recovery. We anticipate that this close partnership will be a continuing feature of transport policy, including through an expansion of bus service franchising, and we are engaging closely with national and local policy-makers to maximise the opportunities that this will offer.

1.7 Non-financial and sustainability information statement

The non-financial information statement provided in this section 1.7 is a consolidated report relating to the Group as a whole.

Section 1.4.1 of this Annual Report contains a description of the Group's business model, while section 1.4.5 contains a description of the Group's principal risks and uncertainties.

1.7.1 Corporate social responsibility

We are one of Britain's leading public transport businesses, helping to connect communities for over 40 years. Our team of around 23,000 people and our c.8,400 buses, coaches and trams are part of the fabric of daily life in the UK. We connect people sustainably with jobs, skills and training, bring customers to our high streets, connect tourists with visitor attractions and draw, families, friends and communities together.

Sustainability is at the heart of our core business strategy and our Environmental, Social and Governance ("ESG") roadmap is aligned with UN Sustainable Development Goals.

As well as improving the sustainability of our own business, we are also focused on bringing wider benefits to our planet, our communities, our customers and our employees.

We want to play our part in building sustainable communities. Our aim is to generate long-term value through employment and wealth generation, paying our way in taxes which fund vital public services, contribution towards a fairer society, challenging convention and championing new ideas. Our purpose is set out in section 1.4.1 of this Annual Report.

This section 1.7 of our report includes an overview, and selected examples of our work, to demonstrate the steps we are taking to meet our responsibilities.

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

1.7.2 Environmental matters and climate change

1.7.2.1 Introduction

Climate change, air quality and a green recovery from the COVID-19 pandemic continue to be national and international priorities for governments. The UK Government and the Welsh Government are targeting to achieve net zero greenhouse gas emissions by 2050, while the Scottish Government is targeting that by 2045. We see huge opportunity as these targets cannot be met without modal shift from the car to mass transit. Continued positive political action, such as the commitment from the UK Government to support the purchase of at least 4,000 new zero emission buses over this Parliament, is a positive for the future development, performance, and position of the Group.

Buses are the most efficient use of road space, with every full double-decker bus taking up to 75 cars off the road. A full bus emits a significantly lower per passenger kilometre emission than a standard car.

The Department for Business, Energy and Industrial Strategy, 2022 UK provisional greenhouse gas emissions summary, shows that emissions in the UK were 2.4% lower in 2022 than 2021, and 2.2% lower than 2019. Warmer than average temperatures and higher energy prices are considered the main reasons for this. There was an increase in emissions from the Transport Sector as the UK emerged from the pandemic and travel restrictions eased. The Transport Sector remains the UK's largest contributor to carbon emissions, at about 34% in 2022. This highlights the important role zero emission buses and modal shift from private vehicle use to public and active travel, must play in helping the UK achieve its net zero ambition. The Cebr report for Stagecoach, published in early 2020 and based on data from 2017, estimates the benefit of modal shift to our UK bus services: "Without Stagecoach bus services, there would be an annual increase of 190,000 tonnes of CO_2 through passengers using alternative transport, mainly cars." These factors mean that the forecast for the rate of CO_2 reduction from transport is too slow to meet the UK Government's net zero target for 2050. There needs to be a switch to electric vehicles and a reduction in car mileage to achieve this.

Bus operators and governments across the UK are taking action to support the shift to net zero through the decarbonisation of the bus network. We believe a successful transition to zero emission buses in the UK, as part of a wider programme to boost bus use, has the potential to reduce the carbon impact of the transport network. It will help: achieve national emissions and clean air targets; improve the environment in local communities; support modal shift from cars to buses; grow active travel for the right journeys, and drive up bus passenger numbers as part of a thriving public transport system.

1.7.2.2 Policy

1.7.2.2.1 Environmental policy

We have refreshed the Group Environmental Policy to align with the requirements of ISO 14001. This policy is reviewed annually, applicable to all entities within the financial control of Stagecoach Group Limited, signed by the Executive Chairman and available in the public domain:
https://www.stagecoachbus.com/group-policies-and-statements

1. Strategic report (continued)

1.7.2.2.2 Actions we are taking to reduce our impact on the environment

We see the transition of our bus fleet to zero emission vehicles, and the related activities, as the principal measures we are taking to reduce carbon emissions. We have made progress with that in the year ended 29 April 2023 but there is still much to do.

Around 95% of our carbon emissions are from the operation of vehicles. Over the past 12 years to 29 April 2023, we have acquired new vehicles that emit fewer emissions for the UK with a value of over £1 billion. New Euro 6 buses emit fewer emissions overall than a Euro 6 car, as well as having up to 20 times the carrying capacity. Almost all of our vehicles are Euro 3 or above, and around 56% are Euro 6, ultra-low emission or zero emission, up from 49% as at 1 May 2022. The first National Bus Strategy for England was published by the UK Government in March 2021 and sets out a vision of fewer journeys by car, more journeys by bus, and a reduction in greenhouse gas emissions. Through the development of Bus Services Improvement Plans and ongoing engagement, we are working with local and national Government to put in place policies and measures to support a modal shift away from high-impact transport modes such as private car use, to lower impact modes of bus and tram services. The strategy also sets out a vision for a future of zero emission buses, and a UK Government consultation has recently concluded to set a date for the end of the sale of new diesel buses. An announcement on the outcome of this is expected in the Autumn. We continue to work towards purchasing zero emission buses with the target of having a fully zero emission UK bus fleet by 2035. The Scottish Government is targeting a reduction in car use by 20% by 2030, investing £500m to improve bus infrastructure and tackle road congestion, and government investment in zero emission buses.

In March 2022 we released a thought leadership report "Road map to zero; the transition to 100% zero emission buses, what it means for people, and the journey to get there". The report highlights that zero emission buses can be a powerful tool to drive bus patronage and that, based on people's stated intentions, between 1.03m and 1.70m people who never or seldom use the bus would increase their use of buses if zero emission buses replaced diesel, and assuming fares as well as service frequency remained the same.

We continued procuring 100% renewable electricity across our estate and the investment in upgrading our heating energy management systems to reduce energy use. At the time of writing we are engaged in negotiations with a local Manchester-based company to upgrade our depot heating control system to a Wireless Energy Management System. This upgrade aims to reduce energy use from heating of between 10% and 20%. Our print management refresh project is nearing completion. We have exceeded our target to reduce the number of printers across our estate by about 50%, by achieving a 61% reduction.

We are a Business Ambition for 1.5ºC campaign member and joined the Race to Zero and submitted our Science Based Targets ("SBT") to the Science Based Targets Initiative ("SBTi")i, which is waiting validation.

1.7.2.2.3 Effectiveness of environmental policies

Our environmental targets are aimed at reducing emissions, cutting resource use, and increasing the proportion of waste diverted from landfill. Our targets covered our wholly owned bus and tram operations in the UK.

We work with a trusted partner to understand better our water use and identify opportunities to save. In 2022/23 we identified one major leak, saving an estimated 2,792m^3. Engineering waste, mainly from coolant disposal has decreased significantly, due to process changes with our waste management partner and technology introduced to separate the constituent fluids.

1.7.2.3 Governance

This section 1.7.2.3 summarises our governance around climate-related risks and opportunities.

1.7.2.3.1 The Board's oversight of climate-related risks and opportunities

The Board of Directors of the Company has oversight of environment and climate-related matters across the Group. Our Health, Safety and Environmental Committee typically meets four times each year and reports to the Board after each meeting. The Committee has delegated responsibility from the Board for overseeing environmental and climate-related matters, allowing it to consider such matters in more detail. In recognition of the importance of these matters, the Committee's responsibilities include:

- considering the environmental aspects of the Group's strategy and making recommendations to the Board on those;
- considering environmental (including climate change) risks and opportunities affecting the Group;
- reviewing the implementation of the environmental aspects of the Group's strategy and reporting to the Board on this implementation;
- providing support and encouragement to those executives implementing the environmental aspects of the Group's strategy and providing a forum for those executives to test ideas;
- reviewing the Group's performance against its environmental targets and ambitions, including in respect of the composition of its bus fleet;
- considering the Group's public reporting on environmental matters prior to its release (including in the Group's Annual Report and in any separate Sustainability Report);
- monitoring and considering any regulatory changes in relation to environmental matters that affect the business and/or strategy of the Group;
- reviewing the suitability of, and making recommendations to the Remuneration Committee in relation to, any environmental metrics forming part of determining the variable remuneration of the Directors and senior management.

Further information on the work of the Health, Safety and Environmental Committee is set out in section 6 of this Annual Report.

The Audit Committee also considers climate-related issues to the extent they might affect considerations on financial reporting and disclosure. The Directors have considered the relevance of material climate-related matters, including the risks of climate change and transition risks associated with the goals of the Paris Agreement, when preparing and signing the consolidated financial statements. For example, as explained in note 1(e)(ii) to the consolidated financial statements, the Directors noted estimation uncertainty arising from climate change considerations in estimating the useful lives of passenger service vehicles. As further examples, the Directors considered how climate change might affect forecast amounts used in: determining the valuation of the Deferred Payment Instrument, assessing the existence and valuation of onerous contracts, and assessing non-current assets for impairment.

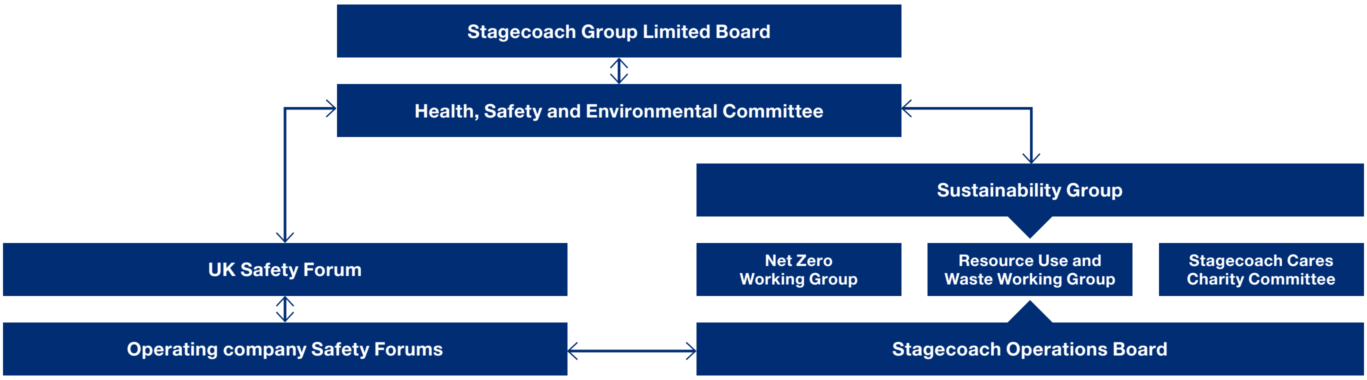
The Board and its committees consider climate-related issues when reviewing and guiding strategy. The Board also considers climate-related issues when considering: major plans of action; risk management; annual budgets; business plans; setting performance objectives; monitoring performance; overseeing major capital expenditure; acquisitions and disposals.

1. Strategic report (continued)

1.7.2.3.2 Management's role in assessing and managing climate-related risks and opportunities

The Executive Chairman is responsible for the day-to-day running of the Group, including managing climate change responsibilities. He is supported by the UK Managing Director in managing the UK business, and she is supported by a dedicated Health, Safety & Environment Director. Each of those senior executives regularly attends meetings of the Health, Safety and Environmental Committee. The executive monitor performance against environmental and climate-related goals and targets. The executive is supported by the Group Head of Sustainability, responsible for delivering the Group's sustainability strategy, who also attends the meetings. Subject matter experts, including the Finance Business Partner for sustainability provide further support as needed.

The Executive Chairman chairs a Sustainability Group, which brings together a number of our executives with a wide range of expertise and insights. The Sustainability Group includes individuals with expertise in environmental matters, operations, risk management, communications, and financial disclosures. The focus of the Sustainability Group is the implementation of the Sustainability Strategy, which forms part of our overall corporate strategy. The governance structure is presented below:



1.7.2.4 Strategy

This section 1.7.2.4 summarises what we see as the actual and potential impacts of climate-related risks and opportunities on our businesses, strategy, and financial planning.

1.7.2.4.1 Climate-related risks and opportunities

We have identified a range of climate-related risks and opportunities, which we summarise in this section 1.7.2.4, and which are taken account of in the development of our corporate strategy.

1.7.2.4.1.1 Planning horizons

Our most valuable physical assets are our vehicles. Our vehicles generally have economic lives from new of up to 16 years, although we do operate some vehicles beyond their sixteenth anniversary. Our next most valuable physical assets are our land and buildings, particularly our portfolio of operating depots (garages). Our buildings generally have economic lives of up to 50 years, although again we do operate some buildings beyond that.

Taking into account the economic lives of our assets and infrastructure, we view our short-term planning horizon as up to three years, our medium-term as three to 10 years, and our long-term as 10 to 30 years. While it is difficult to forecast with certainty even over the short-term, we recognise that climate-related issues often manifest themselves over the medium and longer term. In addition, some of our own climate-related goals are long-term goals such as our target to have a zero emission UK bus fleet by 2035, but that target is also supported by short-term and medium-term targets that work towards the long-term target.

1.7.2.4.1.2 Climate-related opportunities

In June 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050. As a result, the UK is committed to a legally binding target of net zero emissions by 2050. As noted in section 1.7.2.1, that commitment cannot be achieved without a reduction in car journeys and an increased use of public transport. The UK Government strengthened further its commitment in April 2021, announcing it would reduce emissions by 78% by 2035, compared to 1990 levels.

The opportunity to grow passenger usage of bus services is central to the National Bus Strategy for England; the Wales 2021 Transport Strategy; and the Scottish National Transport Strategy. We agree that driving up patronage should be a primary objective of the transition to 100% Zero Emission Buses. Our recent zero emissions bus report, "Road map to zero; the transition to 100% zero emission buses, what it means for people, and the journey to get there", highlights that between 1.03m and 1.70m people who never or seldom use the bus would increase their use of buses if zero emission buses replaced diesel buses, and assuming fares plus service frequency remained the same.

We support the Government's ambitions for increased bus use, and less car journeys. By working in partnership with government, we see a significant opportunity for growing demand for public transport services.

We expect that public concern about the climate emergency and the need to protect our environment will influence individuals to make choices based on those concerns. We see a significant climate-related opportunity for more individuals to choose bus/tram travel and align with our brands, as we contribute to a reduction in overall emissions from transport. To strengthen transparency, we continue to report to the CDP climate-change questionnaire about our climate-related impact and actions and recently maintained our "B" rating. Recognising the importance of biodiversity reporting and the role transparency can play in driving change we will, for the first time in 2023, also report to the CDP water questionnaire. Following on from our first EcoVadis submission, we have improved our rating to a Bronze Medal and are targeting further improvements year on year. We also expect to become participants of the United Nation Global Compact (UNGC) in 2023, and become the first UK bus and coach company to do so. The commitment to the principle-based approach of the UNGC framework will further reinforce transparency of our sustainable business practices.

We see the climate-related opportunity to grow bus use as a short to medium-term opportunity. In England, for example, which accounts for approximately 79% of our regional bus business, the UK Government has set out an ambitious National Bus Strategy. In Scotland, the devolved Government has set ambitious short to medium-term climate-related targets, including to cut car use by 20% by 2030. To support this, we engage with local and national governments to encourage and implement policies and measures that support a modal shift away from higher emission impact modes, such as that from private car use, to lower emissions impact modes of transport, such as bus and tram services.

There have been several aspirational air quality and low carbon improvement objectives proposed by a number of local authorities in areas where we provide bus services. In line with our net zero objective, we will continue to engage with local authorities on the development and delivery of enhanced partnerships under the National Bus Strategy for England with a view to supporting our transition to zero emissions.

1.7.2.4.1.3 Climate-related risks

Public transport can play a major role in addressing fiscal and environmental cost of climate change, air quality and road congestion. Positive political action in tackling these threats should also be positive for the Group's future development, performance and position.

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

Transitional impacts

- **Changing customer habits.** The risk of changing customer habits is also explained in the summary of the Group's principal risks and uncertainties in section 1.4.5 of this Annual Report. Demand for public transport could change in response to climate change concerns. Actions by environmentally conscious corporations and other organisations could add to a trend of increased working from home. As demand for our services recovers from the effects of COVID-19, we may see a lasting effect on travel patterns accelerating a trend of increased working from home, shopping from home or more locally, telemedicine and home learning. We continue to see the risk of changing customer habits as highest in the short-term. While we do see changing customer habits over the medium-term and long-term as being a risk, we expect those changes to be more gradual.
- **Technology.** We anticipate that future zero emission vehicles deployed by the Group will be mostly battery electric. We have previously operated hydrogen-powered buses, and some local transport authorities in areas that we serve are considering further deployment of hydrogen power buses. Electric vehicle technology and related infrastructure technology is still developing, and there remains some uncertainty about the full life costs and expected useful lives of the vehicles. Policy interventions might continue to be needed to address higher costs. The current capital cost of new zero emission vehicles is significantly greater than the equivalent diesel vehicles. An electric bus is broadly twice the cost of the comparative diesel vehicle, while a hydrogen bus is even more expensive. Furthermore, investment in new infrastructure is often required to enable the introduction of zero emission vehicles. While the electricity cost of powering electric vehicles is currently less than the equivalent fuel cost for powering diesel vehicles, the saving does not fully offset the additional capital cost. There is a risk that the transition to zero emission vehicles increases our costs. There is a risk that we will be unable to fully offset these additional costs through increased revenue, which may result in an adverse effect on profitability. There are, however, a number of factors that reduce the likelihood and severity of those risks. Reflecting the ambition of governments in the UK to grow bus journeys, reduce car journeys and lower emissions, financial support has been available from governments towards the cost of zero emission buses. While there is no certainty of the extent to which such support will continue, the UK governments continue to consider how best to incentivise the transition to zero emission vehicles. In addition, the cost of electric cars also exceeds their diesel and petrol equivalents and so the competitive position of bus versus car might be less affected. The bus can offer a convenient, cost-effective alternative to electric cars for some individuals and journeys. We see this as a short-term, medium-term and long-term risk as we transition from a largely diesel bus fleet to a fully zero emission UK bus fleet over our target timeframe to 2035. How government policy, the relative cost of cars, the capital and operational costs of new buses each evolve over that period will have a bearing on the Group's financial performance.
- **Public policy and legislative changes.** The broader risk of regulatory changes is explained in the summary of our principal risks and uncertainties in section 1.4.5 of this Annual Report. We know that the Government's legally binding and ambitious carbon commitments cannot be met without significant modal shift to mass transit. Conversely, requirements restricting the use of certain vehicle types or adding to the cost of operating certain vehicle types (for example, requiring payments for diesel buses to operate in city centres) could result in increased costs for us. The UK Government will shortly consult on a date (expected to be between 2025-2032) after which the sale of new diesel buses will be prohibited in the UK. We consider this to be manageable. There are no currently disclosed intentions to stipulate a date from when diesel vehicles may not be operated on the roads, and the Government is currently considering whether to stipulate a date after which the sale of new diesel coaches (as opposed to buses) will be prohibited. There is an opportunity and a risk that the Group's competitiveness for new UK contract opportunities is affected by the requirement introduced by the UK Government. From September 2021, bidders for public sector contracts over £5m per annum need to commit to net zero by 2050 and to have published a carbon reduction plan. There is a risk that public policies intended to tackle climate change (or be seen to tackle climate change or have other motives with the justification being climate change) have an adverse effect on the Group. For example, requiring payment for certain types of buses to enter a city centre while not requiring payment for any types of private car, is unlikely to materially mitigate climate change but could adversely affect public transport operators. We see the risk of public policy and regulatory changes as highest in the short-term as we await clarity on: the impact of actions within the National Bus Strategy in England; which local authorities in England seek to develop bus franchising; regulatory changes in Wales and Scotland; and government policy on the transition to zero emission vehicles. It is also an enduring risk over the medium-term and long-term as government policy can change at any time.
- **Operational risks.** The transition from diesel vehicles to zero emission vehicles presents several operational considerations and risks. There is a risk that accommodating new infrastructure to support zero emission vehicles adversely affects the operating costs, capacity and/or efficiency of bus depots (garages). There is a risk that the efficiency of our bus services and/or the number of buses required is affected by the re-scheduling of bus services to take account of the capabilities of zero emission vehicles. That could include adjustments to allow for the mileage that an electric vehicle is capable of on a single charge, being less than the mileage an equivalent diesel vehicle is capable of on a single tank of diesel. There is a risk that the availability of power from the electricity grid could adversely affect operating costs and the practicalities of operating sufficient electric vehicles.
- **Accounting risks.** As explained in note 1(e)(ii) to the consolidated financial statements, the Directors noted estimation uncertainty arising from climate change considerations in estimating the useful lives of passenger service vehicles. Changes in regulation around the use of vehicles could result in impairment losses or increased depreciation charges.

Physical impacts – acute and chronic physical risks

- **Weather patterns.** We have clear evidence that demand for our bus and tram services is influenced by weather. Demand drops during periods of particularly poor weather such as heavy rainfall, snow and strong winds. Extreme weather can also impair our ability to reliably operate all of our services. Accordingly, there is a risk that both our revenue and operating costs are adversely affected by climate change causing an increased frequency of more extreme, bad weather. There is also a risk that we incur additional costs or experience disruption to our services from such factors, for example, as a result of bus depots flooding. There is also the risk of low or no water availability, for example drought conditions or failing infrastructure. Our experience shows that bus and coach services are less impacted by severe weather events than other transport modes, such as rail services that operate on a fixed infrastructure. We see this as a long-term risk and see less risk of changing weather patterns materially affecting our financial performance or financial position over the short to medium-term.

1. Strategic report (continued)

1.7.2.4.2 The impact on Stagecoach businesses, strategy and financial planning

Our corporate strategy takes account of climate-related risks and opportunities. Our strategy is designed to grow demand for our bus and tram services over time by replacing car journeys with more carbon-efficient bus and tram journeys. Government policy currently supports that strategy. Our strategy also recognises a need to adopt new technology as we migrate our bus fleet to zero emission buses and our plans reflect that.

We generally prepare financial forecasts for the short-term (up to three years). We take account of medium to long-term risks in financial planning through scenario modelling. For example, we model the implications on financial performance and financial position for differing levels of government financial support for the introduction of zero emission vehicles over the medium-term.

1.7.2.4.3 Climate change scenarios

In 2021, we undertook a scenario planning exercise to assess the resilience of the Company's business model and strategy to climate change risks. Our initial work on scenario planning was led by an external consultant, with input from colleagues with responsibility for strategy, business development, external affairs, corporate communications, finance, health, safety and environment.

The question we chose is "How could climate change plausibly impact Stagecoach's UK bus and coach operations by 2050?" We chose 2050 to align with the UK Government's legally binding net zero carbon target. Our tram operations were excluded from our considerations as they represent a small (c.1%) proportion of our Group and the current concession has less than one year to run.

We see the principal climate-related risks we face being primarily transition risks related to public policy, regulatory change, technology, and customer habits. While we are exposed to physical risks, such as those related to weather, we see the potential financial impact on us to be greater from transition risks than physical risks. In light of that, we have not yet undertaken quantified climate-related scenario analysis and we have not quantitatively considered a 2°C or lower scenario, or other scenarios consistent with increased physical climate-related risks.

We reviewed publicly available scenarios and proprietary models but concluded these were not particularly helpful for our scenario analysis and so we decided to develop our own exploratory scenarios. However, to help with future scenario analysis development, we will leverage the outcomes from our recently commissioned zero emissions bus report.

The key drivers initially identified for consideration, and still relevant today, are shown below.

Social	Technology	Economic
Shift in working patterns	Cost differential between zero emission vehicles and diesel equivalents	Decoupling of GDP and growth in transport
Rebirth or repurposing of the High Street	Automated vehicle technology	Changing cost of car ownership
Changing leisure and business travel	Digital technology for customer experience	Rise in economic inequality
Rise of sharing economy and retail platforms	**Environmental**	**Political**
Change in car use	Adaptation to changing weather	Declining revenue for fuel/car tax
	Concern about quality of local environment	Devolved power to the regions
		Focus on technology, infrastructure, behaviour change or levelling up

From this work, we derived the two major themes to create the scenarios based on their potential impact and uncertainty. These themes were: 1. Net zero policy quickly and centrally driven or slowly and inconsistently implemented; and 2. Higher overall travel demand or lower overall travel demand. For each scenario, we considered the implications for our business and prepared a narrative description of the key features and implications of the scenario, including in respect of: public policy, travel demand, transport infrastructure, transport modes, technology and customer experiences.

The results of our scenario planning are used to inform our strategy, our ongoing assessment of risks and opportunities, and our action plans. We have reasonable confidence that we can adapt our strategy for any of the four core scenarios considered, while recognising that our strategy would not be resilient to more extreme public policy or demand outcomes.

1.7.2.5 Risk Management

1.7.2.5.1 Processes for identifying and assessing climate-related risks

We identify climate-related risks in a number of ways, including:
- We held a climate-related risk workshop in 2021 with executives from a range of areas, and an external expert, to generate ideas on climate-related risks;
- We have set up an ongoing Sustainability Group, chaired by the Executive Chairman, which considers climate related risks as part of its remit, as well as actions to reduce greenhouse gas emissions;
- We consider regional and functional risk trackers (see section 1.7.2.5.3) for climate-related risks identified by colleagues across the business;
- Our Health, Safety and Environmental Committee reviews and considers climate-related risks, with non-executive directors bringing insight from their experience with other businesses;
- We review reports from other transport operators and consider the extent to which climate-related risks they identify are also applicable to us;
- We review reports from selected businesses in other sectors and consider the extent to which climate-related risks they identify are also applicable to us;
- We monitor and consider existing and emerging regulatory requirements related to climate change, including sector-specific requirements such as those related to vehicle types;
- We maintain relationships with government bodies to understand, anticipate and help shape future policy and regulatory changes related to climate change.

For each risk identified, we assess the nature, potential severity and likelihood of its impact by involving appropriate executives and/or external experts.

1.7.2.5.2 Processes for managing climate-related risks

Consistent with other risks, we determine the potential severity and likelihood of each climate-related risk occurring, and prioritise risks based on that. We consider if and how to mitigate, transfer, accept or control each risk. Section 1.7.2.4.1.3 summarises the principal climate-related risks we have identified, and we seek to manage these risks by:

- Seeking to work in partnership with government bodies to achieve shared objectives to grow bus journeys, reduce car journeys, tackle climate change, improve air quality and reduce road congestion;
- Monitoring public policy proposals, seeking to influence decision makers to avoid tokenistic policies and implement transport policies that can meaningfully and affordably help reduce emissions;
- Lobbying government and others to promote public transport as part of the solution to climate change with an objective to reduce car journeys by promoting the alternative of public transport;
- Encouraging positive public policies that discourage car use such as funding to improve public transport, car congestion charging etc. Given the significance we see of this, we appointed a new Policy & External Affairs Director in 2021;
- Promoting the environmental benefits of public transport versus car to the general public;
- Developing our corporate sales offering, leveraging the environmental benefits of bus and tram travel versus car travel;
- Reducing the emissions per vehicle mile of our vehicle fleet over time by increasing the percentage of Euro 6, ultra-low emission and zero emission vehicles in the fleet, working towards our target of a fully zero emission bus fleet in the UK by 2035;
- Continuing our broader programme to reduce our own carbon emissions; in light of this, when new service vehicles or vans are requested an assessment on mileage and frequency of use is conducted, where no good reason for an internal combustion engine is given, the request is rejected and an electric vehicle option must be taken;
- Considering climate change factors (e.g. flood risk) in decision making on our property portfolio.

1.7.2.5.3 Integration with the Group's overall risk management

Climate-related risks and opportunities are considered as part of our risk management process and in conjunction with our consideration of strategy. Our strategy is set by the Board. The Board considers the key risks to achieving the Group's strategic objectives. Risk discussions are embedded in strategic planning and decision making. Twice yearly, the Board will review and consider the principal risks, being those risks that present the greatest threats to achieving our strategic objectives. The report of principal risks is supported by more detailed risk trackers for each region and for certain "functional" areas. A climate change risk assessment has been undertaken as part of that wider risk assessment. The Director of Risk & Assurance, who co-ordinates the risk management process, reviews the regional and functional risk trackers and ensures that overall principal risks reflect those where appropriate. Input is obtained from a range of executives, as well as the Board, with the breadth of functional representation assisting in identifying and assessing not only current risks but also emerging risks.

1.7.2.6 Metrics and Targets

In this section 1.7.2.6, we consider the metrics and targets that we use to assess and manage relevant climate-related risks and opportunities where such information is material.

Not all of the climate-related risks and opportunities that we have identified can be easily assessed and managed by quantified metrics. For example, the climate-related risks and opportunities arising from changes in government policy are difficult to reduce to quantified metrics. However, we do use a number of metrics to assess climate-related risks and opportunities.

Each of the main metrics we use to assess climate-related risks and opportunities are described below. For each metric, we also describe any targets we use to manage climate-related risks and opportunities, and performance against those targets.

We have already taken steps over a number of years to reduce our environmental impact, meaning that our baseline position already reflects more progress than some other organisations. That is relevant in comparing targets for future percentage changes between organisations.

The metrics and targets reported in this section 1.7.2.6 have not been independently audited.

1.7.2.6.1 Greenhouse gas ("GHG") emissions

We measure our Scope 1, 2 and 3 greenhouse gas ("GHG") emissions and explain later in this section the emissions that are included within our reported Scope 3 GHG emissions. We seek to reduce our GHG emissions over time as we believe that the lower our emissions are, the less our business will be exposed to the risks of public policy and regulatory change and changing customer habits.

Certain of the values shown in this section 1.8.2.6 for the prior year ended 30 April 2022 have been restated from the values presented in the 2022 Annual Report. The restatement relates to reallocation of scope 3 emissions for leased vehicles with a tenure over one year, into scope 1. The reallocation is in line with GHG protocol standards for leased vehicles. The restatement equates to a 0.3% revision in total 2021/22 GHG emissions from 608,429 tCO_2e to 610,351 tCO_2e and energy consumption from 2,056.69 GWh to 2,067.11 GWh.

For the year ended 29 April 2023, our total energy consumption was 2,083,199,485 kWh (2022: 2,067,101,603 kWh) and the total carbon emissions associated with our reported energy use were 615,412 tonnes of CO_2e (2022: 610,351 tCO_2e).

During the COVID-19 pandemic, demand for our bus services reduced and we reduced our vehicle mileage. As a result our GHG emissions reduced. In the year ended 29 April 2023, our GHG emissions increased again. This is due mainly to the acquisition of two London businesses.

1. Strategic report (continued)

A comparison of the Group's total energy consumption and location-based GHG emissions for 2022/23 and 2021/22 is summarised as follows:

Total energy use in GWh	2022/23	2021/22	% change
Fuel			
– Gas	**49.10**	52.51	(6.5)%
– Liquid fuel	**1,978.14**	1,964.02	0.7%
– Biomass	**0.08**	n/a	
Electricity	**55.88**	50.58	10.5%
Total energy use	**2,083.20**	2,067.11	0.8%

Resource consumption	2022/23	2021/22	% change
Liquid fuel (litres)	**193,074,576**	191,125,967	1.0%
Refrigerants (kg)	**1,961**	1,378	42.3%

The data below shows our greenhouse gas emissions for the year ended 29 April 2023 with comparative data for the year ended 30 April 2022.

Total Greenhouse Gas emission by scope in tCO_2e	2022/23	2021/22	% change
Scope 1	**483,230**	480,324	0.6%
Scope 2	**10,740**	10,625	1.1%
Scope 1 & 2 emissions	**493,970**	490,949	0.6%
Scope 3	**121,442**	119,402	1.7%
Total emissions	**615,412**	610,351	0.8%

Scope 1 & 2 Greenhouse Gas emissions breakdown in tCO_2e	2022/23	2021/22	% change
Scope 1			
– Fuel (Gas)	**8,963**	9,617	(6.8)%
– Fuel (Liquid)	**471,318**	468,570	0.6%
– Biomass	**1**	n/a	
Refrigerants	**2,948**	2,137	38.0%
Scope 1 total emissions	**483,230**	480,324	0.6%
Scope 2 purchased electricity (Location-based)	**10,740**	10,625	1.1%

This table below further breaks down our reported scope 3 GHG Emissions:

Scope 3 Greenhouse Gas emissions breakdown in tCO_2e	2022/23	2021/22	% change
Upstream emissions (Well to Tank)	**115,183**	115,387	(0.2)%
Electricity transmission and distribution losses	**3,786**	3,011	25.7%
Waste	**413**	n/a	
Business travel & grey fleet (air, sea and land transport)	**1,343**	555	142.0%
Business travel (hotel nights)	**365**	212	72.2%
Company leased vehicles	**352**	237	48.5%
Total emissions (Location-based)	**121,442**	119,402	1.7%

We are reporting against the Streamlined Energy and Carbon Reporting ("SECR") framework. The 2022/23 reporting period is 1 May 2022 to 29 April 2023.

To comply with SECR guidance, the methodology used is the WBCSD/WRI Greenhouse Gas Protocol. A financial control approach has been taken. Stagecoach has a 37.5% shareholding in Scottish Citylink Coaches Limited. Under the financial control approach, Scottish Citylink Coaches Limited is excluded from Stagecoach's organisational boundary because the joint venture is categorised as an Associated/Affiliated Company as per the definition in the GHG Protocol. We have used the UK Government greenhouse gas conversion factors for company reporting 2022. Scope 2 emissions from purchased electricity have been measured using a location-based approach.

Materiality was set at 1% of the organisation's GHG emissions for each emissions source and we use a materiality threshold for the Group of 5%. We are not aware of any emissions that have been excluded on the grounds of materiality. We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. All these sources fall within businesses that are included in our consolidated financial statements.

The Group uses biodiesel fuel blend for some of its bus fleet and a biofuel blend for some of its support vehicles. As recommended in the UK Government Environmental Reporting Guidelines, biogenic CO_2 from this was reported separately, whereas biogenic CH4 and N2O emissions were accounted for in Scope 1 fuel combustion. Out of scope emissions factors from BEIS (2022) were used to calculate out of scope emissions from petrol and diesel. To estimate energy use for Scope 1 and 2 emissions from fuel, the fuel volumes used were converted to kWh. We used BEIS GHG emissions conversion factors for 2022 to convert the 2022/23 fuel volumes to energy use.

Scope 3 emissions are indirect emissions which take place outside of the Group's direct operations. The Scope 3 emissions that we have reported above include emissions from:

- Business travel by means not owned or controlled by us.
- Hotel night stays.
- Waste.

Fuel and energy related activities. For us, this is "well to tank" for all scope 1 energy, and "transmission and distribution" for scope 2.

Scope 1 emissions increased in 2022/23 by 0.6%. This can be explained with reference to:

- During the year ended April 2023, we acquired two new business' within our London division. These new additions increased the miles operated within London and increased our estate and building emissions. The new additions increased our absolute emissions by 2.5%.
- We ran a large scale, exceptional event for the commonwealth games. This event resulted in incremental mileage being operated, and increased our absolute emissions by 0.2%.
- Conversely, BEIS emission factors changes are favourable versus our position last year. This change reduced our absolute emissions by 0.5%.

These changes result in an absolute increase of 2.2%. However, absent of these factors, our overall scope 1 and 2 location-based emissions have reduced by 1.1%.

We have not set specific targets for our Scope 1, 2 and 3 GHG emissions but we have set targets for our GHG emissions normalised for revenue, vehicle miles and passenger journeys (see sections 1.7.2.6.3 to 1.7.2.6.5 below).

1.7.2.6.2 Carbon saved by modal shift

In 2021/22 as bus use began to rebound from the pandemic, so too did emissions saved. We track our "Carbon saved by modal shift", being the estimated direct greenhouse gas emissions of our operations less the estimated greenhouse gas emissions saved by reducing car journeys and other modes of transport. While that does involve some estimation, we consider it to better reflect the environmental impact of our business than a consideration of our direct emissions alone.

Our Carbon saved by modal shift metric helps us assess and manage that by focusing not just on our own GHG emissions but on the net position. Our Carbon saved by modal shift metric helps us assess and manage that by focusing not just on our own GHG emissions but on the net position. The numbers in the table below clearly show the pre-pandemic environment against the dip caused by the lockdowns and then the recovery to where we are today.

	2022/23 Emissions (tCO_2e)	2021/22 Emissions (tCO_2e)	2020/21 Emissions (tCO_2e)	2019/20 Emissions (tCO_2e)
Total Scope 1 & 2 emissions (see table in section 1.7.2.6.1 above)	**(493,970)**	(490,949)	(416,758)	(493,112)
Estimated emissions saved by replacing journeys by other modes	**733,814**	508,026	291,600	681,776
Net carbon saved by modal shift/(emissions)	**239,844**	17,077	(125,158)	188,664
– Target disclosed in 2022 Annual Report	**57,814**			

We are targeting to improve our Carbon saved by modal shift, principally by:

- Reducing the emissions of our fleet by moving more of our fleet to cleaner diesel, ultra-low emission and zero emission vehicles, and ultimately to having a fully zero emission UK bus fleet by 2035;
- Growing bus journeys, replacing car journeys and increasing our load factors.

Our short, medium and long-term targets for Carbon saved by modal shift are as follows:

	2023/24	2024/25	2031/32	2050/51
Carbon saved by modal shift (tCO_2e)	62,004	65,977	87,852	67,993

Over the coming years, we are targeting an increase in our carbon saved by modal shift, driven by an increasing portion of our UK bus fleet becoming zero emission buses and modal shift from other modes of transport to bus. Our targets also take account of an increasing proportion of zero emission private cars – while that sees our target carbon saved by modal shift reducing between 2031/32 and 2050/51, we still envisage a significant carbon saving in 2050/51 even with a high proliferation of zero emission cars.

1.7.2.6.3 Emissions per £ of revenue

We have chosen to use a revenue intensity metric and as such, report emissions as kilograms of carbon dioxide equivalent per total revenue ($kgCO_2e$/£ of revenue). Our emissions per £ of revenue are summarised below:

	2022/23	2021/22
Revenue (£m)	**1,372.3**	1,176.1
Total Scope 1 & 2 emissions tonnes (tCO_2e) (location based)	**493,970**	490,949
Intensity ratio		
Total Scope 1 & 2 emissions ($kgCO_2e$/£ of revenue) (location based)	**0.36**	0.42
– Target disclosed in 2022 Annual Report	**0.34**	0.39

Our intensity ratio for $kgCO_2e$/£ of revenue has decreased compared to last year as a result of recovery after the pandemic. This is slightly short of target due to factors which have increased our carbon emissions above what was expected. This has been discussed in section 1.7.2.6.1.

The revenue figures shown in the consolidated income statement reconcile to the revenue figures in the table above as follows:

	2022/23 £m	2021/22 £m
Revenue shown in consolidated income statement	**1,372.6**	1,176.5
Exclude revenue items relating to expired rail franchises, for which there are no associated emissions in the year	**(0.3)**	(0.4)
Revenue shown in preceding table	**1,372.3**	1,176.1

1. Strategic report (continued)

Our short, medium and long-term targets for emissions per £ of revenue are as follows:

	2023/24	2024/25	2031/32	2050/51
Total Scope 1 & 2 emissions (kgCO_2e/£ of revenue)	0.31	0.28	0.12	Net zero

1.7.2.6.4 Emissions per vehicle mile

We also report emissions per vehicle mile as:

Group metrics	**2022/23**	2021/22
Vehicle miles (m)	**343.1**	346.9
Total Scope 1 & 2 emissions tonnes (tCO_2e) (location based)	**493,970**	490,949
Intensity ratio		
Total Scope 1 & 2 emissions (kgCO_2e/vehicle mile) (location based)	**1.44**	1.42
– Target disclosed in 2022 Annual Report	**1.21**	1.27

Our intensity ratio for kgCO_2e/vehicle mile has increased compared to last year due to the disparity between our carbon emissions and miles ran. We decreased our mileage by 1%, however our overall emissions have increased by 1%.

Our short, medium and long-term targets for emissions per vehicle mile are as follows:

	2023/24	2024/25	2031/32	2050/51
Total Scope 1 & 2 emissions (kgCO_2e/vehicle mile)	1.13	1.06	0.54	Net zero

1.7.2.6.5 Emissions per passenger journey

We also report emissions per passenger journey. This provides data to compare our emissions per journey with other modes of transport, as we seek to manage the risks and opportunities associated with changing customer habits.

Emissions per passenger journey in 2022/23 and 2021/22 were as follows:

	2022/23	2021/22
Passenger journeys (m)	**780.5**	635.8
Total Scope 1 & 2 emissions tonnes (tCO_2e)	**493,970**	490,949
Intensity ratio		
Total Scope 1 & 2 emissions (kgCO_2e/passenger journey)	**0.63**	0.77
– Target disclosed in 2022 Annual Report	**0.56**	

Our intensity ratio for kgCO_2e/passenger journey has decreased compared to last year as a result of recovery after the pandemic. This is short of target due to factors which have increased our carbon emissions above what was expected.

Our short, medium and long-term targets for emissions per passenger journey are as follows:

	2023/24	2024/25	2031/32	2050/51
Total Scope 1 & 2 emissions (kgCO_2e/passenger journey)	0.49	0.46	0.24	Net zero

1.7.2.6.6 Fleet composition

We also track our bus and coach fleet composition as we assess and manage risks associated with the cost of new vehicles and regulatory changes. The below table details our progress in reducing the emissions impact of our bus and coach fleet. We remain at the early stages of our journey towards a 100% zero emissions UK bus fleet, and recognise we have to accelerate our investment in order to meet our medium and long-term targets.

	29 April 2023 % of fleet	30 April 2022 % of fleet
Percentage of fleet which is Euro 3 or above, ultra-low emission or zero emission	**99.7%**	99.7%
Percentage of fleet which is Euro 6 or above, ultra-low emission or zero emission	**56.2%**	49.1%
Percentage of fleet which is ultra-low emission or zero emission	**14.0%**	12.6%
Percentage of fleet which is zero emission	**3.3%**	2.2%
– Target disclosed in 2022 Annual Report	**9.5%**	

Our short, medium and long-term targets for the percentage of the UK bus and coach fleet which is zero emission are as follows:

	2023/24	2024/25	2031/32	2034/35
Percentage of fleet which is zero emission	17.4%	25.2%	76.5%	100.0%

1.7.2.6.7 Government net promoter score

Given the importance of our relationship with government in the context of growing public transport use and public policy, we measure our government net promoter score through an independently conducted survey of key government stakeholders. Key government stakeholders for this purpose include passenger transport executives, local transport authorities, combined authorities, the UK Government and devolved governments.

	2022/23	2021/22
Government net promoter score	**(13)**	+39

Our Net Promoter Score in 2022/2023 saw a very significant reduction, with survey respondents citing the operational challenges in autumn 2022 because of industry-wide driver resource shortages as the main factor in the reduction. Actions are under way to restore service reliability and engage with local stakeholders to recover confidence in service delivery.

1.7.2.6.8 Carbon prices

We do not use any internal carbon prices.

1.7.3 Social – Employees

1.7.3.1 Our employees

We are passionate about putting our people at the front and centre of what we do. Our employees are fundamental to the successful development and performance of the business. We aim to recruit and retain the best employees in our sector, offering a competitive package of benefits, which enables us to deliver good customer service.

We are building a strong and trusting culture integrated with our values, where our people are empowered to do the right thing and be themselves at work. We are supporting our people to realise their full potential through delivering our three-year people plan:

- **INVOLVE**

Continuing to build a strong and trusting culture in which we celebrate our differences. Our colleagues are empowered to do the right thing and feel that they are part of an inclusive business where everyone is supported and can flourish.
- **INSPIRE**

Providing opportunities for our people to thrive both personally and professionally.
- **INNOVATE**

Investing in technology to transform and modernise our ways of working to create a future-focused approach to our people offering.

1.7.3.2 Employment policies

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

We value, and have a policy of, equality of opportunity, regardless of disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. We also provide training, career development and equal consideration for promotion.

1.7.3.3 Effectiveness of employment policies

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

1.7.3.4 Employee training and development

Our training priority remains essential Driver Certificate of Professional Competence ("CPC") and apprenticeship training to ensure we equip our drivers and engineers with the skills they need to perform their roles effectively.

We increased our membership with the 5% Club to Gold Status for our commitment to "earn and learn" programmes as a result of our continued commitment to our apprenticeship programmes. The 5% Club is a UK-wide charity that aims to contribute to the alleviation of poverty through increased levels of employment. We're committed to increasing the number of apprenticeships and providing further development for our managers and leaders of the future to grow our talent pipelines across the business.

1.7.3.5 Employee engagement

Our engagement strategy is built around gaining meaningful insights so we can continually improve and help people feel part of our business.

In the year ended 29 April 2023 we conducted an employee engagement pulse survey designed as a temperature check of a reduced number of survey questions to track engagement levels, focus on key topics, and track progress against action plans from the group-wide employee survey completed in the year ended 30 April 2022.

Our employee communications app, Blink, continues to be a pivotal tool to increase our employee voice and reach a wider audience quickly with important updates through a modern digital platform. We also continue to utilise more than 300 digital screens across our sites as another more modern, timely, engaging, and accessible way of reaching our people with key updates, allowing us to share both national and local messages with our colleagues. Our employee magazine, Focus, enables us to share our people's stories and help everyone understand how they contribute towards the success of our business. It especially helps us celebrate and thank our employees who go above and beyond, as well as showcasing good news stories about "what the business is doing" to ensure we are sustainable for the future.

1. Strategic report (continued)

We continued with our successful Stagecoach Star of the Month recognition scheme, which recognises and rewards our people for their outstanding performance and behaviours.

We continue to focus on strengthening our relationships with the recognised trade unions to ensure that they develop a shared understanding of the challenges that we face as a business. We have twice-yearly meetings with trade unions through the Joint Negotiation and Consultation Forum ("JNCF") in place. There have been a number of disputes over pay during the last year due to the rising cost of living and increased competitiveness in front line workers pay. However, these have been settled and we will continue to build on creating a positive culture where our people feel fairly rewarded and recognised.

Section 1.8 of this Annual Report summarises, amongst other matters, how the Directors have regard to employee interests, and the effect of that regard, including on decisions taken during the year ended 29 April 2023.

1.7.3.6 Employee health and wellbeing

The health and wellbeing of our people continues to be a focus for us, particularly on physical, financial and mental wellbeing. During 2022/23, we appointed our first dedicated Diversity, Equity & Inclusion (DEI) Partner to drive forward the health, wellbeing and inclusion and diversity agenda.

This year there has been a continued focus on Mental Health First Aid training for wellbeing champions and managers across the business.

Our benefits platform provides our employees with easy access to a whole host of wellbeing resources, such as the Employee Assistance Programme, alongside offering discounts for shopping and entertainment. Now more than ever, we are aware of the growing need to improve the support we provide around financial wellbeing.

To further enhance our benefit offering and encourage employees to become more active we launched a Cycle2Work scheme in April 2023 via our benefits platform. It provides a quick and easy way for employees to apply for and benefit from a more affordable way to access bikes and cycling equipment.

1.7.4 Social – Workforce diversity and inclusion

1.7.4.1 Workforce diversity policy

We continue to build on our inclusive culture where differences are celebrated and we attract, retain and develop more diverse talent throughout the organisation. We have continued to grow our employee-led networks; Veterans; Parents; Women@Stagecoach; LGBTQ+ community; Carers; and members of multi-faith/multi-ethnic communities, and have recently introduced a new network aimed at young managers. We now have over 600 members of the networks helping to shape the agenda and bring about lasting change. We recognise the importance of employee networks to support diversity and inclusion in our business, and to enable us to better represent the customers and communities we serve.

We have recently submitted our 2022 Gender Pay Gap Report, which shows a mean gender pay gap of 4.93%, substantially lower than the UK average of 14.9%. For further detail on the 2022 Gender Pay Gap report, please go to:
https://www.stagecoachgroup.com/about/managing-the-business/governance/gender-pay-gap-reporting.aspx

1.7.4.2 Actions to strengthen diversity and inclusion

We continue to seek to improve the gender balance throughout the Group. Diversity, Equity and Inclusion ("DEI") remains a key focus for our businesses and our approach to strengthening DEI further is focused on three key areas:

Improved support for our female colleagues
Resource and embedding
We have recently invested additional resource and appointed a DEI Partner in September 2022. This role brings in expertise and will deliver our DEI plan and vision for the future, ensuring we remain focused and committed to our sustainability targets and building our inclusive culture.

Policy refresh
During 2022 we enhanced a number of our family friendly suite of policies (including enhanced maternity leave) with the support of our Women@Stagecoach network, which we hope will encourage employees to progress within Stagecoach and elevate potential blockers. We hope that these policy enhancements encourage more females to consider us as an employer. We continue to encourage flexible and part-time working in management roles through our Future of Work vision. We've also set up a working party and various trials to help us further encourage more flexible working to attract more female drivers and engineers into our business.

Awareness and understanding
We are helping Stagecoach colleagues with their awareness and understanding to mitigate the impact of unintentional gender biases through delivery of unconscious bias "Let's Talk" sessions as well as mandatory e-learning modules. As part of our commitment to developing our colleague and line manager inclusion capability, we have training available to help educate colleagues and give them the tools to move the dial on DEI. We continue to make sure that there's no gender bias in any of our training and development initiatives, and everyone has the same access to development relevant to their roles.

In addition, we continue to encourage our female drivers, engineers and supervisors to develop their careers further through recognition in our Shine Pool, enhancing the diversity within this vital future leader population.

1.7.5 Social – Community matters

1.7.5.1 Social and community policies

We seek to work with a wide range of stakeholders to help shape our services and support our drive to get a better deal for sustainable public transport.

We are focused on working with national and local governments to deliver a broad network of high quality, accessible and sustainable transport services. We have worked closely with local authorities across our network in England to develop ambitious bus service improvement plans ("BSIPs") as part of the government's national bus strategy. These BSIPs include initiatives to lower fares, speed up bus journeys, boost accessibility and connections, and improve customer information. We continue to work with local authorities to deliver the joint plans for improvement in bus services. We are also working closely with the devolved governments to develop future bus service plans for Scotland and Wales.

1.7.5.3 Promote social inclusion through our services and operations

Our customer transformation programme continues to build on our leading investment in contactless technology with a focus on developing simplified products and pricing which offer a simple and affordable experience for customers. We are also continuing to work with local authorities and other operators to develop multi-operator ticketing.

Our customer contact centre makes it easier for customers to reach us from anywhere in the UK, with a one-stop phone and digital contact point that people can use to speak to a member of our team on any queries they have, including questions about timetables, feedback on services, help with smartcards and lost property.

Making our services more accessible and delivering better value travel is central to our strategy to encourage people to switch from single use car trips to more sustainable public transport.

We continue to take steps to deliver fare simplification to improve customer perception of value for money and help drive more use of our buses, coaches and trams.

Contactless payment facilities cover all of our regional bus fleet, making it easier for people to use our services and providing a platform for further ticket simplification. Our on bus contactless technology enables customers to use electronic tickets stored on their mobile phone instead of requiring a printed ticket.

All of our local bus fleets in the UK are fully accessible as a result of significant investment over many years. Our new vehicles feature CCTV and USB charging points, and "talking bus" audio visual systems are fitted as standard, providing next-stop information. This is designed to improve accessibility for blind and partially sighted people and we have worked with sight loss organisations, including the Royal National Institute of Blind People and Guide Dogs, to raise awareness of potential barriers to travel among excluded groups.

Automatic vehicle location technology is fully deployed across our UK regional bus fleet, providing real time service information to customers via our smartphone app and online.

Efficient connectivity is vital to ensure people in our local communities have access to jobs, the services they need and can play a full part in society. We have taken a leading role in the development of demand responsive transport services, helping to serve people in rural areas or those employed in specialist sectors.

We have a number of ticketing initiatives in place to support the local communities we serve, including our national jobseekers discounted travel initiative, the only scheme of its kind in the UK and offering discounted bus travel for Scottish NHS workers. Our Stagecoach Solutions service also offers a range of service for businesses and corporates to work with us to develop personalised transport solutions.

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

1.7.5.4 Foster community development through our charitable activities

Since we were founded in 1980, we have played a huge role in supporting the communities we serve and sharing our success with local people and communities by funding the work of local, national and international charities. We continue to make a significant contribution towards the communities we serve through time, resource, money and sponsorship, and have committed to donating 0.5% of pre-tax profits to charitable and community causes each year.

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

1.7.6 Governance – Our corporate values

1.7.6.1 Corporate values and Code of Conduct

We have a set of core values and policies, which are detailed in our Group Code of Conduct. Our five shared values to drive our people and the brands they represent across our business are: We're go getting; We do the right thing; We're in it together; We keep it simple and We care. We promote a culture of openness across all our businesses and our objective is to ensure the highest standards of probity and accountability.

The Code of Conduct sets out key principles and provides practical examples and guidance to help shape employees' behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review and can be found at the following link:
https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/code-of-conduct-may-2021.pdf

1.7.6.2 Whistleblowing

The Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. Our "Speak Up" whistleblowing platform is now well established in the business, and this provides a channel for employees to anonymously report concerns they have, while enabling us to ensure that all reported concerns are systematically investigated and tracked.

The "Speak Up" whistleblowing policy sets out how the Group will investigate any concerns raised and the action it may take. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. A copy of the document is available at:
https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/whistleblowing-policy-may-2021.pdf

The Board reviews summaries of matters raised through the "Speak Up" platform and through other whistleblowing reporting channels.

1.7.7 Governance – Health and safety

We have a clear vision to consistently strive for excellence in health and safety in all our operating companies. Our approach to safety management is articulated through the Stagecoach Strategic Safety Framework. Understanding safety risk and being compliant with, or exceeding, the health and safety regulations for the different modes of transport our business delivers is core to this Framework. We have published improvement targets in our Sustainability Strategy "Driving Net Zero – better places to live and work" with an update published in November 2022. We have a Safety Plan detailing the actions we are taking to drive system, technological and cultural improvements.

1. Strategic report (continued)

We have continued to invest in and develop technology to reduce risk. This includes a bespoke system to support drivers and make interventions before there is a risk of an incident happening. We also continue to invest in our people and enable our management teams and Health and Safety Representatives to attain a safety qualification via our externally delivered, IOSH Managing Safety training. Our operating companies work hard to engage with their people to improve safety through company Safety Forums.

The Health, Safety and Environment Committee monitors performance and reports to the Board on health and safety matters. Our operating companies have safety management systems in place which are appropriate for their respective risk profile and regulatory requirements for the industry in which they operate. This includes policies, risk assessments and safe working procedures to make sure that safety risks are managed and controlled. Performance of leading and lagging indicators are measured and reviewed at operating company and Group level. This is supported by analysis of audit results and review of civil liabilities claims to address any issues around policies and working procedures.

Our approach to safety across Stagecoach is collaborative. Our local leadership teams have clear accountability for the delivery and continuing improvement of safety in their business. To support them in doing this we have a team of Safety Professionals. There are multiple channels through which our people can report safety concerns, confidentially should they choose to do so. These include near miss reporting systems and externally and, via CIRAS, an independent organisation.

1.7.8 Governance – Human rights

The Group does not see human rights matters as presenting material issues or risks for the Group and therefore the Group does not have specific, detailed policies in respect of human rights. However, in the Group's Code of Conduct (see section 1.7.6), the Group recognises the fundamental civil, political, economic and social human rights and freedoms of every individual and strives to reflect this in its business. A respect for human rights is reflected in our wider policies and in how we do business with customers, suppliers, employees and other stakeholders.

It is our policy to respect the rights of individuals to hold personal political views, to undertake political activity and to personally support or be members of particular organisations. We support the objectives of the Modern Slavery Act 2015 of eliminating slavery and human trafficking. We have provided a statement on these matters at: https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/modern-slavery-act-transparency-statements/modern-slavery-act-transparency-statement-2021.pdf

1.7.9 Governance – Anti-corruption and anti-bribery

1.7.9.1 Anti-corruption and anti-bribery policy

The Group has an anti-bribery and anti-corruption framework in place. The Group's attitude to bribery and corruption is set by the Board of Directors and is reflected in the Group Code of Conduct (see section 1.7.6). It is our policy:

- not to tolerate any form of bribery or inducements for any purpose whether directly or through a third party;
- to prohibit the giving of "facilitation payments" or "grease payments" even in jurisdictions where these might be legally permitted or expected by local custom;
- that officers, employees and representatives of the Group shall not seek, accept, offer or provide gifts from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the value of the gift(s) is clearly insignificant;
- that officers, employees and representatives of the Group shall not accept, offer or provide hospitality from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the hospitality is reasonable in terms of its frequency, nature and cost;
- that officers, employees and representatives of the Group should seek to avoid actual, perceived or potential conflicts of interest, as these may jeopardise their reputation as well as the Group's;
- that bond price-sensitive information must be properly safeguarded and no individual should profit from undisclosed price-sensitive information;
- that we do not make political contributions and, therefore, no company within the Group is permitted to make political contributions; and
- that all officers, employees and representatives of Stagecoach must use the Group's property and information technology appropriately and responsibly.

1.7.9.2 Effectiveness of anti-corruption and anti-bribery polices

Any known instance of fraud, bribery or attempted bribery that was designed to give an advantage to the Group is reported to the Audit Committee for consideration and appropriate follow up. There were no such matters arising during the year ended 29 April 2023 that were material. The whistleblowing policy (see section 1.7.6.2) provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

1.7.9.3 Anti-corruption and anti-bribery procedures

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

The Group's Director of Risk and Assurance periodically reviews the Group's anti-corruption framework and report their findings to the Group's Audit Committee. A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's Code of Conduct that contains the Group's anti-corruption policy.

1.7.10 Non-financial key performance indicators

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

Section 1.7.2.6 describes key metrics and targets that we use to assess and manage relevant climate-related risks and opportunities.

1.8 Section 172 statement

The Directors believe that in the decisions taken during the year ended 29 April 2023, they have acted, both individually and together, in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors have had regard to, amongst other things, the matters set out in section 172(1)(a–f) of the Companies Act 2006.

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

Our approach to decision making

Strategy

- The Group's strategy is set out in section 1.4.2.
- The Board's decision making is undertaken in the context of that strategy.

Culture and values

- We have a business culture reflecting a commitment to conduct business in a socially responsible way – this is described further in section 1.4.1.
- Our culture is supported by our corporate values – more information is provided in section 1.7.6.
- Our culture and values are supported by our Code of Conduct and whistleblowing arrangements – see section 1.7.6.2.
- The Board's decision making reflects our culture and values.
- The Board monitors the Group's culture through the results of staff surveys, reports from the Risk Assurance function, reports from the whistleblowing process and activity outside of "the Boardroom" such as meetings with various staff from across the Group and visits to operational locations.

Delegated authorities

- Clear delegated authorities are in place to provide clarity as to where in the Group decision making responsibility lies.
- The Group Authorisation Policy, which sets out delegated authorities, includes a reminder of directors' duties, including under section 172. That serves as a reminder not only to directors of the Company but to directors of all of the Company's direct and indirect subsidiaries, and to other decision makers.
- Certain matters are reserved for decision making by the Board. A copy of the latest matters reserved for the Board is available on our website at https://www.stagecoachgroup.com/about/managing-the-business/governance/matters-reserved.aspx
- Each committee of the Board has clear, written terms of reference and those are available on our website as indicated in the report from each Committee in this Annual Report.

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

Stakeholder Engagement

Stakeholder Group	Example sources of information and engagement	Section(s) in this Annual Report
Employees	• Staff survey • Whistleblowing process • Other meetings and events outside scheduled Board meetings with staff from across the Group	1.4.4, 1.7.3, 1.7.4, 1.7.6
Suppliers	• Reports from management on its engagement with suppliers • Reserved responsibility on major expenditure such as vehicle purchases • Board attendance at events where suppliers are represented	1.4.4
Customers	• Customer satisfaction surveys • Other bespoke customer surveys • Regular summaries of media reports	1.4.4
Government and regulatory bodies	• Reports from management on its engagement with various governmental and regulatory bodies • Regular summaries of media reports	1.4.4
The financial community (including lenders and credit rating agencies)	• Reports from management on lender and rating agency feedback • Regular summaries of media reports	1.4.4
Pension scheme members	• Presentation to Board from Pensions Director	
Shareholder	• Four Board members appointed by DWS Infrastructure	
The community	• Regular summaries of media reports	

The Board considers the impact of the Group's operation on the environment through reports from its Health, Safety and Environmental Committee. Section 1.7.2 of this Annual Report provides more detail on environmental matters and climate change.

1. **Strategic report** (continued)

In the year ended 29 April 2023, the Group transitioned from public ownership to ownership by DWS Infrastructure and the Board composition was adjusted to one more appropriate for that ownership. The Board also commissioned a review of the management structure and organisation of the Group to identify possible efficiencies and reviewed its strategy in this context. The Group substantially reduced the funding risk of its main pension scheme. The Group submitted bids for operations in the first and second tranches of the Greater Manchester bus franchises. The Group also purchased two bus operating businesses in the Greater London area to consolidate its position in that market and give a broader footprint on which to build its London operations. In common with many businesses, the Group has faced a significant challenge to recruit sufficient employees (particularly drivers and engineering staff) to allow for the operation of its services to a high standard. The Board has worked to ensure that relationships with customers and other stakeholders were maintained in this difficult environment. We outline below how discharging their duties under section 172 influenced the Board's decision making:

- The services provided by the Group can help the government to achieve its stated ambitions around decarbonisation, levelling up of communities, driving economic recovery, and securing better health outcomes for citizens. The Board considers the Group's core business of delivering public transport to have good long-term prospects and that these services can be considered as part of the infrastructure on which society will continue to rely over a long term. The Group's goals and strengths align well with those of its shareholder.
- In each of the decisions referred to above, the Board was taking action that it believed would benefit the Group in the long term, such as by increasing the sustainability of long-term revenue, growing its revenue base and reducing risk.
- During the movements in gilt and other asset prices following the autumn 2022, "mini budget" the Board identified and was able to take advantage of an opportunity to de-risk the Stagecoach Group Pension Scheme ("the Scheme"). The trustees were able to sell the majority of its equity holdings and buy lower risk assets, including government gilts and corporate bonds. The outcome of these changes has been to significantly accelerate the Scheme's journey to self-sufficiency across the three sections of the Scheme. The Scheme trustees and Board have continued to monitor the Scheme's funding position and the support of the employer covenant during these changes, ensuring the interests of beneficiaries of the Scheme were considered throughout the process.
- The interests of the Group's employees were considered within the Board's decision-making throughout the year. Some of the changes made to the business have unfortunately resulted in redundancies, mainly at a middle and senior management level. The Group has good relationships with government and the Board recognises that strong partnership working between bus operators, national government and local transport authorities is fundamental to transforming the country's bus networks.
- The Board also remained mindful of the Group's impact on the community, underpinned by our clear purpose of connecting people and communities. The Group generally has good relations with the communities it serves, and we see scope for these to improve further, as the transition to zero emission vehicles should help improve air quality and emissions in local communities. Challenging recruitment conditions led to a deterioration in bus service levels in some areas and the Board has worked closely with senior management to find solutions to improve recruitment and retention of the employees who are key to our future success. This has resulted in improved service operation in the later part of the year.
- Some of the climate-related risks and opportunities we face are long-term in nature and in developing the Group's sustainability strategy, the Board has considered the consequences of its decisions on the long-term.
- DWS Infrastructure has expressed a desire to invest in the Group's sustainability strategy, including supporting the transition to zero emission vehicles. The significant capital DWS Infrastructure has to invest should benefit the environment. Board members have met with management of suppliers to understand how the Group's business can align with their businesses to facilitate the roll-out of low carbon technologies.
- In considering proposals throughout the year the Board has considered whether they would impact the Group's reputation for high standards of business conduct. Under DWS Infrastructure's ownership the Group continues to target maintaining investment grade status, supports the continuation of the Code of Conduct and the values set out in that code and facilitates whistleblowing through its "Speak Up" policy. The Board has reviewed and approved the continuance of a number of its other policies and procedures that aim to foster high standards of conduct in its businesses.

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

Mike Vaux
Company Secretary
29 June 2023

2. Directors' report

2.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 59.

On 9 March 2022, the boards of Inframobility UK Bidco Limited and the Company announced that they had reached agreement on the terms of a recommended all-cash offer from Inframobility UK Bidco Limited for the entire issued and to be issued share capital of the Company. That offer became unconditional on 20 May 2022. Accordingly, with effect from 20 May 2022, Inframobility UK Bidco Limited controls the Company. Inframobility UK Bidco Limited owns 100% of the issued share capital of the Company. The parent entities of Inframobility UK Bidco Limited (i.e. Inframobility UK Midco Limited, Inframobility UK Holdco Limited, Inframobility UK Topco Limited, PEIF III LUXCO Two S.a.r.l, PEIF III LUXCO One S.a.r.l and Pan-European Infrastructure III SCSp) indirectly control the same percentage of the Company's issued ordinary shares (excluding shares held in treasury) and voting rights.

Interim dividends of 8.453p per ordinary share were paid in the year ended 29 April 2023.

2.2 Board of Directors

The names of the individuals who acted as directors in the year is as follows:
Ray O'Toole
Martin Griffiths (resigned 10 January 2023)
Ross Paterson (resigned 31 January 2023)
Bruce Dingwall (appointed 1 February 2023)
Gregor Alexander (resigned 30 June 2022)
Scott Auty (appointed 27 May 2022)
James Bilefield (resigned 30 June 2022)
Miguel Costa (appointed 27 May 2022)
Florian Hubel (appointed 27 May 2022)
Hamish Mackenzie (appointed 27 May 2022)
Sir Brian Souter (resigned 30 June 2022)
Karen Thomson (resigned 30 June 2022)
Lynne Weedall
Graeme Charnock (appointed 21 April 2023)

Further information on each of the current Board members, including a short biography of each director can be found on the Group's website at https://www.stagecoachgroup.com/who-we-are/managing-the-business/governance/our-board.aspx.

No director has any interest in the share capital of the company.

2.3 Compliance with Corporate Governance Principles

This Annual Report and Financial Statements have been prepared in adherence with The Wates Governance Principles for Large Private Companies which can be found at https://www.frc.org.uk.

2.4 Indemnification of directors and officers

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

2.5 Risk Management

The Board, including the Audit Committee members, consider the nature and extent of the risk management framework, including the risk profile that is acceptable in order to achieve the Group's strategic objectives. The Board has carried out a review of the effectiveness of the Group's risk management and internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed. The most significant strategic, corporate and operational risks and uncertainties, and the Group's approach to their management, are detailed in sections 1.4.5.

2.6 Statement of Directors' responsibilities in respect of the Annual Report, the Remuneration and Nomination Committee report and the financial statements

The Directors are responsible for preparing the Annual Report, including the Strategic report, the Directors' report, the Remuneration and Nomination Committee report and the consolidated and parent company financial statements, in accordance with applicable United Kingdom law and regulations

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

In preparing those financial statements, the Directors are required to:
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK-adopted International Accounting Standards (or in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- in respect of the consolidated financial statements, state whether UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively;

2. Directors' report (continued)

- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group or as the case may be, the Company, will continue in business.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 4 of this Annual Report.

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

2.7 Conflicts of interest

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

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

For the period from 29 April 2023 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

2.8 Financial risk management

Information regarding the Group's use of financial instruments, its financial risk management objectives and policies, and its exposure to price, credit, liquidity and cash flow risks can be found in note 23 to the consolidated financial statements.

2.9 Political donations

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

2.10 Charitable donations

Charitable donations made by the Group during the year totalled £0.2m (2022: £0.2m). The donations were all made to recognised local and national charities for a variety of purposes.

2.11 Going concern

International Accounting Standard 1, Presentation of Financial Statements, requires the Board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and to identify any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. The financial statements for the year ended 29 April 2023 were approved by the Board on 29 June 2023.

The directors have considered the forecast cash flow and liquidity of the Group, including the impact of the wider economic environment, for a period to 26 October 2024, and resulting forecast cash headroom and financial covenants associated with the Group's financing arrangements, at each required measurement date, when assessing the going concern position of the Group.

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

2.11.1 Going concern assessment

During the year ended 29 April 2023, we have delivered a positive set of financial results and made progress on delivering our key objectives. We have seen a continued recovery in passenger demand, as we work in partnership with national and local government to maximise the opportunities from public transport for consumers and the country while navigating the current economic environment. There has also been a substantial strengthening in the Group's pension position, with a net pension asset at 29 April 2023 of £195.9m (2022 restated: deficit of £19.0m).

The Board considered the liquidity position in the Group's financial forecasts, which cover the period from 29 June 2023 to 26 October 2024 ("the going concern period"), recognising the challenges around reliably estimating and forecasting the effects of economic recovery in the UK on our regional bus business.

The key areas of forecasting uncertainty include:
- The timing and extent of the recovery in demand for regional bus journeys;
- Increased and uncertain cost inflation; and
- The nature and extent of payments from government for continuing regional bus services.

Our base case forecast assumes that regional bus commercial revenue returns to 98% of pre-COVID levels for the period ending 26 October 2024, reflecting consistent patronage with that achieved in the year ended 29 April 2023 along with inflationary fare increases already implemented. Concessionary revenue for the year ending 27 April 2024 is forecast at 100% of pre-COVID levels, increasing to 102% pre-COVID levels for the remainder of the going concern period.

2. Directors’ report (continued)

Our base case forecast reflects the recently announced two-year funding settlement for bus operators in England, which included £300m of further funding for the wider bus sector to protect bus services until 2025, in addition to further funding for the £2 fare cap to 31 October 2023, increasing to £2.50 until 30 November 2024.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue over the forecast period, in addition to more cautious assumptions around our levels of cost increases and government funding support. The downside scenario considered in the going concern period was:
- passenger numbers at 75%-76% of pre-COVID levels in the going concern period;
- commercial revenue at 90%-91% of pre-COVID levels in the going concern period;
- concessionary revenue at 91% of pre-COVID levels for the remainder of the going concern period;
- no additional government funding of zero emission buses, beyond awards already made; and
- failure to win the majority of its bus franchise bids resulting in the loss of services in a number of its depots.

2.11.2 Mitigating actions

To the extent any severe downside scenarios materialised, we consider that the Group would have sufficient controllable, mitigating actions to avoid a breach of the covenant tests in our committed bank facilities entered into in March 2020 and amended in November 2022.

Having constrained the Group’s capital expenditure over the past three years, our base case forecast assumes we increase our investment in capital expenditure, as we progress our plans to transition to a zero emission bus fleet. Accordingly, reducing or deferring this capital expenditure would be the key mitigation available. In addition, we would be able to further reduce the Group’s cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings. These mitigations are within the Group’s control and do not have any associated penalties.

2.11.3 Covenant headroom

Under the base case and downside scenarios, the Group remains in compliance with the covenant tests in our committed core bank facilities entered into in March 2020 and amended in December 2022 following the change of ownership of the Group in May 2022. In the reverse stress test scenario, headroom against the covenant tests exists throughout the going concern period, after taking account of controllable, mitigating actions.

2.11.4 Public policy context

During the COVID-19 pandemic to date, the governments in England, Scotland and Wales demonstrated a concern to ensure the continuity of bus services. They do not want to see cuts in bus services that hinder people connecting with work, shops, education, healthcare, or leisure. They do not want reports of key workers unable to get to work or people needing healthcare unable to access it.

As we continue to emerge from the long-term effects of the pandemic and work through a cost of living crisis, the governments have a desire to get bus usage back to what it was pre-pandemic and then increase patronage and grow buses’ mode share. Public transport is key to various components of the current public policy agenda in the UK: post-COVID economic recovery, building back better, decarbonisation, levelling up and tackling the cost of living crisis. We believe we can be very confident that governments will continue to act, including providing financial support, to avoid significant cuts in regional bus services.

The recent two-year £500m funding announcement in May 2023 is further evidence of government commitment to the bus sector. Accordingly, that provides us with some confidence in the sustainability of regional bus profitability over that period, which we believe underpins the Group’s ability to continue as a going concern over the period until October 2024.

2.11.5 Going concern conclusion

Taking account of the recent change in the Company’s ownership, the continuing economic background in the UK, and other relevant factors, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements. The Board has a reasonable expectation that the Company and the Group will each continue to operate as a going concern for the period to 26 October 2024.

2.12 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:
- so far as each of the Directors is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company’s auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company’s auditors are aware of that information.

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

2.13 Material included in the Strategic report

The Strategic report in section 1 includes information on the following matters that would otherwise be required to be presented in the Directors’ report:
- Employment policies – see section 1.7.3.2;
- Employee engagement – see section 1.7.3.5;
- Fostering relationships with suppliers, customers and others – see sections 1.4.4 and 1.8;
- Future developments in the business – see, amongst others, sections 1.3 and 1.6; and
- Greenhouse gas emissions – see section 1.7.2.6.1.

By order of the Board

Mike Vaux
Company Secretary
29 June 2023

3. Corporate governance report

3.1 Statement of corporate governance arrangement

This section 3 is our statement of corporate governance arrangements, as required by The Companies (Miscellaneous Reporting) Regulations 2018. As a large private company, we now follow The Wates Corporate Governance Principles for Large Private Companies issued by the Financial Reporting Council ("The Wates Principles"). The principles can be found at https://www.frc.org.uk.

Until June 2022, the Company's shares were traded on the London Stock Exchange and the Company's corporate governance reflected that. In our 2022 Annual Report, we reported our corporate governance arrangements with reference to the Financial Reporting Council's UK Corporate Governance Code.

On 9 March 2022, Inframobility UK Bidco Limited made an all-cash offer to acquire the entire issued and to be issued share capital of the Company. That offer became unconditional on 20 May 2022. On 28 June 2022, the listing of the Company's shares was cancelled. On 15 August 2022, Inframobility UK Bidco Limited completed the acquisition of the Company's entire issued share capital, and on 17 October 2022, the Company re-registered as a private company. Inframobility UK Bidco Limited is a Company managed by DWS Infrastructure, a long-term infrastructure investment management business.

During the year ended 29 April 2023, we adjusted our corporate governance arrangements to reflect the change in ownership of the Company and the de-listing of its shares, transitioning from applying the UK Corporate Governance Code to applying the Wates Principles. The sections that follow set out how we applied the Wates Principles in the year.

3.2 Purpose and leadership

In line the Wates Principles, our Board develops and promotes the purpose of the Company and ensures its values, strategy and culture align with that purpose.

The Company's purpose and business model are explained in section 1.4.1 of this Annual Report, its corporate values are set out in section 1.7.6.1 and its strategy is summarised in section 1.4.2. The Board determines the Group's strategy and develops it as circumstances change. From time to time, the Board meets for an entire day to focus exclusively on strategy.

The Company engages directly with DWS Infrastructure, which manages the shareholder's investment in the Company. Four representatives of DWS Infrastructure are directors of the Company and the Company's management also has regular discussions with other representatives of DWS Infrastructure. Those representatives of DWS Infrastructure also share the views of the investors in the fund that is the ultimate owner of the Company. Accordingly, the Board has a clear understanding of the views of the shareholder and the fund's investors.

The Directors seek to act with integrity and lead by example, setting the tone from the top. They seek to maintain positive relationships with all stakeholders, particularly the workforce. Section 1.7.3.5 of this Annual Report explains our engagement with the workforce.

As explained in section 1.4.1 of this Annual Report, we are committed to conducting business in a socially responsible way and we believe that to be consistent with our business objectives and strategy. We look to maintain a healthy corporate culture. Our description of our principal risks and uncertainties in section 1.4.5 includes consideration of risks related to people and culture, including steps we take to manage such risks. The Board monitors the Group's culture through a variety of ways including employee surveys, summaries of matters raised through the "Speak Up" platform and through other whistleblowing reporting channels, management engagement with trade unions on a range of matters, the results of internal audits, reports of any frauds affecting the Group, Board and/or Committee visits to operational locations, and key performance indicators on matters such as customer complaints and employee turnover. Section 1.7.6.2 explains the whistleblowing process, which together with policies and processes overseen by our compliance functions, provide a basis for concerns about misconduct and unethical practices to be raised and properly reviewed.

Section 2.7 of this Annual Report explains how we manage conflicts of interest.

3.3 Board Composition

The Board currently comprises eight directors, being:

- An Executive Chairman and a Chief Financial Officer;
- Four non-executive directors, who are representatives of DWS Infrastructure; and
- Two independent non-executive directors.

The Directors bring a range of skills, backgrounds, experience, and knowledge to the Board, which ensures an effective Board to lead and control the Group, ensures no one director or viewpoint is dominant in the decision-making process. The Board delegates the operational management of the Group to the Executive Directors. Four non-executive directors appointed by DWS Infrastructure ensure that the views of the shareholder and its investors are represented on the Board. Two independent non-executive directors brings an independent viewpoint and create an overall balance.

Following the retirement of Martin Griffiths, the roles of Chairman and Chief Executive have been combined. The Executive Chairman, Ray O'Toole, is responsible for the running of the Board and for ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Executive Chairman is responsible for the Board's overall effectiveness, promoting open debate and facilitating constructive discussion. The Executive Chairman, with the support of the Company Secretary and the executive team, ensures that all directors have appropriate information and sufficient time is made available for meaningful discussion at Board meetings. The Executive Chairman is responsible for proposing and developing the strategy with support from the executive team. The Executive Chairman is responsible for the running of the Group's business and reports to the Board. All other members of the executive management team report either directly or indirectly to the Executive Chairman.

The Board keeps its size and structure, and the roles and contribution made by each director, under review and changes in responsibilities are made where appropriate to improve the Board's effectiveness.

The six non-executive directors offer constructive challenge to the executive team. The Board includes two non-executive directors, who are independent of the shareholder. The appointment of independent non-executive directors is subject to a transparent procedure overseen by the Remuneration and Nomination Committee.

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

3. Corporate governance report (continued)

The Board assesses its own performance annually. That assessment is co-ordinated and directed by the Executive Chairman with the support of the Company Secretary. The Chairman obtains feedback from each individual director on the performance of the Board. A questionnaire-based process is undertaken to assess the performance of each of the Board's committees. The Board has considered the results of these assessments and has concluded that, overall, the Board and its committees continue to operate in an effective and constructive manner.

3.4 Director responsibilities

The Board maintains practices and policies that provide clear accountability and responsibilities to support effective decision-making. The matters reserved for the Board are set out in writing, and the Group Authorisation Policy sets clear limits of delegated authority throughout the Group. The Group Treasury Policy, which is approved by the Board, sets clear policies and limits of delegated authority in respect of treasury matters. The Group has a written policy in place for managing conflicts of interest. Maintaining written records of these matters helps ensure that the Board and individual directors have a clear understanding of their accountability and responsibilities, as well as helping to ensure effective decision-making and independent challenge.

The Executive Chairman and the Company Secretary keep the Company's corporate governance arrangements under review and make changes, as appropriate, to ensure the arrangements remain fit for purpose. Opportunities to strengthen the governance of the Company are given appropriate consideration.

To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees: the Health, Safety and Environmental Committee; the Audit Committee; and the Remuneration and Nomination Committee. Each Committee's terms of reference are set out in writing and approved by the Board.

The Group has processes in place to ensure its internal systems and controls are operating effectively, and to ensure that the quality and integrity of information provided to the Board is reliable. The Group's Director of Risk and Assurance function provides the Audit Committee and Board with assurance around internal systems and control. Board papers and supporting information are provided to the Board sufficiently ahead of scheduled meetings.

3.5 Opportunity and risk

The Board considers opportunities for the Group to create value for its stakeholders and reflects those, as appropriate, in the Group's strategy. The Group's Authorisation Policy sets out limits of delegated authority, ensuring that new business opportunities of a certain value are considered and approved by the Board. At the same time, the Board recognises the importance of maintaining a sound risk culture throughout the Group such that risks are identified, evaluated, and managed appropriately.

The Board considers that it is in the interests of the Group's stakeholders for the Group to evaluate and accept risk.

The Group has an ongoing process for identifying, evaluating, and managing the principal risks that it faces, including any environmental, social and governance risks.

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

3.6 Remuneration

The Board has established a Remuneration and Nomination Committee, chaired by an independent non-executive director, to ensure executive remuneration structures are designed to align with the long-term sustainable success of the Group, taking account of pay and conditions throughout the Group.

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

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

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

The Remuneration and Nomination Committee regularly reviews the existing remuneration of the Executive Directors, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals are then discussed in the light of the prospects for the Group as a whole. The Committee also reviews and sets the remuneration arrangements of other senior executives employed by the Group. The approach is consistent with that applied for the workforce, aiming to pay competitively with reference to the market rate for a job.

The Remuneration and Nomination Committee considers pay and conditions of the wider workforce and the Group's gender pay gap when designing the executive remuneration structures.

3. Corporate governance report (continued)

3.7 Stakeholder relationships and engagement

Recognising the Directors' duty to have regard to stakeholders, the Board engages with, and receives updates and feedback from various stakeholders. Further information on the Board's sources of information and engagement in respect of stakeholders is provided in the section 172 statement in section 1.8 of this Annual Report.

The section 172 statement also explains how the Directors consider stakeholders when making decisions.

The Annual Report and consolidated financial statements, which are made available to all stakeholders, are intended to provide a fair, balanced, and understandable assessment of the Group's position and prospects.

4. Audit Committee report

4.1 Introduction from Graeme Charnock, Chairman of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 29 April 2023.

During the year the membership of the Audit Committee changed, reflecting the change in ownership of the Group. Gregor Alexander, James Bilefield and Karen Thomson attended one meeting in the year until stepping down from their roles as non-executive directors of the Group. I wish to thank them for their contributions to the smooth and successful running of the Audit Committee.

4.2 Composition of the Audit Committee

The current composition of the Audit Committee is summarised as:
- Graeme Charnock (Chairman)
- Ray O'Toole
- Lynne Weedall

4.3 Operation of the Audit Committee

The Audit Committee met formally three times during the year. The Committee retains discretion as to who from outside the Committee should attend its meetings but generally invites the following to attend:
- The Chief Financial Officer;
- The Group Financial Controller;
- The Director of Risk and Assurance;
- The Company Secretary, who is Secretary to the Committee;
- Representatives from the external auditors;
- Representatives from the Risk Assurance (internal audit) Function (until 23 June 2022).

In addition, the Group Tax Director and the Group Head of Treasury are expected to present to the Committee at least annually. The Committee may also invite other directors of the Company to attend meetings of the Committee and does so from time to time. The external auditor has the opportunity to meet the members of the Committee and/or the Committee's Chair, without executive management present.

The Committee as a whole has an appropriate and experienced blend of audit, financial and commercial expertise to assess the issues it is required to address. The Board is satisfied that, through the range of skills and business experience possessed by each member of the Audit Committee, throughout this financial year, the Audit Committee as a whole had the competence relevant to the sectors in which the Group operates.

4.4 Activities of the Audit Committee

The Audit Committee is responsible, primarily, for monitoring the Group's financial statements, the adequacy and effectiveness of its internal control systems (including financial controls), the operation of its risk management frameworks and whistleblowing procedures, and for reviewing the appointment, independence, performance and cost effectiveness of the Group's external auditor.

During the year, the Audit Committee:
- reviewed the Annual Report and Accounts and Interim Report including going concern considerations and accounting for the various pension scheme arrangements that the Group participates in;
- reviewed and updated the Treasury Policy;
- reviewed and updated the Tax Strategy and Tax Policy;
- monitored the Group's cyber security activity and key controls;
- considered the impact of changes to the accounting and financial reporting regimes applicable to the Group;
- reviewed the Group's internal control and risk management systems, and the outcomes of risk management and risk-based internal audit work;
- considered internal audit skills and resources available within the Group and satisfied itself that these are adequate to meet the needs of the business and will be supplemented with co-sourced independent specialist support as and when necessary;
- reviewed and challenged management in relation to findings from internal audit reviews;
- assessed the adequacy of the Group's insurance claims provision;
- review of alternative performance measures and adjusted items;
- evaluated the external audit activity, specifically in relation to the key risks (impairment of non-financial assets, going concern and valuation of investment property) and key judgemental areas (pensions and tax);
- in the course of satisfying itself as to the independence and objectivity of the external auditor, analysed the level of fees paid to the external auditor for audit and non-audit work, and the performance of the external auditor;
- reviewed compliance with the Group's Code of Conduct and the Board oversees use of the Group's "Speak Up" Whistleblowing policy, which provides a mechanism for employees with serious concerns about the conduct of the Group, or its employees, to report those concerns. The Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice; and
- considered the extent to which the current and future effects of climate change are appropriately reflected in the consolidated financial statements; and
- assessed the reasonableness of the assumptions made about the Group's prospects when assessing going concern.

The Audit Committee also reviewed the evidence that supported the conclusion that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period ending 26 October 2024, noting it was consistent with the disclosure given in section 2.11 of this Annual Report. The Committee reviewed and challenged management on its financial modelling and scenario analysis.

The Committee has considered a range of other matters at its meetings over the last year and received various reports and presentations as follows:
- As part of an assessment of the Group's readiness for any future implications from the consultation on reforming UK Corporate Governance, audit and reporting, the Committee received a presentation from the Director of Risk and Assurance around the Group's internal controls.
- A presentation was received on the Group's tax affairs and related accounting judgements and risks. The Group Head of Treasury gave a presentation on the Group's treasury affairs and management of treasury risks.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance.

4. Audit Committee report continued

4.5 Fair, Balanced and Understandable assessment

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

5. Remuneration and Nomination Committee report

5.1 Introduction from, Lynne Weedall, Chair of the Remuneration and Nomination Committee

I am pleased to present the Remuneration and Nomination Committee's report for the year ended 29 April 2023.

Since the end of our last financial year on 30 April 2022, Inframobility UK Bidco Limited ("Bidco"), a company managed by DWS Infrastructure, took control of the Company. Following the change of control to Bidco, four representatives of DWS Infrastructure joined the Board of the Company on 26 May 2022.

On 28 June 2022, the listing of the Company's shares on the premium listing segment of the Official List, and the trading of the Company's shares on the London Stock Exchange's main market for listed securities, were cancelled.

As indicated in the Group's Annual report last year the structure and composition of the Board's committees was under review and during the year ended 29 April 2023 the Board reviewed the corporate governance arrangements for the Group. The Board amalgamated the Remuneration and Nomination Committees, reflecting the change in ownership and governance requirements for those committees. New terms of reference were approved and it was agreed that I would chair the combined committee unless it was dealing with matters in its terms that were specific to the business of the former Nomination Committee, when Hamish Mackenzie would take the chair.

Martin Griffiths (Chief Executive) and Ross Paterson (Chief Financial Officer), together with non-executive directors, Sir Brian Souter, Gregor Alexander, James Bilefield and Karen Thomson, stepped down from the Board during the year ended 29 April 2023.

Ray O'Toole and Lynne Weedall continued on the Board throughout the year. On 27 May 2022, Hamish Mackenzie, Scott Auty, Florian Hubel and Miguel Costa joined from DWS Infrastructure and Graeme Charnock was appointed to the role of the independent Chairman of the Audit Committee. Bruce Dingwall, previously the Director of Finance, was appointed to the Board as Chief Financial Officer on 1 February 2023. Graeme Charnock was appointed as a non-executive director on 21 April 2023.

An effective board needs to maintain balance over time, taking account of planned and unplanned changes to membership and the changing needs of the business. The Committee ensures that it regularly reviews our Board composition and ensures that the mix of skills and experience available is appropriate.

We are aware that talented individuals can come from diverse backgrounds and we aimed to promote diversity in the recommendations that we made to the Board. The Committee considers the Group's key strategic priorities when setting remuneration and ensures that all remuneration packages are linked to the long-term sustainable financial performance of the Group. The Committee ensures that any incentive structure drives performance that will enhance the experience of our customers, shareholder and our employees.

The Group is also committed to operating as a good corporate citizen. In carrying out its activities the Group is committed to doing the right thing for our various stakeholders and local communities. The Committee supports the Group in areas such as fairness, gender pay and diversity and inclusion.

The Committee is also guided by the following principles:

- attract and retain talent – allow the Group to attract, motivate and retain senior executives of high-calibre who are capable of delivering the Group's stretching objectives;
- performance-driven – link rewards to both individual and corporate performance, responsibility and contribution over both the short and long term;
- market aligned – position the Group competitively in the principal markets (both private and listed companies) where it competes for talent;
- fair – fairly designed and applied with consideration to market positioning, internal relativity and individual contribution, in the context of pay within the wider workforce; and
- simple – rewards are simple and understandable with a clear link between performance expectations, outcomes and rewards.

The Committee was satisfied that the remuneration policy was in the best interests of shareholders and did not promote excessive risk taking. As part of the Directors' remuneration policy, the Committee reserved the right to make minor amendments to the policies set out for regulatory, exchange control, administrative or tax purposes. Looking forward, now that the Company's shares have been de-listed, we will be reviewing the remuneration policy and adjusting it, as appropriate, to reflect the Company's new ownership and its latest objectives.

As set out below, I am satisfied that the Remuneration and Nomination Committee met its responsibilities during the year ended 29 April 2023.

5.2 Composition of the Remuneration and Nomination Committee

The current composition of the Remuneration and Nomination Committee is summarised as:

- Lynne Weedall (Chair)
- Ray O'Toole
- Hamish Mackenzie
- Scott Auty

Lynne Weedall is the Chair of the Committee except on matters specific to nomination matters within its remit, where Hamish Mackenzie takes the chair.

5.3 Operation of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee keeps under review the overall structure, size and composition of the Board, and is responsible for evaluating the balance of skills, knowledge and experience of the Board and its committees. Where appropriate, the Committee will suggest adjustments to achieve that balance. For a proposed appointment, the Committee will prepare a description of the role and the attributes required of the candidates, which will include a job specification and the estimate of the time commitment expected. In making any appointment, the Group's policy on directors having other significant commitments will be taken into account and potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them.

The Directors are also required to report any significant changes in their other commitments as they arise. The Committee identifies and evaluates suitable candidates and makes proposals for each appointment, although final appointments are the responsibility of the Board as a whole. The appointments process takes account of the benefits of diversity of the Board, including gender and ethnic diversity, and in identifying suitable candidates, the Committee considers candidates from a range of backgrounds. Recruitment consultants are selected based, amongst other factors, on their ability to access a diverse pipeline of talent.

5. Remuneration and Nomination Committee report (continued)

During the year ended 29 April 2023, in anticipation of the succession of the position of chairman of the Group's Audit Committee, the Company engaged the services of the executive search firm, Sam Allen Associates, to assist with the search for a candidate with recent and relevant financial experience for appointment to the Board. The search for a candidate was undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company. That appointment was cancelled following the takeover by DWS.

Sam Allen Associates has also supported the process of the orderly succession of the internal candidate, Bruce Dingwall, in place of Ross Paterson as Chief Financial Officer, providing external benchmarking and an assessment process.

Non-executive directors, other than the representatives of DWS Infrastructure, receive a letter of appointment. For any new appointments, the expected time commitment is agreed with the director and included in the letter of appointment.

5.4 Appointments of Chairman and Chief Executive

Hamish Mackenzie, who chairs the Committee when dealing with nomination matters, would lead any process to appoint a Chief Executive or Chairman.

Following the retirement of Martin Griffiths from the Board, the Committee has engaged Spencer Stuart to assist in providing a diverse range of candidates for recruitment to the position of Chief Executive Officer.

5.5 Board diversity and inclusion policy

The Company believes strongly that its Board benefits from being comprised of talented people with a range of perspectives and from differing backgrounds.

It is our policy to maintain diversity on the Board with regards to aspects such as age, social and ethnic backgrounds, cognitive and personal strengths.

The objective of this diversity policy is to maintain a Board with directors that collectively have a broad range of skills appropriate to pursuing the Group's strategy and objectives, to ensure that the Board benefits from a range of perspectives and viewpoints and to ensure that no one director or viewpoint is dominant in the decision-making process.

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

We consider that our policy in respect of Board diversity has remained effective during the financial year ended 29 April 2023.

In addition to board diversity, the Company believes in promoting diversity and inclusion at all levels of the organisation, further details of which are provided in section 1.7.4 of the Strategic report.

Fixed elements of pay

Basic salary

Purpose and link to strategy objectives	Operation
To attract, retain and motivate executives, ensuring basic salaries are competitive in the market.	Basic salaries are generally reviewed as at 1 May each year but the Remuneration and Nomination Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. Account is also taken of pay conditions throughout the Group.

Pensions and life assurance arrangements

Purpose and link to strategy objectives	Operation of reward element for Executive Directors and senior executives
To provide relevant life assurance and pension benefits that are competitive in the market.	The Company provides pension benefits to eligible employees through legacy defined benefit arrangements or through the Stagecoach Defined Contribution arrangements ("SDC"), which is a defined contribution arrangement. The SDC is available for newly eligible employees and provides money purchase pension benefits. Executive directors and senior executives are entitled to receive a cash allowance in lieu of pension contributions.

Benefits in kind and other allowances

Purpose and link to strategy objectives	Operation
Designed to be competitive in the market.	Benefits in kind and other allowances can include: • Healthcare benefits, life assurance cover, company car allowance, and telephone and communications costs • Relocation assistance upon appointment if/when applicable. Business related travel and subsistence costs will be met or reimbursed including directors' partners attending corporate events or management conferences. Where the Committee considers it appropriate, other benefits may be provided, such as paying reasonable legal fees or other costs related to recruitment, relocation or any proposed changes to terms and conditions of employment.

Variable pay

Performance-related annual bonuses

Purpose and link to strategy objectives	Operation
Aims to focus the Executive Directors on achieving demanding annual targets relating to Group performance. The part deferral of the bonus is designed to align managers' and shareholders' interests, and incentivise managers to remain with the Group.	Around the start of each financial year, the Committee agrees specific objectives for each executive director and senior leader. Following the end of each financial year, the Remuneration and Nomination Committee determines the performance-related annual bonus for each executive director or senior leader for the year just ended. This is based on their performance in achieving the set objectives, and affordability for the Group. Bonus awards are settled in cash, and in accordance with the rules of the Deferred Bonus Plan up to 50% of any actual bonus award will be paid shortly after the end of the relevant financial year with the balance being subject to deferral of up to three years. It is an important part of this Policy that the level of bonuses paid, including for any personal or non-financial elements, are considered and are subject to the overall discretion of the Committee after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant executive. The Committee will also retain the flexibility to change the number and the nature of the financial performance measures in the annual performance and bonus plan at the start of each financial year, or over the course of a year, depending on the financial priorities of the Group and other relevant economic or business factors. There are no further specific performance conditions attaching to the release of Deferred Cash Bonus because the annual bonus under which the deferral earned was subject to performance conditions.

6. Health, Safety and Environmental Committee report

The Board has appointed a Health, Safety and Environmental committee. The Committee is currently made up of the following:
- Ray O'Toole (Chairman)
- Florian Hubel
- Miguel Costa

Representatives from the executive management are invited to attend the meetings.

With the support of the Group's Health, Safety and Environment Director, the Committee assists the Board to fulfil its responsibilities by recommending Group policy in these areas and monitoring compliance with those policies. The Committee approves the Group's overall strategic safety framework. The Committee challenges the management team to continually strengthen its proactive safety culture and management processes, to identify and address emerging risks, and to respond to events. It has access to internal safety executives and also external consultants, where required. Health and safety is always the priority of the Committee.

The Committee also focuses on the environmental part of its remit. The Group has appointed a Head of Sustainability who reports to the committee on measurement and reduction of the environmental impact of the Group's operations. The Board has approved the Group's Sustainability Strategy, 2021: "Driving Net Zero: Better Places to Live and Work" https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/stagecoach-group-sustainability-strategy-2021.pdf. This is our long-term vision to make a difference for our planet, the people we employ, the communities we serve, and the health and wellbeing of us all. The Committee has oversight of the strategy and its implementation.

We involve a range of contributors from the Group's businesses in the work of the committee and the Committee actively engages with those businesses to help the Group to evolve its health, safety and environmental strategy and culture. Members of the Committee are encouraged to be visible to the Group's managers and staff through regular site visits. During the year, the members of the Committee visited the Group's bus operations in Cambridge. The Committee was able to see the opportunities for growth in a region which has always valued alternative modes of transport to the private car. The Committee members were able to experience the guided busway operations and to see the part it plays in providing rapid mass transit in the area. During a visit to suppliers made by the whole Board, the Committee members saw the production line of electric vehicles and discussed the future direction of electric vehicle technology. We strongly believe that electric vehicles will be a key part of the path to a net zero future and will work with the supply chain to enable the move to a cleaner, low carbon fleet.

Senior managers attend meetings of the Committee, providing the Committee with an opportunity to question and challenge them on matters within its remit and to share best practice across the Group. The Committee also invites more junior members of the team to engage with the Committee. By bringing contributors together at its meetings, the Committee aims to promote a strong safety culture, share knowledge between the Group's businesses and to challenge its business managers and safety advisers to create sustained improvement over time.

As incidents occur, the Committee, aided by the safety management teams, can analyse those incidents and learn lessons to further improve the Group's safety processes. The Committee and its members visit operational locations to observe health, safety, and environmental management in practice.

The Committee allocates time in its agendas for deep dive discussions on areas of specific interest or concern to it. During the year, additional briefings and deep dive discussions covered a range of topics, including:
- A briefing to new members of the committee on the regulatory safety framework for the industry
- The Group's safety reporting channels – Speak Up and CIRAS
- Low bridge avoidance system roll-out
- Driver risk management tool
- ESG metrics benchmarking review
- Results of Group safety culture survey
- 5-year safety plan and Group sustainability strategy

The Committee receives reports on trends in health and safety leading and lagging key performance indicators across the Group as well as information on significant safety or environmental incidents involving the Group. These key performance indicators are regularly reviewed to ensure that they remain relevant and appropriate.

The Safety Team has developed a five-year Safety Plan and has developed a safety dashboard to provide the Committee with regular updates on progress against that plan. Training, where relevant, is provided to the Committee on health, safety, and environmental matters. The Committee liaises with the Remuneration and Nomination Committee in determining any health, safety and environmental objectives that form part of the Executive Directors' personal objectives and to assess performance against these.

The safety and security of our customers, our people and others is fundamental to our business and we believe that Stagecoach has a key role to play in the future of environmentally sustainable public transport.

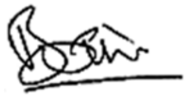
7. Responsibility statement

The Directors confirm that to the best of their knowledge:

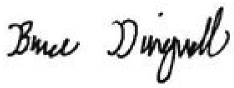
- The consolidated financial statements, prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and the undertakings included in the consolidation taken as a whole; and
- The Annual Report, including the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 4.3 of this Annual Report.

Signed on 29 June 2023 on behalf of the Board by:



Ray O'Toole
Executive Chairman



Bruce Dingwall
Chief Financial Officer

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764)

Opinion

In our opinion:

- Stagecoach Group Limited's consolidated financial statements (the "consolidated financial statements") and separate financial statements of the parent (the "Company financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 29 April 2023 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Company financial statements have been properly prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS 101"); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Stagecoach Group Limited (the "parent Company") and its subsidiaries (together, the "Group") for the year ended 29 April 2023 which comprise:

Group	Parent company
Consolidated income statement for the year the ended 29 April 2023	Company balance sheet as at 29 April 2023
Consolidated statement of comprehensive income for the year ended 29 April 2023	Company statement of changes in equity
Consolidated balance sheet (statement of financial position) as at 29 April 2023	Related notes 1 to 14 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity	
Consolidated statement of cash flows for the year the ended 29 April 2023	
Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent Company's ability to continue to adopt the going concern basis of accounting included:

Risk assessment procedures

- We confirmed our understanding of the going concern process and engaged with management early to ensure all key matters were considered in its assessment;
- We performed our own assessment of the going concern risks at the planning and execution stages of the audit.

Management's method

- We obtained management's forecast cash flows, going concern assessment and covenant calculations covering the review period from the date of signing to 26 October 2024, being the going concern assessment period.

Assumptions

- We assessed management's future passenger assumptions by comparing these to historical data trends and through considering actual passenger data trends from May 2022 through to May 2023;
- We reviewed industry reports and market data for indicators in relation to passenger volumes for contradictory evidence to challenge the going concern assessment;
- We reviewed existing government assistance and government support schemes, including the bus fare cap scheme, that continue to support the Group, assessing the impact of the assistance on future cash flows;
- We reviewed management's historic forecasting accuracy against actual results;
- We challenged the impact of increasing inflation and performed sensitivity analysis on potential cost increases.

Stress testing and management's plans for future actions

- We assessed management's reverse stress test of their forecasts which included a crystallisation of contingent liabilities and a further significant deterioration in operating profit to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom or a covenant breach;
- We reviewed management's assessment of controllable mitigations available to the Group to reduce cash flow spend in the going concern period, including the reduction in capital expenditure, in order to determine whether such actions could be affected and would be within the Group's control.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

Debt facilities, liquidity and banking covenants

- We performed a review of the Group's principal committed debt facilities to understand the terms and conditions in relation to covenants;
- We reviewed the accuracy of management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms;
- We agreed cash balances as at 29 April 2023 to externally received bank confirmations.

Disclosures

- We considered whether management's disclosures, in the Annual Report and financial statements, were appropriate.

The audit procedures performed in evaluating the Directors' assessment were performed by the Group engagement team.

Key observations

As reported to the Audit Committee, we noted that the Group is forecast to maintain both liquidity and covenant headroom in the base case and downside scenarios. The base case assumes passenger volumes remaining consistent with those currently being achieved and government support announced in May 2023. The reverse stress test scenario indicated that the Group would need to be exposed to a material downturn in trading, profitability and cash flows, including a crystallisation of contingent liabilities, in order to firstly breach covenants and then exhaust available liquidity. The Directors do not consider this scenario to be plausible and are satisfied that the impact can be mitigated by capital expenditure reduction which is within their control during the going concern period.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent Company's ability to continue as a going concern from when the financial statements are authorised for issue to 26 October 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or parent Company's ability to continue as a going concern. Going concern is not a Key Audit Matter.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 21 components and audit procedures on specific balances for a further 17 components. • The components where we performed full or specific audit procedures accounted for 99% of adjusted Earnings before Interest, Tax, Depreciation and Amortisation, 99% of Revenue and 99% of Total assets.
Key audit matters	• Valuation of provision for claims. • Valuation of Stagecoach Group Pension Scheme ("SPS") pension liabilities. • Accounting for Local Government Pension Schemes. • Management override of controls in relation to revenue recognition.
Materiality	• Overall Group materiality of £4.6m which represents 2.5% of adjusted Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA).

An overview of the scope of the parent and group audits

	Components		Percentage of EBITDA (2022: percentage of adjusted profit before tax)		Percentage of revenue		Percentage of total assets	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Full scope	**21**	16	**76%**	41%	**86%**	74%	**86%**	77%
Specific scope	**17**	20	**23%**	37%	**13%**	25%	**13%**	22%
Total full and specific scope	**38**	36	**99%**	78%	**99%**	99%	**99%**	99%
Parent and consolidation adjustments			**0%**	19%	**0%**	0%	**0%**	0%
Overall coverage			**99%**	97%	**99%**	99%	**99%**	99%

In the current year we have amalgamated the parent Company and the consolidation entries.

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 55 reporting components of the Group, we selected 38 components covering entities within the UK Bus (regional components), UK Bus (London) segments and UK Rail which represent the principal business units within the Group.

Of the 38 components selected, we performed an audit of the complete financial information of 21 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 17 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

The reporting components where we performed audit procedures accounted for 99% (2022: 97% of adjusted Profit before Tax) of the Group's adjusted Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"), 99% (2022: 99%) of the Group's Revenue and 99% (2022: 99%) of the Group's Total assets. For the current year, the full scope components contributed 76% (2022: 41% of adjusted profit before tax) of the Group's EBITDA, 86% (2022: 74%) of the Group's Revenue and 86% (2022: 77%) of the Group's Total assets. The specific scope component contributed 23% (2022: 37%) of the Group's EBITDA, 13% (2022: 25%) of the Group's Revenue and 13% (2022: 22%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining components none is greater than 1% of the Group's adjusted Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). For these components, we performed other procedures, including analytical review to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

A key change in the year was bringing Scottish Citylink Coaches Limited into scope to gain sufficient audit evidence over the joint venture balances reported by management. We engaged the services of EY Ireland to support us in concluding on these balances.

Involvement with component teams

The audit work for the majority of in scope reporting units, was performed directly by the Group engagement team. We engaged the services of EY Ireland to perform Group Reporting procedures over Scottish Citylink Coaches Limited as this was brought into scope during the year.

During the current year's audit cycle, the audit team performed on site procedures at all key locations across the Group. The audit work was delivered on site in Perth and Stockport with the remainder delivered remotely whilst maintaining regular dialogue with local finance management via videoconference. The performance of the audit was supported through the use of EY software collaboration platforms to facilitate information sharing.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The Group has determined (see note 1(e) (iii)) that the most significant future impacts on the consolidated financial statements from climate change on their operations will be from the estimation uncertainty arising from estimating the useful lives of passenger service vehicles. Change in regulation around the use of passenger service vehicles could also result in impairment losses or increased depreciation charges.

Climate-related risks are explained in section 1.7.2 of the Annual Report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the consolidated financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change was focused on ensuring that the effects of material climate risks disclosed in section 1.7.2 of the Annual Report have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, being the carrying value of goodwill, carrying value of the parent Company's investments in subsidiaries and the recoverability of fixed assets. We also challenged the Board's considerations of climate change in their assessment of going concern and associated disclosures.

Whilst the Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050 and targeting to have a zero emission UK bus fleet by 2035, the Group is currently unable to determine the full future economic impact on their medium to long-term business model, operational plans and customers to achieve this and therefore, as set out above, the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of provision for claims The bus insurance claims provision is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. The key audit matter is unchanged compared to 2022. Refer to the accounting policies in note 1 and note 22 to the consolidated financial statements. As at 29 April 2023, the Group recognised total claims provisions amounting to £100.6m (2022: £97.9m), of which £91.0m (2022: £87.0m) relates to amounts payable on individual claims in relation to the bus businesses. The Group protects against the cost of bus claims through third party insurance policies. The Group has exposure primarily relating to an "excess" it is responsible for paying per claim and this is provided for on a discounted basis. The estimate is based on an assessment of the expected settlement of known claims and claims not yet reported but related to incidents prior to the balance sheet date. The provisions are based on an independent actuarial computation, with adjustment by management to reflect its view of volatility in actuarial estimates from year to year. The significant risk arises due to the inherent uncertainty in actuarial assessments and the level of management judgement exercised in determining the appropriate level of volatility adjustment.	We gained an understanding of management's key controls and processes in place to assess claims and related provisions. We evaluated the appropriateness of the processes, methodologies and assumptions used by management through performance of our process walkthrough tests. We assessed the terms and conditions within the insurance policy documents to ensure all relevant terms have appropriately been considered in the provision calculation. Through the involvement of our insurance actuarial specialists, we evaluated the independence, competence, capabilities and objectivity of management's external actuarial specialists, and the appropriateness of the processes, methodologies and assumptions used by them. We challenged management's assumptions and methodology in relation to the volatility adjustment, by using EY insurance actuarial specialists, corroborating to comparable benchmarks and considering contra indicators. We also considered a number of other client specific risk factors (e.g. claims experience and claims development trends) in assessing the appropriateness of the amount of the claims provisions recorded. We corroborated a sample of both open and closed claims, and reserve movements to source documentation. We recalculated the arithmetical accuracy of the model used by management. We assessed the appropriateness of disclosures. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY insurance actuarial specialists.	Based on our consideration of management's actuarial experts' report and testing of source claims data, we concluded that the methodology, assumptions and approach used by management's specialists was appropriate. We have also confirmed that management's adjustments to the actuarial central estimate are appropriate and we did not note any material exceptions based on our testing of the claims and settlement information. We concluded management's external actuarial specialists are competent and objective. We concluded that the valuation of the bus insurance claims provision is appropriate and are satisfied with the appropriateness of the related disclosures within the financial statements.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Stagecoach Group Pension Scheme ("SPS") pension liabilities The valuation of pension liabilities is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. Refer to the accounting policies in note 1, and notes 6 and 23 to the consolidated financial statements. At 29 April 2023, the Group recognised a net SPS pension surplus of £163.1m (2022: deficit £29.5m). The significant risk relates to the potential misstatement of the gross SPS pension liabilities of £1,115.5m (2022: £1,502.8m) due to the significant judgements being exercised by management in determining the appropriate underlying actuarial assumptions.	We understood and walked through management's process and methodology for calculating the pension liability for the pension scheme. We evaluated the competence and objectivity of management's external actuarial specialists. Through the involvement of our EY pension actuarial specialists, we corroborated key assumptions (including discount rate, life expectancies of scheme members and inflation rate) using external third party data and independently assessed the assumptions to allow us to determine whether the Group's assumptions are within an acceptable range. We tested a sample of the membership data used by the actuaries to source documentation. We assessed the appropriateness of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY pension actuarial specialists.	We concluded that management's judgements in relation to the underlying actuarial assumptions are appropriate and that the recorded balances lie within our acceptable range. We concluded management's external actuarial specialists are competent and objective. We are satisfied with the appropriateness of the related disclosures within the financial statements.
Accounting for Local Government Pension Scheme ("LGPS") liabilities Refer to note 1, notes 6 and 23 to the consolidated financial statements. This key audit matter is new in 2023 following the restatement of the LGPS pensions accounting as described in note 1(b) to the consolidated financial statements. As set out in note 1(b), management have restated the prior year LGPS accounting to measure the defined benefit obligation to the anticipated date of exit from the scheme, being the date that the last member ceases to be an active member of the scheme, including any anticipated exit credit or exit payment receivable or payable by the company. No restriction to a net asset is required as any asset will represent the present value of an expected refund. The significant risk relates to the adjustments to the gross LGPS pension liability of £130.7m (2022: £160.3m) and gross LGPS pension assets of £160.3m (2022: £185.3m) following the restatement set out in note 1(b) due to the judgements being exercised by management in determining the estimated cash flows required to eliminate the Company's obligations from these schemes, including the estimated cash flows arising on an exit.	We understood and walked through management's process and methodology for calculating the pension liability for the pension scheme. We evaluated the competence and objectivity of management's external actuarial specialists. Through the involvement of our EY pension actuarial specialists, we corroborated key assumptions (including discount rate, life expectancies of scheme members and inflation rate) using external third party data and independently assessed the assumptions to allow us to determine whether the assumptions are within an acceptable range. We also evaluated management's estimate of the estimated cash flows required to eliminate the Company's obligations from the schemes and the estimated cash flows arising on an exit. We assessed the appropriateness of the restatement disclosures as set out in note 1(b) of the consolidated financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY pension actuarial specialists.	On the basis of the procedures performed, we have concluded that the LGPS restatement has been recognised and disclosed appropriately in the financial statements.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override of controls in relation to revenue recognition This is a risk of error in revenue due to the non-routine nature of the timing and valuation of certain revenue and manual revenue journals. The key audit matter is unchanged compared to 2022. Refer to the accounting policies in note 1, and notes 2 and 3 to the consolidated financial statements. For the year ended 29 April 2023, the Group recognised revenue of £1,372.6m (2022: £1,176.5m). Revenue recognition is a particular area of focus for our audit in considering possible areas of management bias and fraud, arising from management override of controls. Revenue arrangements for customer travel are generally routine. However, in some instances, manual adjustments are required to reflect appropriately the timing and valuation of revenue recognised, for example cash received for the sale of season tickets or travel cards. The relevant government bodies have continued to make concession and tender payments as a percentage of pre-COVID levels in order to help provide support to operators in order to maintain a level of service required. Additionally, Transport for London has paid contractual revenue amounts. The accuracy of recording any such material adjustments to revenue related transactions may represent a fraud risk of material misstatement to revenue. This includes material manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.	We obtained an understanding of the key controls and processes in place over revenue recognition and the recording of manual revenue journal entries. We assessed whether the Group's accounting policy is in compliance with IFRS 15, Revenue from Contracts with Customers. On full and specific scope components, we employed data analytic techniques to correlate sales journals to cash journals and then vouched a sample of those journals to supporting evidence. We tested non-correlating entries to third party evidence to ensure that revenue had been appropriately recognised. On full and specific scope components, we used risk-based filters to test material manual journal entries to revenue through to supporting evidence to confirm that the revenue recognised was appropriate and was in line with the Group's accounting policy. In relation to Transport for London revenues and UK Bus regional concession and tender revenues, we reviewed correspondence with Transport for London, the Department for Transport and local authorities as appropriate to confirm the terms and conditions of amounts received and receivable, ensuring that revenue was recognised appropriately and in accordance with IFRS 15. We assessed the appropriateness of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	On the basis of the procedures performed, we have concluded that revenue has been recognised and disclosed appropriately in the financial statements.

In the prior year, our auditor's report included a key audit matter in relation to Accounting for Local Government Pension Schemes, and this was shown separately from the key audit matter table as a result of it being the reason for the qualified audit opinion. In the current year, we continue to consider this to be a key audit matter but this year include it within our key audit matter table above as there is no longer any qualification in the audit opinion.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £4.6m (2022: £4.1m based on revenue), which is 2.5% (2022: 0.35% of revenue) of adjusted Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA"). We believe that adjusted EBITDA provides us with a better representation of the interests of the key stakeholders of the Group following its change of ownership.

We determined materiality for the Parent Company to be £4.6 million (2022: £4.1m), which is 1% (2022: 0.3%) of Total Equity.

During the course of our audit, we reassessed initial materiality and there was no reason to change it.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £3.4m (2022: £3.1m). We have set performance materiality at this percentage due to the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the internal control environment and other factors affecting the Group and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.7m to £2.2m (2022: £0.6m to £2.0m).

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2022: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement in section 3.4, the Directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and parent Company, and management.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant include compliance with applicable health & safety, environmental and data protection regulations, competition and consumer protection laws, labour regulations and employee rights laws.
- We understood how the Group is complying with those frameworks to the extent that could materially impact the financial statements by making enquiries of management, internal audit, those responsible for legal and compliance procedures, and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.

8. Independent auditors' report to the members of Stagecoach Group Limited (Company No. SC100764) (continued)

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved a review of board minutes to identify any non-compliance with laws and regulations and enquiries of senior management.
- We identified any relevant instances of non-compliance with laws and regulations at Group components through the direction and oversight of our component audit teams. We discussed any findings with senior management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 23 June 2022 to audit the financial statements for the year ending 29 April 2023 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the years ending 29 April 2017 to 29 April 2023.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Ernst & Young LLP

Julie Cavin
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
30 June 2023

9. Consolidated financial statements

Consolidated income statement
For the year ended 29 April 2023

		2023			2022 (restated – see note 1(b))		
	Notes	**Performance excluding separately disclosed items £m**	**Separately disclosed items (note 4) £m**	**Results for the year £m**	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the year £m
CONTINUING OPERATIONS							
Revenue	*2(a)*	**1,372.6**	**–**	**1,372.6**	1,176.5	–	1,176.5
Operating costs and other operating income	*3*	**(1,300.4)**	**(30.3)**	**(1,330.7)**	(1,107.1)	10.0	(1,097.1)
Operating profit of Group companies	*2(b)*	**72.2**	**(30.3)**	**41.9**	69.4	10.0	79.4
Share of profit of joint ventures after finance income and taxation	*2(c)*	**5.6**	**–**	**5.6**	3.4	–	3.4
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	*2(b)*	**77.8**	**(30.3)**	**47.5**	72.8	10.0	82.8
Finance income	*5*	**5.3**	**0.6**	**5.9**	0.7	1.0	1.7
Finance costs	*5*	**(27.4)**	**–**	**(27.4)**	(29.3)	–	(29.3)
Profit/(loss) before taxation		**55.7**	**(29.7)**	**26.0**	44.2	11.0	55.2
Taxation	*7*	**(6.9)**	**4.1**	**(2.8)**	(5.5)	(16.1)	(21.6)
Total profit/(loss) for the year		**48.8**	**(25.6)**	**23.2**	38.7	(5.1)	33.6
Attributable to:							
Equity holders of the parent		**48.8**	**(25.6)**	**23.2**	38.7	(5.3)	33.4
Non-controlling interest		**–**	**–**	**–**	–	0.2	0.2
		48.8	**(25.6)**	**23.2**	38.7	(5.1)	33.6

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

Consolidated statement of comprehensive income

For the year ended 29 April 2023

	2023 £m	2022 (restated – see note 1(b)) £m
Profit for the year	**23.2**	33.6
Items that may be reclassified to profit or loss		
Cash flow hedges:		
– Net fair value (losses)/gains on cash flow hedges	**(19.7)**	111.0
– Reclassified and reported in profit for the year	**(66.4)**	(12.0)
– Tax effect of cash flow hedges	**16.8**	(18.8)
Total items that may be reclassified to profit or loss	**(69.3)**	80.2
Items that will not be reclassified to profit or loss		
Actuarial gains on Group defined benefit pension schemes	**203.8**	242.1
Tax effect of actuarial gains on Group defined benefit pension schemes	**(18.8)**	(32.3)
Total items that will not be reclassified to profit or loss	**185.0**	209.8
Other comprehensive income for the year	**115.7**	290.0
Total comprehensive income for the year	**138.9**	323.6
Attributable to:		
Equity holders of the parent	**138.9**	323.4
Non-controlling interest	**–**	0.2
	138.9	323.6

9. Consolidated financial statements (continued)

Consolidated balance sheet (statement of financial position)

As at 29 April 2023

	Notes	2023 £m	2022 (restated – see note 1(b)) £m
ASSETS			
Non-current assets			
Goodwill	*10*	**92.1**	51.9
Other intangible assets	*11*	**7.1**	4.3
Property, plant and equipment:	*12(a)*	**711.3**	732.1
Right-of-use assets	*12(b)*	**80.2**	74.9
Interests in joint ventures	*13*	**12.0**	7.2
Derivative instruments at fair value	*23(f)*	**11.5**	36.2
Retirement benefit assets – net of withholding tax payable	*22*	**199.4**	55.8
Other receivables	*15*	**15.4**	20.4
		1,129.0	982.8
Current assets			
Inventories	*14*	**12.3**	12.3
Trade and other receivables	*15*	**112.1**	133.5
Derivative instruments at fair value	*23(f)*	**13.9**	61.2
Current tax recoverable		**0.4**	–
Cash and cash equivalents	*17*	**245.6**	248.9
Assets classed as held for sale	*12(c)*	**3.4**	2.4
		387.7	458.3
Total assets	*2(d)*	**1,516.7**	1,441.1
LIABILITIES			
Current liabilities			
Trade and other payables	*18*	**248.3**	268.5
Current tax liabilities		**–**	18.2
Borrowings:			
– Lease liabilities	*19*	**25.0**	23.5
– Other borrowings	*19*	**1.8**	–
Derivative instruments at fair value	*23(f)*	**9.1**	2.2
Provisions	*21*	**56.4**	36.7
		340.6	349.1
Non-current liabilities			
Other payables	*18*	**51.7**	27.9
Borrowings:			
– Lease liabilities	*19*	**60.3**	57.4
– Other borrowings	*19*	**407.1**	404.7
Derivative instruments at fair value	*23(f)*	**12.4**	1.6
Deferred tax liabilities	*20*	**59.8**	48.4
Provisions	*21*	**83.5**	75.1
Retirement benefit obligations	*22*	**3.5**	74.8
		678.3	689.9
Total liabilities	*2(d)*	**1,018.9**	1,039.0
Net assets	*2(d)*	**497.8**	402.1
EQUITY			
Ordinary share capital	*24*	**3.2**	3.2
Share premium account	*26*	**8.4**	8.4
Retained earnings	*26*	**126.8**	(38.2)
Capital redemption reserve	*26*	**422.8**	422.8
Own shares	*26*	**(69.6)**	(69.6)
Cash flow hedging reserve	*26*	**6.1**	75.4
Total equity attributable to the parent		**497.7**	402.0
Non-controlling interest		**0.1**	0.1
Total equity		**497.8**	402.1

These financial statements have been approved for issue by the Board of Directors on 29 June 2023. The accompanying notes form an integral part of this consolidated balance sheet.

Ray O'Toole
Executive Chairman

Bruce Dingwall
Chief Financial Officer

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Retained earnings (restated – see note 1(b)) £m	Capital redemption reserve £m	Own shares £m	Cash flow hedging reserve £m	**Total equity attributable to parent £m**	Non-controlling interest £m	**Total equity £m**
As at 1 May 2021 as previously presented	3.2	8.4	(299.0)	422.8	(69.6)	(4.8)	**61.0**	–	**61.0**
Effect of prior year adjustment – see note 1(b)	–	–	14.1	–	–	–	**14.1**	–	**14.1**
As at 1 May 2021 restated	3.2	8.4	(284.9)	422.8	(69.6)	(4.8)	**75.1**	–	**75.1**
Profit for the year	–	–	33.4	–	–	–	**33.4**	0.2	**33.6**
Other comprehensive income, net of tax	–	–	209.8	–	–	80.2	**290.0**	–	**290.0**
Total comprehensive income	–	–	243.2	–	–	80.2	**323.4**	0.2	**323.6**
Credit in relation to equity-settled share based payments	–	–	3.5	–	–	–	**3.5**	–	**3.5**
Dividends paid to non-controlling interest	–	–	–	–	–	–	**–**	(0.1)	**(0.1)**
As at 30 April 2022	3.2	8.4	(38.2)	422.8	(69.6)	75.4	**402.0**	0.1	**402.1**
Profit for the year	–	–	23.2	–	–	–	**23.2**	–	**23.2**
Other comprehensive income, net of tax	–	–	185.0	–	–	(69.3)	**115.7**	–	**115.7**
Total comprehensive income	–	–	208.2	–	–	(69.3)	**138.9**	–	**138.9**
Credit in relation to equity-settled share based payments	–	–	3.9	–	–	–	**3.9**	–	**3.9**
Tax credit in relation to equity settled share based payments	–	–	0.4	–	–	–	**0.4**	–	**0.4**
Dividends paid on ordinary shares	–	–	(47.5)	–	–	–	**(47.5)**	–	**(47.5)**
As at 29 April 2023	3.2	8.4	126.8	422.8	(69.6)	6.1	**497.7**	0.1	**497.8**

9. Consolidated financial statements (continued)

Consolidated statement of cash flows
For the year ended 29 April 2023

	Notes	2023 £m	2022 (restated – see note 1(b)) £m
Cash flows from operating activities			
Cash generated by operations	*27*	**150.9**	156.4
Interest paid		**(27.2)**	(20.2)
Interest received		**5.1**	0.7
Dividends received from joint ventures		**2.5**	2.9
Net cash flows from operating activities before tax		**131.3**	139.8
Tax paid		**(6.6)**	(6.4)
Net cash from operating activities after tax		**124.7**	133.4
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(13.6)**	–
Purchase of property, plant and equipment		**(66.6)**	(38.7)
Disposal of other property, plant and equipment		**4.4**	1.5
Receipt of capital grants		**19.8**	15.4
Purchase of intangible assets		**(2.9)**	(3.1)
Loan repaid by joint venture		**0.1**	0.1
Net cash outflow from investing activities		**(58.8)**	(24.8)
Cash flows from financing activities			
Payments of principal portion of lease liabilities		**(29.6)**	(25.4)
Repayment of Covid Corporate Financing Facility		**–**	(300.0)
Repayment of other borrowings		**–**	(17.4)
Receipts of loan from joint ventures		**6.1**	–
Dividends paid on ordinary shares		**(47.5)**	–
Dividends paid to non-controlling interest		**–**	(0.1)
Net cash outflow from financing activities		**(71.0)**	(342.9)
Net decrease in cash and cash equivalents		**(5.1)**	(234.3)
Cash and cash equivalents at beginning of the year		**248.9**	483.2
Cash and cash equivalents at end of year	*17*	**243.8**	248.9

Cash and cash equivalents shown in the above consolidated statement of cash flows include the cash and cash equivalents of £245.6m (2022: £248.9m) shown on the consolidated balance sheet, less bank overdrafts of £1.8m (2022: £Nil) included in other borrowings within current liabilities in the consolidated balance sheet.

International Accounting Standard 7, Statement of Cash Flows, states that investments will normally qualify as cash equivalents only if the maturity, at acquisition, is less than three months. The Group's cash equivalents can include deposits with well-rated financial institutions with a maturity, at acquisition, of up to twelve months but only where the Group considers that any "break cost" in converting the deposits to cash in advance of their maturity is insignificant.

Cash equivalents include investments in certain money market funds. The Group's investments in money market funds can generally be converted to cash with less than one days' notice and the risk of day-to-day changes in the value of the investments is considered to be insignificant.

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

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

(a) Introduction

These consolidated financial statements are presented in respect of the group of companies headed by Stagecoach Group Limited. Stagecoach Group Limited is a private limited liability company, limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth PH1 5TW.

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently applied to all the years presented, except as described in note 1(b) below in relation to the treatment of Battery Contracts and the accounting for the Group's participation in Local Government Pension Schemes.

(b) Basis of preparation

Overview

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards. The consolidated financial statements have been prepared under the historical cost convention as except for:
(i) assets classified as fair value through other comprehensive income ("FVOCI"); and
(ii) financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVTPL").

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the 52-week period from 1 May 2022 to 29 April 2023. Prior year comparatives are for the 52-week period from 2 May 2021 to 30 April 2022.

These financial statements have been prepared on a going concern basis. Taking account of the continued recovery from COVID-19, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The Directors have a reasonable expectation that the Group will continue to operate as a going concern for the duration of the going concern period, being the period to 26 October 2024.

The Strategic report in section 1 of this Annual Report includes information on the outlook for the Group (including in sections 1.3 and 1.6) and the Group's financial position and liquidity (including in section 1.5.9). Section 2.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern, and of its longer term viability. Section 4.2 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusions of the Audit Committee in respect of that.

Change in the accounting policy for the treatment of Battery Contracts

As disclosed in the annual report for the year ended 30 April 2022 the Group leases electric buses. In some cases, the Group enters into separate agreements for the provisions of batteries to power the buses (the "Battery Contracts"). Some judgement is involved in determining whether each Battery Contract is, or contains, a lease.

The Battery Contracts are separate legal agreements from any leases of buses and contain separate terms and conditions. In the years ended 1 May 2021 and 30 April 2022, the Directors had formed the view that the Battery Contracts did not meet the IFRS definition of leases as in the Directors' view the battery provider had control of the battery assets and had substantive rights of substitution for the batteries. This matter was disclosed as a critical accounting judgement in both of those years.

On 29 November 2022, the IFRS Interpretations Committee ("IFRIC") met and discussed the definition of a lease. Following the publication of the decision of IFRIC the Group reviewed its accounting treatment of the Battery Contracts. In light of the IFRIC decision the Group has decided that it would be more appropriate for the Group to treat the Battery Contracts as leases.

The Group has restated its results for the year ended 30 April 2022 to reflect this change in accounting policy. A summary of the impact of the change in policy is summarised in the tables on pages 65 and 66.

Change in accounting for the Group's participation in Local Government Pension Schemes ("LGPSs")

Certain of the Company's subsidiaries participate in LGPSs, which are all closed to new members from the Group. Where a private sector employer ceases to have any employees who are active members in a LGPS, that automatically triggers the employer's exit from the LGPS except where the employer agrees alternative arrangements with the relevant LGPS. When an exit from an LGPS is triggered, an amount may be payable or receivable by the employer to or from the administering authority of the relevant scheme.

In prior years, the Group had accounted for its participation in LGPSs in the same way as its other pension arrangements, by:
- measuring the relevant assets in respect of LGPS participations at fair value;
- measuring the obligations to pay pensions through to the expected deaths of the relevant members/their dependents at discounted present value;
- Where applicable, restricting the net asset recognised (i.e. the gross assets less the gross obligations) to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme.

In the year ended 30 April 2022, the Directors were of the view, having taken independent expert advice on the accounting, that the Group's accounting was appropriate and was consistent with other major groups with UK public transport operations that have LGPS participations.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(b) Basis of preparation (continued)

The Group's auditor, Ernst & Young, reached a different conclusion to the Directors on the basis of accounting for the Group's participation in LGPSs that are closed to new members from the Group. In particular that:
- The measurement of the defined benefit obligation should reflect the expected cash flows payable under the scheme rules through to the expected exit by the employer (for example on the retirement of the last active member) and including any expected exit payment or credit; and
- There should be no additional IFRIC 14 restriction to the LGPS net asset, given the right of the Group to receive a refund from the scheme is limited only to the extent of the actuarially determined surplus at the point of exit or any discretion applied by the administering authority.

Notwithstanding the different interpretation of the Group's auditor, the Directors had concluded that the Group's accounting for its participation in LGPSs remained appropriate and was a reasonable interpretation of the relevant standards. Accordingly, the Group's auditor qualified its audit opinion in relation to the accounting for Group's participation in Local Government Pension Schemes that are closed to new members.

Subsequent to the acquisition of the Group by Inframobility UK Bidco Limited, the Directors, have reassessed the Group's approach to the accounting in this area in the year ended 29 April 2023.

The policy applied by the Group has been revised such that where a section of the LGPS is closed to new members, the defined benefit obligation is calculated taking into consideration the specific rules set out in The Local Government Pension Scheme Regulations 2013 ("the Regulations") and reflect the estimated cash flows required to eliminate the Company's obligations from these schemes, including the estimated cash flows arising on an exit. No additional IFRIC 14 restriction is applied to any LGPS net asset, given the right of the Group to receive a refund from the scheme is limited only to the extent of the actuarially determined surplus at the point of exit or any discretion applied by the administering authority.

Comparative amounts have been restated accordingly. The effect of the restatement, together with the effect of the change in policy with respect to the treatment of battery contracts, is set out below on pages 65 and 66.

Year ended 1 May 2021	As reported £m	Effect of LGPS accounting £m	Effect of battery contracts £m	Restated £m
Consolidated balance sheet				
Non-current assets: Property, plant and equipment – Right-of-use assets	90.6	–	4.7	95.3
Non-current assets: Retirement benefit assets	1.1	13.2	–	14.3
Other non-current assets	853.5	–	–	853.5
	945.2	13.2	4.7	963.1
Current assets	730.7	–	–	730.7
Total assets	1,675.9	13.2	4.7	1,693.8
Current liabilities: Borrowings – lease liabilities	(22.7)	–	(1.2)	(23.9)
Other current liabilities	(756.3)	–	–	(756.3)
	(779.0)	–	(1.2)	(780.2)
Non-current liabilities: Borrowings – lease liabilities	(59.4)	–	(3.6)	(63.0)
Non-current liabilities: Deferred tax liabilities	(0.8)	(0.1)	–	(0.9)
Non-current liabilities: Retirement benefit obligations	(264.9)	1.1	–	(263.8)
Other non-current liabilities	(510.8)	–	–	(510.8)
	(835.9)	1.0	(3.6)	(838.5)
Total liabilities	(1,614.9)	1.0	(4.8)	(1,618.7)
Net assets	61.0	14.2	(0.1)	75.1
Retained earnings	(299.0)	14.2	(0.1)	(284.9)
Other components of equity	360.0	–	–	360.0
Total equity	61.0	14.2	(0.1)	75.1

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(b) Basis of preparation (continued)

Year ended 30 April 2022	As reported £m	Effect of LGPS accounting £m	Effect of battery contracts £m	Restated £m
Consolidated income statement				
Operating costs and other operating income excluding separately disclosed items	(1,107.2)	–	0.1	(1,107.1)
Separately disclosed items	(5.8)	15.8	–	10.0
Operating costs and other operating income	(1,113.0)	15.8	0.1	(1,097.1)
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	66.9	15.8	0.1	82.8
Finance income	1.7	–	–	1.7
Finance costs	(29.3)	0.2	(0.2)	(29.3)
Profit/(loss) before taxation	39.3	16.0	(0.1)	55.2
Taxation	(21.5)	(0.1)	–	(21.6)
Profit/(loss) for the year	17.8	15.9	(0.1)	33.6
Consolidated balance sheet				
Non-current assets: Property, plant and equipment – Right-of-use assets	68.6	–	6.3	74.9
Non-current assets: Retirement benefit assets	45.3	10.5	–	55.8
Other non-current assets	852.1	–	–	852.1
	966.0	10.5	6.3	982.8
Current assets	458.3	–	–	458.3
Total assets	1,424.3	10.5	6.3	1.441.1
Current liabilities: Borrowings – lease liabilities	(22.1)	–	(1.4)	(23.5)
Other current liabilities	(325.6)	–	–	(325.6)
	(347.7)	–	(1.4)	(349.1)
Non-current liabilities: Borrowings – lease liabilities	(52.3)	–	(5.1)	(57.4)
Non-current liabilities: Retirement benefit obligations	(75.1)	0.3	–	(74.8)
Other non-current liabilities	(557.7)	–	–	(557.7)
	(685.1)	0.3	(5.1)	(689.9)
Total liabilities	(1,032.8)	0.3	(6.5)	(1,039.0)
Net assets	391.5	10.8	(0.2)	402.1
Retained earnings	(48.8)	10.8	(0.2)	(38.2)
Other components of equity	440.3	–	–	440.3
Total equity attributable to parent	391.5	10.8	(0.2)	402.1
Consolidated statement of comprehensive income				
Profit for the year	17.8	15.9	(0.1)	33.6
Items that may be reclassified to profit or loss				
Total items that may be reclassified to profit or loss	80.2	–	–	80.2
Items that will not be reclassified to profit or loss				
Actuarial gains on Group defined benefit pension schemes	261.6	(19.5)	–	242.1
Tax effect of actuarial gains on Group defined benefit pension schemes	(32.5)	0.2	–	(32.3)
Total items that will not be reclassified to profit or loss	229.1	(19.3)	–	209.8
Other comprehensive income for the year	309.3	(19.3)	–	290.0
Total comprehensive income for the year	327.1	(3.4)	(0.1)	323.6
Consolidated statement of cash flows				
Cash generated by operations	155.1	–	1.3	156.4
Net cash flows from operating activities before tax – Interest paid	(20.0)	–	(0.2)	(20.2)
Net cash flows from operating activities before tax	138.7	–	1.1	139.8
Net cash from operating activities after tax	132.3	–	1.1	133.4
Cash flows from financing activities – Payments of principal portion of lease liabilities	(24.3)	–	(1.1)	(25.4)
Net cash outflow from financing activities	(341.8)	–	(1.1)	(342.9)

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(c) New accounting standards adopted during the year

There have been no new accounting standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 1 May 2022 that have any significant effect on the consolidated financial statements.

Other new standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 1 May 2022, do not have any significant effect on the consolidated financial statements and are listed below.

International Accounting Standards and Interpretations	*Effective for annual periods beginning on or after*
Amendment to IAS 16, Property, plant and equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37, Provisions, Contingent Liabilities, Contingent Assets, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS 2018–2020:	
• Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter	
• Amendment to IFRS 9 Financial Instruments – Fees in the “10 per cent” Test for Derecognition of Financial Liabilities.	
• Amendment to IAS 41 Agriculture – Taxation in Fair Value Measurements	1 January 2022
Amendments to IFRS 3, Business Combinations Reference to the Conceptual Framework	1 January 2022

(d) New accounting standards not yet applied

The International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

International Accounting Standards and Interpretations	*Effective for annual periods beginning on or after*
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS and IFRS Practice Statement 2, Disclosure of Accounting policies	1 January 2023
• IFRS 17 Insurance Contracts • Amendments to IFRS 17 • Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1 January 2023
Amendments to IAS 1, Presentation of Financial Statements • Non-current Liabilities with Covenants • Deferral of Effective Date Amendment • Classification of Liabilities as Current or Non-Current	1 January 2024*
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	1 January 2024*
• Amendments to IAS 12 Income taxes: International Tax Reform –Pillar Two Model Rules	1 January 2023*
Amendments to IFRS 16, Leases – Lease Liability in a Sale and Leaseback	1 January 2024*

* Not yet adopted by the UK Endorsement Board.

IFRS 17 Insurance contracts is expected to have an impact on the Group’s accounting policies. The Group is still assessing the impact of this new standard.

(e) Critical accounting judgements and key sources of estimation uncertainty

Preparation of the consolidated financial statements requires directors to make judgements and estimates that affect the reported amounts in the consolidated financial statements and accompanying notes. The Directors believe that the judgements and key sources of estimation uncertainty discussed below represent those that require the greatest exercise of judgement.

The discussion below should be read in conjunction with the full statement of accounting policies.

(i) Judgements

Paragraph 122 of International Accounting Standard 1 requires disclosure of significant judgements made in applying an entity’s accounting policies. Apart from those involving estimations (see (ii) below), the Directors consider there to be the following significant judgements involved in the process of applying the Group’s accounting policies.

Accounting for the Group’s participation in Local Government Pension Schemes

Certain of the Company’s subsidiaries participate in LGPSs, which are all closed to new members from the Group.

As set out in note 1(b) the Group has changed its accounting for its participation in LGPSs. Previously the Group had accounted for its LGPS using an alternative basis of accounting for its participation in LGPSs. This alternative basis of accounting previously adopted by the Group is consistent with other major groups with UK public transport operations that have LGPS participations.

The Group notes that the accounting for LGPS requires judgement by the Board in selecting the most appropriate treatment noting that other major groups with UK public transport operations that have LGPS participations have adopted treatment that differs from the treatment adopted by the Group in the current year.

Note 1 IFRS accounting policies (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty

Paragraph 125 of International Accounting Standard 1 requires disclosure of key sources of estimation uncertainty. The Directors consider the following to be the most significant sources of estimation uncertainty.

The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

Pensions

As in previous years, the determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. The Directors' assumptions are based on actual historical experience and external data. Whilst the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

The pensions assumptions may vary due to actual changes in market conditions following the balance sheet date but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the balance sheet date. The pensions assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, the valuation of harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined.

There is potential for material changes to pensions estimates in the year ending 27 April 2024 and note 22(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

Taxation of receipts from Local Government Pension Schemes

Over the two years ended 30 April 2022, the Group ceased participating in two local government pension schemes. On exit from such schemes, the relevant local government regulations provided that the Group sponsoring employers were entitled to the payment of exit credits in relation to over-funding of the scheme as determined by the relevant scheme as at the point of exit. The total amount received or receivable by the Group in respect of the exit credits is £19.3m. The receipt of exit credits from long standing participations is still a relatively new event, and having considered the circumstances and applicable legislation, the Group's view is that the receipts are authorised surplus payments on which no tax is charged on the Group. The exit credits arise from the over-funding of pension schemes related to the Group's operating businesses, and so we do not consider the repayments to be capital in nature. Having considered applicable legislation on the matter, the Group considers that no tax liability would arise on the pension exit credits and it has neither paid any tax nor recognised any liabilities for tax in the consolidated balance sheet as at 29 April 2023 in respect of these items. If however, the receipts were to be assessed as capital sums then the Group estimates that it would be liable to pay tax of around £3.7m.

COVID-19 Bus Support Schemes

The respective governments in England, Scotland and Wales have put in place measures to protect the continuity of local bus services. These principal bus support schemes are: COVID-19 Bus Services Support Grant Restart ("CBSSG") and the Bus Recovery Grant ("BRG") for local bus services in England (excluding London); COVID-19 Support Grant Restart ("CSG") and Network Support Grant ("NSG") for bus services in Scotland; and Bus Emergency Scheme 3 ("BES 3") for bus services in Wales.

Estimating the amount of bus support grant income receivable for the year ended 29 April 2023 involves significant estimation uncertainty. The extent to which certain costs are eligible for inclusion in claiming bus support grant income and how certain costs should be determined for the purposes of the schemes remains subject to reconciliation processes. That creates estimation uncertainty in determining the Group's bus support grant income.

In the year ended 29 April 2023, the Group has recognised bus support scheme grant income of £87.1m (2022: £108.3m), being the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the schemes' reconciliation processes. Ignoring any government budgetary caps, the Group estimates that it is entitled to £8.8m (2022: £11.1m) more bus support scheme income than the cumulative amount of income recognised in the consolidated financial statements through to 29 April 2023, and so the amount ultimately received could exceed the amount recognised by £8.8m (2022: £11.1m). Changes in estimates to that extent could occur in the year ending 27 April 2024.

Rail contractual positions

The Group's former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. Consistent with the sector, these contractual arrangements can be often complex and be open to legal interpretation. These include arrangements with the Department for Transport, Network Rail, Transport for London, rolling stock lessors and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables, payables and provisions in respect of these arrangements.

Given the nature of some of those items, there is judgement involved in determining whether items are classified as accruals, provisions or contingent liabilities.

The Directors estimate that the carrying value of the net payables in respect of rail contractual positions as at 29 April 2023 could require adjustment by up to £10.0m in the year ending 27 April 2024 (2022: £10.0m in the year ending 29 April 2023).

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty (continued)

Claims provisions

The Group receives claims in respect of traffic incidents and employee incidents. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible", and loss corridors, on insurance policies.

Provision is made for the estimated cost to the Group to settle claims, as well as for the estimated costs of any fines or regulatory action, in relation to incidents occurring prior to the balance sheet date. The estimation of the claims provisions is based on an assessment of the expected settlement on known claims together with an estimate of payments that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The eventual payments on such matters may differ from the amounts provided for at the balance sheet date.

Given the varying factors that ultimately determine the cost of a incident, it is difficult to provide precise sensitivity analysis on the amount of the claims provisions. However, based on analysis undertaken by independent actuaries and an analysis of the historic volatility of estimates of claims costs, the Group considers it unlikely that the estimated claims provisions as at 29 April 2023 will require adjustment in the year ending 27 April 2024 by more than £10.0m (2022: £10.0m in year ending 29 April 2023).

Climate change and the estimated useful lives of passenger service vehicles

Depreciation on passenger service vehicles is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives (or lease term, if shorter). The estimated useful lives for passenger service vehicles range from seven to 16 years depending on the type of vehicle. The majority of the Group's passenger service vehicles are diesel powered, although the Group expects that over time, an increasing proportion of its vehicle fleet will be electric or hydrogen powered. The actual useful lives of the diesel powered vehicles could be affected by measures taken by government to tackle climate change that restrict the use of such vehicles. Estimating the useful lives of passenger service vehicles therefore involves some estimation uncertainty.

The UK Government is consulting on a date after which the sale of new diesel powered buses would be prohibited in the UK. However, the UK Government has not proposed to set a date from which diesel buses are prohibited from being used on the UK roads. Taking account of the latest proposals from the UK Government, the Directors consider that the estimates of useful lives applied are appropriate. Had it been assumed, with effect from the start of the year ended 29 April 2023, that no diesel powered passenger service vehicle could be used after 31 December 2029, then the depreciation expense for the year would have been £9.9m (2022: £7.5m) higher than reported and the net book value of the vehicles as at 29 April 2023 would have been correspondingly reduced. Currently all diesel powered passenger service vehicles have useful economic lives that end before 31 December 2034. Such changes are not expected to materially affect profit or net assets in the year ending 27 April 2024.

Provision for onerous contracts

As at 29 April 2023, provisions for onerous contracts amount to £23.1m (2022: £8.3m). The estimation of the provisions involve forecasting the unavoidable costs of meeting the obligations under the applicable contracts and the economic benefits expected to be received under the contracts. The forecast net unavoidable costs (benefits less costs) are discounted to present value. Judgements are required in forecasting unavoidable costs and economic benefits.

A number of onerous contracts have been recognised through the two acquisitions completed in the year (see note 9 for further details of the acquisitions). The two acquisitions were for London based businesses. In general the acquired businesses received contract revenues from contracts with Transport for London. During the due diligence process the Group identified a number of loss making contracts that it would acquire through the acquisition. There is some estimation uncertainty involved in estimating the anticipated loses that the Group will incur in running those contracted routes that have been acquired. The estimated acquired onerous contracts of £18.9m reflects the Group's best estimate of losses. At 29 April 2023 the provision for onerous contracts had increased to £23.1m reflecting the acquired onerous contracts and a re-assessment of the Sheffield Supertram concession agreement during the year. These provisions will be utilised over the remaining duration of the loss making contracts, a period of up to seven years.

(iii) Others

The Directors considered whether other judgements and estimates made in preparing the financial statements represent critical judgements or key sources of estimation uncertainty. In particular, the Directors considered the significant issues or judgements examined by the Audit Committee, the areas of key audit focus and the risks of material misstatement that the auditors identified as having the greatest effect on their overall audit strategy (see section 8 of this Annual Report). While matters of audit and Audit Committee focus are not necessarily limited to critical judgements or key sources of estimation uncertainty, they do overlap.

(f) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings and joint ventures made up to a period broadly one year in length that ends on the Saturday nearest to 30 April.

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

Non-controlling interest represents the portion of earnings and equity attributable to a third party shareholder of a subsidiary of the Group.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(g) Subsidiaries and joint ventures

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where a business is acquired, the purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of the subsidiaries and other businesses. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition.

The excess of the cost of acquisition over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement.

(ii) Joint ventures

Joint ventures are entities over which the Group has joint control with other investors.

Investments in joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's reported interest in joint ventures includes goodwill on acquisition.

In the year ended 29 April 2023, the Group sold a business to a joint venture in exchange for additional shares in the joint ventures. The carrying value of the interest in the joint venture is increased by the cost of the additional investment, being the estimated fair value of the business transferred. The gain resulting for the sale of the business is recognised in the consolidated income statement and is not restricted to the extent of the other investor's interest in the joint venture.

(h) Presentation of income statement and separately disclosed items

Where applicable, income statement information has been presented in a columnar format, which separately highlights separately disclosed items. This is intended to enable users of the financial statements to determine more readily the impact of non-software intangible asset amortisation and other separately disclosed items on the results of the Group, improve comparability of the Group's results with those of peer companies and respond to analysts who have requested reporting on that basis.

Separately disclosed items are defined in note 32.

(i) Revenue

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the Group expects to be entitled in exchange for those goods or services. Performance obligations of the Group are generally clear and transaction prices are even over the period to which they relate and are time apportioned. Customer compensation is treated as a reduction in revenue.

The Group principally generates revenue from the provision of transport services to its customers.

The Group has a number of revenue streams, as set out below. In general, revenue presented in the income statement is recognised at the fair value of the consideration received or receivable. Where appropriate, amounts are shown net of discounts, rebates, VAT and other sales taxes. The revenue is recognised as performance obligations are satisfied as described below for each significant revenue stream.

Commercial passenger revenue

Commercial passenger revenue primarily relates to ticket sales for travel on the Group's transport services. Passenger revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travelcard income is recorded on a straight-line basis over the applicable period.

In some cases, travel on a transport operating company's services can be sold by other operating companies as well as other travel retailers. Certain tickets for travel can be sold which provide the holder with a choice of operators to travel with. In light of those factors, the Group's revenue includes amounts receivable from individuals or groups of individuals to travel on services that is attributed to operating companies by an industry allocation system and allocates revenue to operators principally on agreed models of route usage. Procedures exist to allow operators to challenge the appropriateness of revenue allocation. Where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which the Group is made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Concessionary revenue

The Group receives concessionary revenue from public bodies, such as local authorities, for transporting certain qualifying individuals free of charge to the passenger. Although the revenue is received from a party other than the person receiving the service, the Group accounts for such revenue in accordance with IFRS 15, Revenue from Contracts with Customers, with the performance obligation being the provision of the free travel to those eligible. Similarly, in respect of fare capping schemes run by the Department for Transport and certain local authorities, the Group receives concessionary revenue from these public bodies for transporting passengers at capped fares. Although the revenue is received from a party other than the person receiving the service, the Group accounts for such revenue in accordance with IFRS 15, Revenue from Contracts with Customers, with the performance obligation being the provision of discounted travel to passengers.

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

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(i) Revenue (continued)

Tendered and school revenue

Other amounts that the Group receives from government bodies to pay for the operation of transport services they consider to be socially desirable are included in revenue and recognised in the income statement in the period that the relevant payment relates to. This includes tender and school revenue receivable to financially support certain bus services the Group operates in the UK.

Contract revenue

Contract revenues mainly relate to UK Bus (London) contracts with Transport for London. Revenue receivable from government bodies and others to the Group for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The revenue received under the contracts with Transport for London, and under some other contracts, is periodically adjusted to take account of inflation. The effect of inflation on contract revenue is generally known by the time the promised services are provided to the contract customers. As a result, the effect of inflation on contract revenue recognised in the consolidated income statement can generally be reliably determined. The inflation price adjustments are considered to be closely related to the host contracts.

Other revenue and income

Revenue that is incidental to the Group's principal activity of providing transport services is reported as other revenue. Such revenue is recognised as the service is provided, the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. This may include income from:
- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles; and
- selling fuel to other transport operators.

Income from other sources is reported as other operating income. These other sources include:
- COVID-related grant income;
- bus operating grants;
- selling advertising space on vehicles and premises that the Group operates;
- property rental.

Finance income

Finance income is recognised under the effective interest method as interest accrues and is shown separately in the consolidated income statement.

Contract liabilities

A contract liability is the obligation to provide services for a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides the services, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Customers include individuals, corporations and public bodies who pay the Group for transport services. Contract liabilities include amounts in respect of unexpired season tickets and other tickets giving the holder a right to travel on the Group's services after the balance sheet date.

Contract assets

Contract assets include trade receivables, representing amounts that have been invoiced prior to the balance sheet date and which remain outstanding at the balance sheet date.

Rail franchise payments and subsidies

Franchise payments payable to or receivable from the UK Department for Transport under rail franchise agreements are recognised as operating costs or other operating income in the income statement.

Under the contractual terms of its franchise agreements to previously operate rail services, the Group has revenue sharing arrangements with the Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

Note 1 IFRS accounting policies (continued)

(j) Government grants

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs (or net losses) are deferred and recognised in the income statement over the period necessary to match them with the costs (or net losses) they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable (and franchise premia amounts payable) in respect of the operation of rail franchises in the UK are recognised in the income statement in the period in which the related revenue or expenditure is recognised in the income statement or where they do not relate to any specific revenue or expenditure, in the period in respect of which the amount is receivable or payable. These premia payments and rail franchise grants are classified within operating costs and other operating income.

Government grants received in excess of the amounts recognised in the income statement are held as deferred grant income within trade and other payables.

COVID-19 related grants are government grants receivable in response to the COVID-19 situation. The amounts principally reflect grants receivable under the Coronavirus Job Retention Scheme ("CJRS"), the COVID-19 Bus Services Support Grant ("CBSSG") scheme, the Bus Recovery Grant ("BSG"), the COVID-19 Support Grant ("CSG") scheme and Network Support Grant ("NSG") for Scotland, the Bus Emergency Scheme ("BES") for Wales and the Light Rail Revenue Grant ("LRRRG") scheme.

Under the CJRS, grant income was claimed in respect of certain costs to the Group of furloughed employees. CJRS income is recognised in the income statement in the same period in which the related costs are incurred to the extent there is reasonable certainty that the grant will be received.

Under certain of the grant schemes, grant income may be claimed by operators of local bus services to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. The estimation of the grant income involves significant uncertainty, as explained in note 1(e)(ii). Income is recognised in the income statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

(k) Share based payments

The Group issued equity-settled and cash-settled share based payments to certain employees.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions had any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award. At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group or the holder, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Where an award is cancelled or settled in cash on vesting, any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the proportion of the vesting period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company could choose to settle awards under the Executive Participation Plan and the Restricted Share Plan in either cash or equity, although until its recent change of control, it generally expected to settle such outstanding awards in equity. Awards under the Executive Participation Plan and the Restricted Share Plan are accounted for as equity-settled transactions (see above).

Employment taxes

Liabilities are recognised for employment taxes (principally, employers' national insurance liabilities) payable by the Group on share based payments. The liability for employment taxes is calculated at the balance sheet date with reference to the fair value of the related share based payments at that date. In the case of cash-settled share based payments, the fair value is the pre-tax amount recorded in the balance sheet.

Movements in the liabilities for employment taxes on share based payments are charged or credited to the income statement.

(l) Operating profit

Consolidated operating profit is stated inclusive of restructuring costs and the share of after-tax results of joint ventures but before finance income, finance costs, non-operating separately disclosed items and taxation.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(m) Taxation

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

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item. Current tax assets and liabilities are included in the consolidated balance sheet on an undiscounted basis.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar matters, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authorities. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, which for this purpose has been identified as the Board of Directors.

(o) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into the respective functional currencies of the Group entities at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into the respective functional currencies of Group entities at the rate of exchange ruling on the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

	2023	2022
US Dollar:		
Year-end rate	**1.2569**	1.2555
Average rate	**1.2012**	1.3590

(p) Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets (other than goodwill) and acquired customer contract provisions on the acquisition of a business are amortised to the income statement over the duration of the contract.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. The non-current assets of cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the non-current assets is less than their carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

Where goodwill forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

(q) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the asset, excluding any finance costs and related income tax expense.

Property, plant, equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Note 1 IFRS accounting policies (continued)

(r) Impairment of non-current assets

Property, plant, equipment, intangible assets (excluding goodwill) and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal at each reporting date.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

Intangible assets acquired separately from a business combination are initially capitalised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if (i) the asset is separable or arises from contractual or legal rights and (ii) its fair value can be measured reliably. Such assets are subsequently measured at fair value at acquisition less accumulated amortisation and accumulated impairment losses.

(s) Software

Software assets can be purchased, acquired or internally generated. Software that is not an integral part of related hardware is recognised as an intangible asset. Software is recognised as cost less accumulated amortisation. Amortisation is calculated to write-off the cost or fair value at acquisition (as the case may be) over the estimated useful life of the software, which can range from 2 to 7 years, and is recorded in operating costs in the income statement.

Software as a Service ("SaaS") arrangements provide the Group with the right to access cloud-based software applications over a contractual period. The software remains the intellectual property of the provider and accordingly, the Group does not recognise an intangible asset in relation to subscription fees and costs incurred to customise or configure the software. The related costs are recognised in the income statement when the service is received.

(t) Property, plant and equipment

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition and is subsequently measured at fair value on acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives (or lease term, if shorter) as follows:

Heritable and freehold buildings and long leasehold properties	50 years
IT and other equipment, furniture and fittings	3 to 10 years
Passenger Service Vehicles and transportation equipment*	7 to 16 years
Motor cars and other vehicles	3 to 5 years

* Diesel powered buses have useful lives set that end no later than 2035.

Freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal. An item on which no future economic benefits are expected to arise from the continued use of the asset is impaired if it is continued to be used by the Group. Gains and losses on disposals are determined by comparing the net disposal proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(u) Leases

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.

Effect of lease extensions and break clauses on lease terms

Options to extend leases and break clauses are included in a number of the Group's leases. These are used by the Group to maximise flexibility in managing its assets and operations to meet passenger demands. The Group considers all the circumstances that create an economic incentive to exercise an extension option or not utilise a break clause. An extension option or the periods after a break clause are only included in a lease term if the lease is reasonably certain to be extended or if the break clause is reasonably certain not to be utilised.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(u) Leases (continued)

Effect of lease extensions and break clauses on lease terms (continued)

For leases of passenger service vehicles, the Group considers the duration of any tendered/contracted services or forecast plans for a depot when considering whether it is reasonably certain to extend a lease or not to utilise a break clause.

For leases of properties, the Group considers the likely value of future rentals and anticipated changes in services operated from the property when considering whether it is reasonably certain to extend a lease or not to utilise a break clause.

Measurement of lease liabilities

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; and
- 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. Incremental borrowing rates are determined for each internal reporting period and applied to the leases entered into during each such period.

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 the third party financing was received; and
- 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 for some properties 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.

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. Non-lease components for properties are excluded from the projection of future lease payments and are treated as a separate expense on a straight-line basis within operating costs.

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 is a restriction on the right to dispose of the assets during the period of the agreement. Certain of the Group's vehicle leases contain change of control provisions.

Right-of-use assets

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.

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.

Lease cash flows

Lease payments are presented in the consolidated statement of cash flows as follows:
- Payments in respect of short-term leases and leases of low-value assets are included within cash generated by operations as part of overall cash flows from operating activities;
- Payments in respect of the interest element of recognised lease liabilities are included within interest paid as part of overall cash flows from operating activities;
- Payments in respect of the principal portion of recognised lease liabilities are separately presented as a component of cash flows from financing activities.

(v) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(w) Contract provisions

A provision is recognised in the consolidated balance sheet for any contract that is "onerous" or, when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision (that is the lower of the net costs of fulfilling or terminating the contract) may involve forecasting future financial performance.

The recognition of a contract provision (other than a provision arising from a business combination) is charged to the consolidated income statement. Losses that subsequently arise on that contract are treated as the utilisation of the provision to the extent they have been provided for.

The amount of any contract provision (or potential contract provision) is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the consolidated income statement.

(x) Claims provisions

The Group receives claims, and can incur fines, in respect of traffic incidents and employee claims. The Group protects against the cost of claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible", and loss corridors, in insurance policies. Provision is made on a discounted basis for the estimated cost to the Group to settle liabilities for incidents occurring prior to the balance sheet date. The estimate of the balance sheet claims provisions is based on an assessment of the expected settlement of known claims together with an estimate of payments that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provisions are set after taking account of advice from third party actuaries. Provisions are determined on a gross basis, with a separate reimbursement asset identified for amounts recoverable from insurance policies.

(y) Retirement benefit obligations

The Group participates in a number of pension schemes. In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme.

An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities. The service costs of defined benefit schemes are spread systematically over the working lives of employees and included within operating profit. Scheme administration expenses are also included within operating profit. Net interest expense or income is calculated by applying the discount rate to the net defined benefit asset or liability and included within net finance costs. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Actuarial gains and losses include the difference between the actual return on assets (net of investment administration costs and taxes, such as amounts levied by the UK Pension Protection Fund) and the discount rates applied to the assets. Life expectancies are considered when retirement benefit obligations are calculated.

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

Certain of the Company's subsidiaries participate in Local Government Pension Schemes ("LGPS"). Where a section of the LGPS scheme is closed to new members, the defined benefit obligation is calculated taking into consideration the specific rules set out in The Local Government Pension Scheme Regulations 2013 ("the Regulations") and reflect the estimated cash flows required to eliminate the Company's obligations from these schemes, including the estimated cash flows arising on an exit. Furthermore, there is no additional IFRIC 14 restriction to the LGPS net asset, given the right of the Group to receive a refund from the scheme is limited only to the extent of the actuarially determined surplus at the point of exit or any discretion applied by the administering authority.

For defined contribution schemes, the Group pays contributions to separately administered pension schemes. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

(z) Financial instruments

Financial assets

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

The Group uses an impairment model with impairment provisions based on expected credit losses rather than incurred credit losses. For trade receivables, accrued income and other receivables, the Group applies a simplified approach and determines expected credit losses for significant portfolios of receivables.

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

The Group's financial assets that are categorised as FVTPL include a Deferred Payment Instrument in respect of the sale of the North America Division in April 2019, and certain financial derivatives.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(z) Financial instruments (continued)

Trade receivables

Trade receivables are recorded at their original amount less provision for expected credit losses. The lifetime expected credit losses are assessed for all balances. The Group has established a provision matrix that is based on its historical credit loss experience and is adjusted for specific forward-looking factors. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within operating costs and other income. When a previously provided trade receivable is uncollectable, it is written off against the provision. Balances which are more than 180 days past due are considered to be in default and are fully provided against but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances. At each reporting date, the Group assesses whether trade receivables are credit-impaired. This includes a review of whether the customer is in significant financial difficulty, the probability that the customer will enter bankruptcy or financial reorganisation, and any default or delinquency in payments.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables; payables for property, plant and equipment; interest payable; accruals; loans from joint ventures; borrowings; and derivative financial instruments. Subsequent measurement depends on its classification as follows:

- Financial liabilities at fair value through profit or loss: Financial liabilities classified as held for trading and derivative liabilities that are not designated as hedging instruments are classified as financial liabilities at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.
- All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

Fair values

The fair value of quoted financial instruments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market for a financial instrument, fair value is determined using valuation techniques. These techniques include using pricing models and discounted cash flow analysis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value to the Group is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges: For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges: For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of comprehensive income remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

Cash and cash equivalents

For the purposes of reporting “cash and cash equivalents” in the consolidated balance sheet, cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

International Accounting Standard 7, Statement of Cash Flows, states that investments will normally qualify as cash equivalents only if the maturity, at acquisition, is less than three months. The Group’s cash equivalents can include deposits with well-rated financial institutions with a maturity, at acquisition, of up to twelve months but only where the Group considers that any “break cost” in converting the deposits to cash in advance of their maturity is insignificant.

Note 1 IFRS accounting policies (continued)

(z) Financial instruments (continued)

Cash equivalents include investments in certain money market funds. The Group's investments in money market funds can generally be converted to cash with less than one days' notice and the risk of day-to-day changes in the value of the investments is considered to be insignificant.

Cash in transit largely comprises amounts receivable on credit and debit cards where the on-bus transaction has been authorised but the funds have yet to clear the bank. These balances are considered highly liquid with minimal risk of default, with funds typically received in less than three days.

Interest bearing loans and borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method subject to any adjustments in respect of fair value hedges. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

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

Trade and other payables

Trade and other payables are generally not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

(aa) Share capital and dividends

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its own ordinary shares, the consideration paid, including any attributable incremental external costs net of income taxes, is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

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

Notes to the consolidated financial statements (continued)

Note 2 Segmental information

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

The Group is 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 and business development activities	United Kingdom

The Group has interests in three joint ventures: WCT Group that operates in UK Rail, Citylink that operates in UK Bus (regional operations) and Crown Sightseeing that operates in UK Bus (London).

The results of these joint ventures are shown separately in notes 2(c) and 2(g).

The Group's accounting policies are applied consistently, where appropriate, to each segment.

(a) Revenue

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

Almost all of the revenue of the UK Bus (London) segment is from Transport for London. As at 29 April 2023, the Group had receivables from Transport for London of £9.1m (30 April 2022: £10.0m). Notwithstanding reports of Transport for London's financial pressures, the Group does not consider those receivables impaired.

Revenue, split by class and segment, was as follows:

Year ended 29 April 2023	**Commercial passenger revenue £m**	**Concessionary revenue* £m**	**Tendered & school revenue £m**	**Contract & other revenue £m**	**Total £m**
UK Bus (regional operations)	**566.8**	**268.5**	**126.5**	**68.1**	**1,029.9**
UK Bus (London)	**–**	**–**	**–**	**327.5**	**327.5**
Total bus operations	**566.8**	**268.5**	**126.5**	**395.6**	**1,357.4**
UK Rail	**14.9**	**–**	**–**	**0.3**	**15.2**
Reported Group revenue	**581.7**	**268.5**	**126.5**	**395.9**	**1,372.6**

Year ended 30 April 2022	Commercial passenger revenue £m	Concessionary revenue £m	Tendered & school revenue £m	Contract & other revenue £m	Total £m
UK Bus (regional operations)	487.8	248.5	110.7	45.2	892.2
UK Bus (London)	1.2	–	–	271.4	272.6
Total bus operations	489.0	248.5	110.7	316.6	1,164.8
UK Rail	11.5	–	–	0.2	11.7
Reported Group revenue	500.5	248.5	110.7	316.8	1,176.5

* Concessionary revenue for the year ended 29 April 2023 includes £26.1m (2022: £Nil) of revenue received from the Department for Transport and combined authorities in respect of the £2 fare cap.

Note 2 Segmental information (continued)

(b) Operating profit

Operating profit, split by segment, was as follows:

	2023			2022 (restated – see note 1(b))		
	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the year £m	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the year £m
UK Bus (regional operations)	**77.0**	**(3.2)**	**73.8**	57.9	4.7	62.6
UK Bus (London)	**0.4**	**(1.1)**	**(0.7)**	20.8	–	20.8
Total bus operations	**77.4**	**(4.3)**	**73.1**	78.7	4.7	83.4
UK Rail	**4.4**	**(1.3)**	**3.1**	0.2	13.9	14.1
	81.8	**(5.6)**	**76.2**	78.9	18.6	97.5
Group overheads	**(9.5)**	**(24.7)**	**(34.2)**	(9.3)	(8.6)	(17.9)
Restructuring costs	**(0.1)**	**–**	**(0.1)**	(0.2)	–	(0.2)
Total operating profit of Group companies	**72.2**	**(30.3)**	**41.9**	69.4	10.0	79.4
Share of joint ventures' profit after finance income and taxation	**5.6**	**–**	**5.6**	3.4	–	3.4
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**77.8**	**(30.3)**	**47.5**	72.8	10.0	82.8

(c) Joint ventures

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

	2023 £m	2022 £m
WCT Group (UK Rail)		
Operating profit	**0.2**	3.2
Finance income (net)	**–**	–
Taxation	**–**	(0.3)
	0.2	2.9
Citylink (UK Bus, regional operations)		
Operating profit	**6.0**	0.5
Taxation	**(1.2)**	(0.1)
	4.8	0.4
Crown Sightseeing (UK Bus, London)		
Operating profit	**0.7**	0.1
Taxation	**(0.1)**	–
	0.6	0.1
Share of profit of joint ventures after finance income and taxation	**5.6**	3.4

(d) Gross assets and liabilities

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

	Non-current assets		2023			2022 (restated – see note 1(b))		
	2023 £m	2022 (restated – see note 1(b)) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**920.1**	847.5	**1,029.5**	**(303.1)**	**726.4**	1,016.9	(283.0)	733.9
UK Bus (London)	**177.5**	117.0	**192.7**	**(80.1)**	**112.6**	139.7	(127.7)	12.0
UK Rail	**2.9**	0.7	**6.8**	**(38.9)**	**(32.1)**	2.7	(55.0)	(52.3)
	1,100.5	965.2	**1,229.0**	**(422.1)**	**806.9**	1,159.3	(465.7)	693.6
Central functions	**16.5**	10.4	**29.7**	**(42.7)**	**(13.0)**	25.7	(27.6)	(1.9)
Joint ventures	**12.0**	7.2	**12.0**	**–**	**12.0**	7.2	–	7.2
Borrowings, cash and cash equivalents	**–**	–	**245.6**	**(494.3)**	**(248.7)**	248.9	(479.1)	(230.2)
Taxation	**–**	–	**0.4**	**(59.8)**	**(59.4)**	–	(66.6)	(66.6)
Total	**1,129.0**	982.8	**1,516.7**	**(1,018.9)**	**497.8**	1,441.1	(1,039.0)	402.1

The UK Rail net liabilities of £32.1m (2022: £52.3m) shown above include £24.7m (2022 £40.2m) of train operating company net liabilities in relation to major rail franchises previously operated by the Group.

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, cash equivalents, borrowings, taxation, interest payable and interest receivable.

Notes to the consolidated financial statements (continued)

Note 2 Segmental information (continued)

(e) Additions to property, plant and equipment

The additions to property, plant and equipment are shown below and are on an accruals basis, not on a cash basis. They include additions to right-of-use assets.

	2023 £m	2022 £m
UK Bus (regional operations)	**66.7**	48.6
UK Bus (London) - (restated – see note 1(b))	**34.9**	19.1
	101.6	67.7

(f) Additions to intangible assets

The additions to intangible assets are shown below:

	2023 £m	2022 £m
UK Bus (regional operations)	**2.9**	3.1
UK Bus (London)	**42.4**	–
UK Bus (regional operations)	**45.3**	3.1

(g) Earnings before interest, tax, depreciation and amortisation ("EBITDA")

The results of each continuing segment are further analysed below:

	Year ended 29 April 2023									
	EBITDA before separately disclosed items £m	Joint venture interest and tax £m	**EBITDA including joint venture interest and tax £m**	Depreciation and impairment expense £m	Software amortisation and impairment expense £m	**Operating profit before separately disclosed items £m**	Intangible asset (excl. software) amortisation £m	Other separately disclosed items £m	Allocation of restructuring costs £m	**Operating profit £m**
UK Bus (regional operations)	160.7	–	**160.7**	(82.4)	(1.3)	**77.0**	–	(3.2)	(0.1)	**73.7**
UK Bus (London)	27.9	–	**27.9**	(27.5)	–	**0.4**	(0.9)	(0.2)	–	**(0.7)**
UK Rail – subsidiaries	4.4	–	**4.4**	–	–	**4.4**	–	(1.3)	–	**3.1**
UK Rail – joint venture WCT Group	0.2	–	**0.2**	–	–	**0.2**	–	–	–	**0.2**
UK Bus – joint venture Citylink	6.0	(1.2)	**4.8**	–	–	**4.8**	–	–	–	**4.8**
UK Bus – joint venture Crown	0.7	(0.1)	**0.6**	–	–	**0.6**	–	–	–	**0.6**
Group overheads	(9.5)	–	**(9.5)**	–	–	**(9.5)**	–	(24.7)	–	**(34.2)**
Restructuring costs	(0.1)	–	**(0.1)**	–	–	**(0.1)**	–	–	0.1	**–**
	190.3	(1.3)	**189.0**	(109.9)	(1.3)	**77.8**	(0.9)	(29.4)	–	**47.5**

	Year ended 30 April 2022 - (restated – see note 1(b))									
	EBITDA before separately disclosed items £m	Joint venture interest and tax £m	**EBITDA including joint venture interest and tax £m**	Depreciation and impairment expense £m	Software amortisation £m	**Operating profit before separately disclosed items £m**	Intangible asset (excl. software) amortisation £m	Other separately disclosed items £m	Allocation of restructuring costs £m	**Operating profit £m**
UK Bus (regional operations)	145.9	–	**145.9**	(86.6)	(1.4)	**57.9**	–	4.7	(0.2)	**62.4**
UK Bus (London)	43.5	–	**43.5**	(22.7)	–	**20.8**	–	–	–	**20.8**
UK Rail – subsidiaries	0.2	–	**0.2**	–	–	**0.2**	–	13.9	–	**14.1**
UK Rail – joint venture WCT Group	3.2	(0.3)	**2.9**	–	–	**2.9**	–	–	–	**2.9**
UK Bus – joint venture Citylink	0.5	(0.1)	**0.4**	–	–	**0.4**	–	–	–	**0.4**
UK Bus – joint venture Crown	0.1	–	**0.1**	–	–	**0.1**	–	–	–	**0.1**
Group overheads	(9.3)	–	**(9.3)**	–	–	**(9.3)**	–	(8.6)	–	**(17.9)**
Restructuring costs	(0.2)	–	**(0.2)**	–	–	**(0.2)**	–	–	0.2	**–**
	183.9	(0.4)	**183.5**	(109.3)	(1.4)	**72.8**	–	10.0	–	**82.8**

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2023 £m	2022 (restated – see note 1(b)) £m
Miscellaneous revenue (see explanation below)	**28.5**	27.6
COVID-19 related grants receivable (see explanation below)	**91.6**	116.4
Rail franchise premia (see explanation below)	**(7.8)**	–
Rail revenue share payable (see explanation below)	**0.1**	0.2
Materials and consumables	**(73.7)**	(64.9)
Bus operating grants (see explanation below)	**56.7**	63.1
Fuel charges including the effect of derivatives	**(191.1)**	(189.7)
Staff costs (note 6)	**(890.7)**	(765.2)
Depreciation on property, plant and equipment	**(106.9)**	(104.9)
Expenditure on property, plant and equipment	**(14.2)**	(11.0)
Loss on disposal of property, plant and equipment	**(1.3)**	(1.6)
Impairment of property, plant and equipment	**(3.3)**	(4.4)
Amortisation of intangible assets	**(1.9)**	(1.4)
Impairment of inventories, and impairment reversals	**(3.9)**	(0.3)
Network Rail credits	**0.1**	–
Rentals payable on low-value and short-term leases	**(6.0)**	(3.8)
Other external charges	**(206.8)**	(157.0)
Restructuring costs	**(0.1)**	(0.2)
Total operating costs	**(1,330.7)**	(1,097.1)

Miscellaneous revenue comprises other operating income incidental to the Group's principal activities. It includes advertising income, railway station access income, railway depot access income and property income.

COVID-19 related grants receivable reflects the amounts receivable in respect of government grants provided to organisations in light of the ongoing COVID-19 situation. The amounts reflect grants receivable under the Coronavirus Job Retention Scheme ("CJRS"), the Bus Support Grant ("BSG"), the COVID-19 Bus Services Support Grant ("CBSSG") scheme, the Bus Recovery Grant ("BSG"), the COVID-19 Support Grant ("CSG") scheme and the Network Support Grant ("NSG") for bus services in Scotland, the Bus Emergency Scheme 2 ("BES 2") in Wales and the Light Rail Revenue Grant ("LRRRG") scheme.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. The CJRS income included above reflects the costs incurred on or prior to 29 April 2023 that are eligible to be included in CJRS grant claims to the extent the Group considers there to be reasonable certainty that the grant will be received.

Under certain of the grant schemes, grant income may be claimed by operators of certain bus services to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. The estimation of the grant income involves significant uncertainty, as explained in note 1(e)(ii) to these consolidated financial statements. The amount of income recognised in the year ended 29 April 2023 reflects the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

The Group receives ongoing amounts from government bodies to support the operation of local bus services, principally Bus Services Operator Grant ("BSOG") in England and Scotland, and Bus Services Support Grant ("BSSG") in Wales. These amounts are typically related to vehicle miles operated or litres of fuel consumed, but additional amounts are also receivable dependent on vehicle types, the deployment of automatic vehicle location ("AVL") equipment, the deployment of operational smartcard systems and/or holding low carbon emission certificates. These types of operating grant were receivable by bus operators prior to the COVID-19 pandemic and the Group does not view them as COVID-19 related support. The income receivable recognised for the year ended 29 April 2023 was £56.7m (2022: £63.1m).

In addition to the COVID-19 related grants receivable shown above, some government bodies have agreed to continue certain levels of payments of concessionary revenue, tender revenue and BSOG to help support the continuing operation of bus services. The payment rates of these items during the period affected by COVID-19 are higher than they would ordinarily be for the relevant levels of patronage, mileage and fuel consumption. Consistent with previous years, all amounts of concessionary revenue and tender revenue are reported within revenue and an analysis of revenue for the year ended 29 April 2023 is provided in note 2(a) to these consolidated financial statements. Amounts of BSOG receivable are included within bus operating grants in the table above.

Rail franchise premia is the amount of financial premia and profit share payable to the UK's Department for Transport in respect of the operation of UK passenger rail franchises.

Rail revenue share payable is the amount payable to the UK's Department for Transport in certain circumstances where a train operating company's revenue is above target or where defined macroeconomic indices are above target.

Notes to the consolidated financial statements (continued)

Note 3 Operating costs and other operating income (continued)

Fees payable to the Company's auditors were as follows:

	2023 £m	2022 £m
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	**1.2**	0.7
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.4
Total audit fees	**1.8**	1.1
Other assurance services	**–**	–
Total non-audit fees	**–**	–
Total fees payable by the Group to its auditors	**1.8**	1.1

Note 4 Separately disclosed items

(a) Summary of separately disclosed items

The Group highlights amounts before certain "separately disclosed items" as well as clearly reporting the results in accordance with IFRS. Separately disclosed items are defined in note 32.

The items shown in the columns headed "separately disclosed items" on the face of the consolidated income statement for the year ended 29 April 2023 and for the prior year comparatives are further analysed in the table below.

	2023 £m	2022 (restated – see note 1(b)) £m
Operating costs and other operating income		
Non-software intangible assets amortisation	**(0.9)**	–
Sheffield Supertram profit and release from onerous contract provision	**1.0**	6.9
Transaction costs	**(18.2)**	(8.6)
Acquisition costs	**(0.2)**	–
Remeasurement of pensions settlement	**–**	4.7
Restructuring and associated costs	**(11.2)**	–
Expired rail franchises	**(2.3)**	7.0
Disposal of megabus retail and Falcon	**1.5**	–
	(30.3)	10.0
Finance income		
Change in fair value of Deferred Payment Instrument	**0.6**	1.0
Separately disclosed items before taxation	**(29.7)**	11.0
Taxation effect	**4.1**	(16.1)
Separately disclosed items after taxation	**(25.6)**	(5.1)

(a) Sheffield Supertram profit and release from onerous contract provision

In the year ended 2 May 2020, and taking account of the effects of the COVID-19 situation, the Group assessed its assets for impairment and reviewed for onerous contracts. Based on that review, the Group recorded an onerous contract provision in respect of its Sheffield Supertram concession. The amount of that provision is re-assessed at each subsequent balance sheet date.

In estimating that onerous contract provision, COVID-related payments to the Group's Sheffield Supertram business from the Department for Transport and South Yorkshire Combined Mayoral Authority were only taken account of to the extent they were confirmed on or prior to the applicable balance sheet date. We have re-assessed the amount of the onerous contract provision as at 29 April 2023, taking account of the further COVID-related payments and other developments that affect the estimated net cost of fulfilling the contractual obligations. That re-assessment resulted in a £0.9m increase (2022: £5.3m reduction) in the level of the provision, as well as the £1.9m (2022: operating loss £1.6m) of Sheffield Supertram's other operating profit in the year, credited to the consolidated income statement for the year ended 29 April 2023 and presented as a separately disclosed item.

The estimate of the Supertram onerous contract provision involves estimation uncertainty, particularly in relation to forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts used to estimate the provision as at 29 April 2023 assume that underlying passenger revenue from 30 April 2023, as a percentage of the underlying pre-COVID revenue, will be around 99% for the remaining period until the end of the Supertram concession in March 2024. Underlying passenger revenue has been normalised to take account of changes in the timing of infrastructure work on the tram system. If total forecast revenue from 30 April 2023 was increased by 10%, the onerous contract provision as at 29 April 2023 would be £1.5m lower (2022: £2.5m lower) and if it was decreased by 10%, the provision would be £1.5m higher (2022: £2.5m higher).

No specific assumptions have been made regarding climate change in estimating the Supertram onerous contract provision. Taking account of the remaining term of the Supertram concession being less than one year and that the trams are electrically (rather than diesel) powered, we do not consider that climate change considerations materially affect the estimate of the provision as at 29 April 2023.

Notes to the consolidated financial statements (continued)

Note 4 Separately disclosed items (continued)

(b) Transaction costs

The Group has recorded expenses of £18.2m, predominantly professional fees, accelerated shared based payment expenses and accelerated management incentives, in relation to the offer from DWS Infrastructure and the lapsed all-share combination with National Express Group plc (2022: £8.6m). Due to the non-recurring nature of the expenses, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the expenses incurred.

(c) Acquisition costs

£0.2m (2022: £Nil) of costs incurred in connection with the acquisition of two London bus businesses in the year ended 29 April 2023 have been presented as a separately disclosed item, because the costs are not related to the ongoing trading of the Group and due to the irregularity of business acquisitions.

(d) Restructuring and associated costs

Following the acquisition of the Group during the year a detailed review of the Group's structure and operations was undertaken. This included the use of an external consultancy agency along with the management experience of the new owner. The Group expects to implement the remaining actions arising from that review during the year ending 27 April 2024.

In the year ended 29 April 2023 the Group incurred redundancy and related costs of £9.5m and management and external consultancy costs of £1.7m.

(e) Expired rail franchises

As part of concluding matters in relation to its former involvement in the UK train operating market, the Group has recorded a separately disclosed a loss of £2.3m in the year ended 29 April 2023 (2022: £7.0m gain). The loss presented as a separately disclosed item as it relates to costs that were previously recorded as separately disclosed items.

(f) Disposal of megabus retail and Falcon

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:

- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

We have assessed the assets transferred to Scottish Citylink Coaches and consider them to constitute a business as defined in International Financial Reporting Standard 3 ("IFRS 3"), Business Combinations. The carrying value of the Group's interest in Scottish Citylink has been increased by the cost of the additional investment, being the estimated fair value of the business transferred to Scottish Citylink. The gain resulting from the sale of the business to Scottish Citylink has been recognised in full in the year ended 29 April 2023 and has not been restricted to the extent of the other investor's interest in the joint venture.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the year ended 29 April 2023. Due to the irregular occurrence of business disposals, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the gain realised in respect of the business disposal.

(g) Change in fair value of Deferred Payment Instrument

The Group received a Deferred Payment Instrument 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 the secured lenders. The carrying value of the instrument was £2.9m as at 30 April 2022. At 29 April 2023, the carrying value of the instrument was estimated to be £3.5m, resulting in a gain of £0.6m being recognised as finance income in the year ended 29 April 2023, compared to a gain of £1.0m recognised as finance income in the year ended 30 April 2022.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the issuer 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.

(h) Re-measurement of pensions settlement

On 16 March 2021, the Group ceased to participate in the Tyne & Wear Local Government Pension scheme. The Group recognised an estimated settlement receivable of £3.5m as at 1 May 2021, based on the most recent actuarial valuations and estimates by an independent professionally qualified actuary.

The final settlement received by the Group in the year ended 30 April 2022 was £8.2m, an increase of £4.7m above the £3.5m receivable previously recognised at 1 May 2021. The increase in the exit settlement of £4.7m arose due to final actuarial assumptions on settlement, as determined by the relevant authority, differing from previous estimates. Due to the size and nature of this change in estimate, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the increased settlement received by the Group.

(i) Taxation effect

The separately disclosed tax charge for the year ended 29 April 2023 represents a credit of £4.1m for the tax effect of the pre-tax separately disclosed items.

Notes to the consolidated financial statements (continued)

Note 5 Finance costs and income

Net finance costs and items of income, expense, gains and losses in respect of financial instruments (excluding commodity hedges, trade and other payables, and trade and other receivables) have been recognised in the income statement as set out in the following table.

	2023 £m	2022 (restated – see note 1(b)) £m
Interest expense on financial liabilities not at fair value through profit or loss		
– Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**(1.5)**	(1.4)
– Interest payable on leases	**(3.7)**	(2.7)
– Interest payable and other finance costs on bonds	**(16.8)**	(16.9)
– Interest payable on Covid Corporate Financing Facility	**–**	(1.6)
– Interest payable on interest rate swaps qualifying as fair value hedges	**(3.5)**	(0.3)
Other finance costs		
– Unwinding of discounts on provisions	**(1.9)**	(1.2)
– Interest charge on defined benefit pension schemes	**–**	(5.2)
Finance costs	**(27.4)**	(29.3)
Interest income on financial asset at fair value through profit and loss		
– Separately disclosed finance income (note 4)	**0.6**	1.0
Interest income on financial assets not at fair value through profit or loss		
– Interest receivable on cash and cash equivalents	**5.1**	0.7
Other finance income		
– Interest receivable on defined benefit pension schemes	**0.2**	–
Finance income	**5.9**	1.7
Net finance costs	**(21.5)**	(27.6)

Note 6 Staff costs

Total staff costs were as follows:

	2023 £m	2022 (restated – see note 1(b)) £m
Staff costs		
Wages and salaries	**750.9**	643.1
Social security costs	**74.9**	61.8
Pension costs excluding interest on net liability (note 22)		
– Defined benefit pension costs	**6.4**	6.5
– Defined contribution pension costs	**53.8**	49.6
– Administration costs for pension schemes	**0.8**	0.8
Share based payment costs (excluding social security costs)		
– Equity-settled	**3.9**	3.5
– Cash-settled	**–**	(0.1)
Total staff costs	**890.7**	765.2

The total amount shown for staff costs above includes an amount of £0.6m (2022: £0.9m) in respect of share based payment costs for the Directors.

The average monthly number of persons employed by the Group during the year (including executive directors) was as follows:

Average monthly staff numbers	**2023 number**	2022 number
UK operations	**21,151**	21,013
UK administration and supervisory	**1,890**	1,799
Total	**23,041**	22,812

Further details of directors' emoluments and a description of the Group's remuneration policy are set out on pages 46-48 in the Remuneration and Nomination report.

Directors' emoluments	**2023 £m**	**2023 £m Separately disclosed item element – see note 4**	**2023 £m**	2022 £m
Aggregate emoluments	**2.0**	**0.7**	**2.7**	2.3
Aggregate amounts receivable under long-term incentive schemes	**2.0**	**1.4**	**3.4**	0.1
Retirement benefits	**(0.1)**	**–**	**(0.1)**	0.4
Compensation for loss of office	**–**	**1.2**	**1.2**	–
	3.9	**3.3**	**7.2**	2.8

Note 6 Staff costs (continued)

Short-term and aggregate emoluments comprises salary, allowances, bonuses and benefits.

The reduction of £0.1m in the year for retirement benefits discloses the real terms impact on the value of the accrued pension benefits allowing for inflation.

Following the change in ownership of the Group in May 2022, there was a significant change in the Board of Directors with many of the former officers stepping down.

During the period, two directors (2022: two) accrued benefits within a defined benefit arrangement and one director (2022: none) contributed to a defined contribution scheme.

Key management compensation	**2023 £m**	**2023 £m Separately disclosed item element – see note 4**	**2023 Total £m**	2022 £m
Short-term emoluments	**3.8**	**0.8**	**4.6**	4.1
Receipts from long-term incentive schemes	**3.7**	**2.0**	**5.7**	0.2
Retirement benefits	**–**	**–**	**–**	0.4
Compensation for loss of office	**–**	**1.6**	**1.6**	–
	7.5	**4.4**	**11.9**	4.7

The key management of the organisation are the Board of Directors and the operational and functional heads of departments.

Highest paid director	**2023 £m**	**2023 £m Separately disclosed item element – see note 4**	**2023 Total £m**	2022 £m
Aggregate emoluments	**0.8**	**0.4**	**1.2**	1.1
Aggregate amounts receivable under long-term incentive schemes	**1.2**	**0.8**	**2.0**	–
Retirement benefits	**(0.1)**	**–**	**(0.1)**	0.2
Compensation for loss of office	**–**	**0.9**	**0.9**	–
	1.9	**2.1**	**4.0**	1.3

Short-term remuneration was accelerated in the year as a result of the change of control, which together with the value of incentive schemes vesting on change of control are classified as separately disclosable items within transaction costs. Compensation for loss of office is included within restructuring costs (see note 4).

The highest paid director accrued retirement benefits during the year as part of the EFURBS scheme for senior management detailed in note 22 to these financial statements. At the end of the year, the cumulative annual pension accrued was £216,000 (2022: £198,000).

Note 7 Taxation

(a) Analysis of charge in the year

	2023			2022		
	Performance excluding separately disclosed items £m	**Separately disclosed items (note 4) £m**	**Results for the year £m**	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) (restated – see note 1(b)) £m	Results for the year (restated – see note 1(b)) £m
Current tax:						
UK Corporation tax at 19.5% (2022: 19.0%)	**10.8**	**(3.2)**	**7.6**	5.5	0.8	6.3
Prior year under/(over) provision for corporation tax	**(2.4)**	**–**	**(2.4)**	0.4	(0.3)	0.1
Total current tax	**8.4**	**(3.2)**	**5.2**	5.9	0.5	6.4
Deferred tax:						
Origination and reversal of temporary differences	**(4.1)**	**(0.9)**	**(5.0)**	1.5	0.1	1.6
Adjustments in respect of prior years	**2.6**	**–**	**2.6**	(1.9)	–	(1.9)
Change in tax rates	**–**	**–**	**–**	–	15.5	15.5
Total deferred tax	**(1.5)**	**(0.9)**	**(2.4)**	(0.4)	15.6	15.2
Total tax on profit on continuing operations	**6.9**	**(4.1)**	**2.8**	5.5	16.1	21.6

Notes to the consolidated financial statements (continued)

Note 7 Taxation (continued)

(b) Factors affecting tax charge for the year

	2023 £m	2022 (restated – see note 1(b)) £m
Profit before taxation – on continuing operations	**26.0**	55.2
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.5% (2022: 19.0%)	**5.1**	10.5
Effects of:		
Impact of initial recognition exemption on property, plant and equipment	**0.5**	0.5
Non-deductible element of share based payment expense	**0.2**	(0.2)
Other non-deductible expenditure	**0.1**	0.5
Other non-taxable income	**–**	(0.5)
Utilisation of losses not previously recognised	**(0.1)**	–
Tax effect of share of results of joint ventures	**(0.5)**	(0.6)
Deferred tax not recognised	**–**	0.3
Super-deduction enhanced capital allowances	**(1.1)**	(1.3)
Impact of excess pension contributions where pension scheme in surplus	**(2.4)**	–
Non-taxable/non-deductible exceptional gain/loss	**1.9**	–
Benefit of previously unrecognised tax losses	**–**	(1.3)
Adjustments to tax charge in respect of prior years	**0.2**	(1.8)
Impact on deferred tax from change in UK corporation tax rate from 19% to 25%	**–**	15.5
Impact on current year movement (differential in rates 19.5% to 25%)	**(1.1)**	–
Total tax on profit (note 7a)	**2.8**	21.6

(c) Factors that may affect future tax charges

The tax amounts recognised as at 29 April 2023 continue to involve a degree of estimation uncertainty. Liabilities of £1.1m (2022: £1.8m) are held in respect of uncertain tax positions of which £1.1m (2022: £1.8m) relates to the financing and transactions with overseas operations. The liabilities held in respect of tax reflect the Group's assessment and measurement of the amounts payable, taking account of correspondence with the tax authorities and advice on the applicable regulations.

Details of an uncertainty on the taxation of receipts from Local Government Pension Schemes are included in note 1(e)(ii).

Gross deductible temporary differences of £14.9m (2022: £6.0m) relating to tax losses have not been recognised due to restrictions in the availability of their use. Those tax losses do not have any fixed expiry date.

The deferred tax balances have been calculated with reference to the enacted UK corporation tax rates as at the balance sheet date of 29 April 2023 of 25%.

Taking account of the recently enacted increase in the rate of UK corporation tax, assuming no changes to tax laws in the UK and assuming that the composition of the Group remains broadly unchanged, we expect the Group's future effective tax rate (excluding separately disclosed items) to be around 24% to 26% in the year to 27 April 2024 and thereafter.

(d) Tax on other comprehensive income

The components of tax on other comprehensive income are shown in the consolidated statement of comprehensive income.

Note 8 Dividends

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended 29 April 2023 of 8.453 pence (2022: nil) per share	**47.5**	–

Note 9 Business combinations and disposals

In the year ended 29 April 2023, the Group acquired two businesses. The details of these business combinations are as follows:

(a) Lea Interchange Bus Company Limited

On 25 June 2022, the Group acquired 100% of the share capital of TTOL2022 Limited, a bus operator providing services in the London area. TTOL2022 Limited changed its name to Lea Interchange Bus Company Limited on 27 June 2022.

Note 9 Business combinations and disposals (continued)

(a) Lea Interchange Bus Company Limited (continued)

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as follows:

	£m
Other intangible assets	**1.0**
Property, plant and equipment	
– owned assets	**0.6**
– right-of-use assets	**14.0**
Inventories	**0.3**
Trade and other receivables	**2.2**
Trade and other payables	**(4.6)**
Lease liabilities	**(14.0)**
Provisions	**(14.0)**
Deferred tax asset	**3.3**
Net liabilities acquired	**(11.2)**
Goodwill arising on acquisition	**30.6**
Total consideration	**19.4**
Consideration	
– settled by cash	**10.6**
– contingent consideration	**8.8**
Total consideration	**19.4**

It is expected that historic tax losses will be assumed by the Group as part of this acquisition. We are awaiting confirmation of the final calculation of these losses, which are currently estimated to be in the region of £6.7m. Due to restrictions on their use, we have not recognised a deferred tax asset in respect of those losses.

Goodwill of £30.6m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes acquiring an assembled workforce, particularly at a time of labour shortages, extending the Group's geographical footprint to effectively compete for new Transport for London contracts, and synergy potential from site consolidation. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the acquired trade receivables is £0.9m. The gross contractual amount for trade receivables due is £0.9m, with a loss allowance of £Nil recognised on acquisition.

The consideration recorded as payable includes £8.8m of contingent consideration which represents a further £1.0m per annum payable for ten years commencing 12 months following completion, subject to certain property related conditions. The minimum expected undiscounted payment is £Nil and the maximum expected undiscounted payment is £10m. The likelihood of the conditions not being satisfied are remote and we expect the maximum amount to be paid. The fair value of the contingent consideration, with the effects of discounting, has been estimated at £8.8m.

The acquired business contributed £27.2m of revenue and £0.1m operating profit to the Group's results for the period between their acquisition and the balance sheet date of 29 April 2023. Had the acquisition completed on the first day of the financial year, the Group's revenue and operating profit would have been £1,404.7m and £47.5m respectively for the year ended 29 April 2023.

(b) Bus operations previously operated by HCT Group

On 26 August 2022 the Group acquired the trade and assets of the London "red bus" operations previously operated by HCT Group.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as follows:

	£m
Other intangible assets	**1.2**
Property, plant and equipment	
– owned assets	**0.2**
– right-of-use assets	**6.8**
Inventories	**0.3**
Trade and other receivables	**0.7**
Trade and other payables	**(4.1)**
Lease liabilities	**(6.8)**
Provisions	**(5.8)**
Deferred tax asset	**1.7**
Net liabilities acquired	**(5.8)**
Goodwill arising on acquisition	**9.6**
Total consideration	**3.8**
Consideration	
– settled by cash	**3.0**
– deferred consideration	**0.8**
Total consideration	**3.8**

Goodwill of £9.6m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes acquiring an assembled workforce, particularly at a time of labour shortages, growth in our geographical footprint and access to leased sites not reflected in the right-of-use asset value. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the consolidated financial statements (continued)

Note 9 Business combinations and disposals (continued)

(b) Bus operations previously operated by HCT Group (continued)

The fair value of the acquired trade receivables is £0.5m. The gross contractual amount for trade receivables due is £0.5m, with a loss allowance of £Nil recognised on acquisition.

The consideration recorded as payable includes £0.8m of deferred consideration which is due to be paid within the next 12 months. The amount recognised is undiscounted as the effect of discounting is not material. This amount can be reduced by the value of any warranty claims resolved or outstanding during the 18 month period from the date of acquisition.

The acquired business contributed £24.2m of revenue and £Nil operating profit to the Group's results for the period between their acquisition and the balance sheet date of 29 April 2023. Had the acquisition completed on the first day of the financial year, the Group's revenue and operating profit would have been £1,408.2m and £47.5m respectively for the year ended 29 April 2023.

(c) Disposal of megabus retail and Falcon

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:
- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales;
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

Further details of the disposal are included in note 4.

We have assessed the assets transferred to Scottish Citylink Coaches and consider them to constitute a business as defined in International Financial Reporting Standard 3 ("IFRS 3"), Business Combinations. The carrying value of the Group's interest in Scottish Citylink has been increased by the cost of the additional investment, being the estimated fair value of the business transferred to Scottish Citylink. The gain resulting from the sale of the business to Scottish Citylink has been recognised in full and has not been restricted to the extent of the other investor's interest in the joint venture.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the year ended 29 April 2023. The Group did not receive any cash proceeds from the disposal. Consideration for the disposal was in the form of new share capital in Scottish Citylink with a fair value of £1.7m.

The Group disposed of a small number of plant and machinery items which had a net book value of £0.2m as part of this transaction.

Note 10 Goodwill

Goodwill was as follows:

	2023 £m	2022 £m
Cost		
At beginning of year	**51.9**	51.9
Acquired through business combinations	**40.2**	–
At end of year	**92.1**	51.9
Accumulated amortisation at beginning and end of the year	**–**	–
Net book value at beginning of year	**51.9**	51.9
Net book value at end of year	**92.1**	51.9

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to two individual cash generating units ("CGUs") on the basis of the Group's operations. The UK Bus (regional operations) and UK Bus (London) cash generating units operate coach and bus services in the United Kingdom. No goodwill has been allocated to the Group's UK rail operations.

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)	
	2023	2022	**2023**	2022
Carrying amount of goodwill (£m)	**48.3**	48.3	**43.8**	3.6
Basis on which recoverable amount has been determined	**Value in use**	Value in use	**Value in use**	Value in use
Period covered by approved management plans used in value in use calculation	**5 years**	5 years	**5 years**	5 years
Pre-tax discount rate applied to cash flow projections	**11.2%**	9.1%	**11.2%**	9.1%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.4%**	2.1%	**2.4%**	2.1%
Difference between above growth rate and long-term average growth rate for market in which unit operates	**Nil**	Nil	**Nil**	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and, in the case of UK Bus (London), the number of new contracts won and the commercial terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties facing the Group are set out in section 1.4.5 of the Strategic report.

Note 10 Goodwill (continued)

The cost base of the UK Bus (regional operations) can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. The cost base of UK Bus (London) is not as flexible because the business is contractually committed to the majority of its services.

The discount rates have been determined with reference to the estimated post-tax Weighted Average Cost of Capital ("WACC") of the Group. In determining the estimated WACC, lease debt has been included in calculating the cost of debt. The WACC has been estimated as at 29 April 2023 at 8.4% (2022: 7.4%).

The pre-tax discount rate for each CGU has been determined by adjusting the Group's WACC for the risk profile and effects of tax on each of the relevant CGUs.

The value in use as at 29 April 2023 has been estimated to exceed the carrying value of the business' non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below carrying value. The most critical estimates relate to the forecast growth in the business' earnings before interest, tax, depreciation and amortisation over the next few years, the discount rate and the rate of long-term growth in the business' net cash flows. The financial performance of the UK Bus (regional operations) business is influenced by various different factors, including changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions, cost pressures including the availability of sufficient staff, and regulatory change. The key areas of forecasting uncertainty include:

- The timing and extent of the recovery in demand for regional bus journeys;
- Increased and uncertain cost inflation; and
- The nature and extent of payments from government for continuing regional bus services.

The carrying value of UK Bus (regional operations) non-current assets as at 29 April 2023 was £920.1m (2022: restated £847.5m) and the estimated value in use was £1,297.9m (2022: £971.8m) but alternative assumptions could result in an impairment loss. As at 29 April 2023, the value in use of the UK Bus (regional operations) business exceeds its carrying amount by £377.8m (2022: restated £124.3m). Our sensitivity analysis indicates that this headroom would be eliminated if the assumed revenue for the forecast period fell by more than 2.8% (2022: 0.8%), or if the costs over the forecast period were to increase by more than 3.1% (2022: 0.9%).

The carrying value of UK Bus (London) non-current assets as at 29 April 2023 was £177.5m (2022: restated £117.0m) and the estimated value in use was £181.9m (2022: £228.1m) but alternative assumptions could result in an impairment loss. As at 29 April 2023, the value in use of the UK Bus (London) business exceeds its carrying amount by £4.4m (2022: restated £111.1m). Our sensitivity analysis indicates that this headroom would be eliminated if the assumed revenue for the forecast period fell by more than 0.1% (2022: 2.8%), or if the costs over the forecast period were to increase by more than 0.1% (2022: 2.9%).

Note 11 Other intangible assets

Intangible assets include customer contracts on favourable terms to market purchased as part of business combinations and software costs.

The movements in other intangible assets, all of which are assumed to have finite useful lives, were as follows:

Year ended 29 April 2023	Customer contracts £m	Software costs £m	Total £m
Cost			
At beginning of year	**1.7**	**31.5**	**33.2**
Additions	**–**	**2.9**	**2.9**
Acquired through business combinations	**2.2**	**–**	**2.2**
Disposals	**–**	**(2.3)**	**(2.3)**
At end of year	**3.9**	**32.1**	**36.0**
Accumulated amortisation			
At beginning of year	**(1.7)**	**(27.2)**	**(28.9)**
Amortisation charged to income statement	**(0.9)**	**(1.0)**	**(1.9)**
Impairment charged to income statement	**–**	**(0.3)**	**(0.3)**
Disposals	**–**	**2.2**	**2.2**
At end of year	**(2.6)**	**(26.3)**	**(28.9)**
Net book value at beginning of year	**–**	**4.3**	**4.3**
Net book value at end of year	**1.3**	**5.8**	**7.1**

Year ended 30 April 2022	Customer contracts £m	Software costs £m	Total £m
Cost			
At beginning of year	1.7	38.1	39.8
Reclassification of items to prepayments	–	(5.0)	(5.0)
Additions	–	3.1	3.1
Disposals	–	(4.7)	(4.7)
At end of year	1.7	31.5	33.2
Accumulated amortisation			
At beginning of year	(1.7)	(25.8)	(27.5)
Amortisation charged to income statement	–	(1.4)	(1.4)
At end of year	(1.7)	(27.2)	(28.9)
Net book value at beginning of year	–	12.3	12.3
Net book value at end of year	–	4.3	4.3

Notes to the consolidated financial statements (continued)

Note 12 Property, plant and equipment

(a) Owned assets

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

Year ended 29 April 2023	Land and buildings £m	Passenger service vehicles £m	Other plant and equipment £m	Total £m
Cost				
At beginning of year	**299.1**	**1,182.0**	**101.5**	**1,582.6**
Additions	**9.9**	**49.8**	**6.8**	**66.5**
Acquired through business combinations	**0.1**	**0.5**	**0.2**	**0.8**
Transfers from right-of-use assets	**–**	**0.1**	**–**	**0.1**
Transferred to assets held for sale	**(2.4)**	**–**	**–**	**(2.4)**
Disposals	**(0.5)**	**(64.5)**	**(8.1)**	**(73.1)**
At end of year	**306.2**	**1,167.9**	**100.4**	**1,574.5**
Depreciation				
At beginning of year	**(88.0)**	**(680.0)**	**(82.5)**	**(850.5)**
Depreciation charged to income statement	**(5.8)**	**(67.3)**	**(5.1)**	**(78.2)**
Impairment charged to income statement	**(0.2)**	**(2.6)**	**(0.2)**	**(3.0)**
Transfers from right-of-use assets	**–**	**(0.1)**	**–**	**(0.1)**
Transfer to assets held for sale	**0.1**	**–**	**–**	**0.1**
Disposals	**0.5**	**60.4**	**7.6**	**68.5**
At end of year	**(93.4)**	**(689.6)**	**(80.2)**	**(863.2)**
Net book value at beginning of year	**211.1**	**502.0**	**19.0**	**732.1**
Net book value at end of year	**212.8**	**478.3**	**20.2**	**711.3**

Year ended 30 April 2022	Land and buildings £m	Passenger service vehicles £m	Other plant and equipment £m	Total £m
Cost				
At beginning of year	296.6	1,159.3	104.9	1,560.8
Additions	6.8	35.9	3.2	45.9
Transfers from right-of-use assets	–	22.0	–	22.0
Transferred to assets held for sale	(3.7)	–	–	(3.7)
Disposals	(0.6)	(35.2)	(6.6)	(42.4)
At end of year	299.1	1,182.0	101.5	1,582.6
Depreciation				
At beginning of year	(83.3)	(633.3)	(83.8)	(800.4)
Depreciation charged to income statement	(6.1)	(68.4)	(5.3)	(79.8)
Impairment charged to income statement	(0.1)	(4.3)	–	(4.4)
Transfers from right-of-use assets	–	(7.5)	–	(7.5)
Transfer to assets held for sale	1.3	–	–	1.3
Disposals	0.2	33.5	6.6	40.3
At end of year	(88.0)	(680.0)	(82.5)	(850.5)
Net book value at beginning of year	213.3	526.0	21.1	760.4
Net book value at end of year	211.1	502.0	19.0	732.1

The impairment losses of £3.0m (2022: £4.4m) are in respect of assets that have become surplus to the Group's requirements. The carrying amounts of the relevant assets have been written down to their estimated recoverable amounts.

Note 12 Property, plant and equipment (continued)

(b) Leases

Included with property, plant and equipment are leased assets where the Group is the lessee. Further information on the Group's accounting policy for leases can be found within note 1(u).

(i) Movements in right-of-use assets

The movements in right-of-use assets were as follows:

Year ended 29 April 2023	**Land and buildings £m**	**Passenger service vehicles £m**	**Other plant and equipment £m**	**Total £m**
Cost				
At beginning of year	**44.7**	**74.6**	**7.4**	**126.7**
Additions	**6.8**	**4.6**	**2.1**	**13.5**
Acquired through business combinations	**8.4**	**12.4**	**–**	**20.8**
Transfers to owned property, plant and equipment*	**–**	**(0.1)**	**–**	**(0.1)**
Disposals	**(2.7)**	**(8.7)**	**(1.5)**	**(12.9)**
At end of year	**57.2**	**82.8**	**8.0**	**148.0**
Depreciation				
At beginning of year	**(12.6)**	**(35.6)**	**(3.6)**	**(51.8)**
Depreciation charged to income statement	**(4.1)**	**(22.8)**	**(1.8)**	**(28.7)**
Transfers to owned property, plant and equipment*	**–**	**0.1**	**–**	**0.1**
Disposals	**2.4**	**8.7**	**1.5**	**12.6**
At end of year	**(14.3)**	**(49.6)**	**(3.9)**	**(67.8)**
Net book value at beginning of year	**32.1**	**39.0**	**3.8**	**74.9**
Net book value at end of year	**42.9**	**33.2**	**4.1**	**80.2**

Year ended 30 April 2022 (restated – see note 1(b))	Land and buildings £m	Passenger service vehicles £m	Other plant and equipment £m	Total £m
Cost				
At beginning of year as previously reported	45.1	88.2	6.8	140.1
Effect of recognition of Battery contracts (see note 1(b))	–	5.0	–	5.0
At beginning of year – restated	45.1	93.2	6.8	145.1
Additions	3.1	16.8	1.9	21.8
Transfers to owned property, plant and equipment*	–	(22.0)	–	(22.0)
Disposals	(3.5)	(13.4)	(1.3)	(18.2)
At end of year	44.7	74.6	7.4	126.7
Depreciation				
At beginning of year as previously reported	(9.9)	(36.6)	(3.0)	(49.5)
Effect of recognition of Battery contracts (see note 1(b))	–	(0.3)	–	(0.3)
At beginning of year – restated	(9.9)	(36.9)	(3.0)	(49.8)
Depreciation charged to income statement	(3.6)	(19.6)	(1.9)	(25.1)
Transfers to owned property, plant and equipment*	–	7.5	–	7.5
Disposals	0.9	13.4	1.3	15.6
At end of year	(12.6)	(35.6)	(3.6)	(51.8)
Net book value at beginning of year (restated)	35.2	56.3	3.8	95.3
Net book value at end of year	32.1	39.0	3.8	74.9

* During the years ended 29 April 2023 and 30 April 2022, the Group paid the final amounts due on assets previously held under hire purchase arrangements. Those assets are therefore now owned by the Group.

(ii) Lease liabilities

The lease liabilities were:

	2023 £m	2022 (restated – see note 1(b)) £m
Current	**25.0**	23.5
Non-current	**60.3**	57.4
	85.3	80.9

Notes to the consolidated financial statements (continued)

Note 12 Property, plant and equipment (continued)

(b) Leases (continued)

(iii) Amounts recognised in the consolidated income statement

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

	2023 £m	2022 (restated – see note 1(b)) £m
Depreciation charge for right-of-use assets		
Land and buildings	**4.1**	3.6
Passenger service vehicles	**22.8**	19.6
Other plant and equipment	**1.8**	1.9
Total depreciation charge for right-of use assets	**28.7**	25.1
Expenses relating to short-term leases	**5.1**	3.3
Expenses relating to leases of low-value assets	**0.5**	0.5
Lease costs included within operating profit	**34.3**	28.9
Interest expense included within finance costs	**3.7**	2.7
Lease costs included within profit before tax	**38.0**	31.6

The Group has commitments of £0.4m (2022: £0.1m) for short-term leases and £1.3m (2022: £0.7m) for leases of low-value assets as at 29 April 2023.

(iv) Amounts recognised in the consolidated statement of cash flows

The consolidated statement of cash flows includes an outflow of £38.9m (2022: restated £31.9m) in relation to leases and the related interest expense:

		2023 £m	2022 (restated – see note 1(b)) £m
Payment of	**Payment included with cash flow heading**		
Lease principal	Cash flows from financing activities	**29.6**	25.4
Interest payable on leases	Cash flows from operating activities	**3.7**	2.7
Payments for short-term leases	Cash flows from operating activities	**5.1**	3.3
Payments for low-value leases	Cash flows from operating activities	**0.5**	0.5
Total lease payments		**38.9**	31.9

(v) Future possible cashflows not included in lease liabilities

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 all leases to continue to the end of their contractual terms.

Future increases in rental payments linked to an index or rate are not included in the lease liabilities until the change in the cash flows takes effect. Property rental changes linked to inflation or rent reviews typically take place every five years. At 29 April 2023, approximately 23% (2022: 8%) of the Group's lease liabilities were subject to inflation-linked rentals and 26% (2022: 32%) were subject to rent reviews.

(c) Assets classified as held for sale

At 30 April 2022 the Group had classed five sites as held for sale. Two of these sites were sold in the year for net proceeds after the deduction of disposal expenses £3.0m, generating a net gain of £1.7m.

At 29 April 2023, two further sites have been classed as held with a total carrying value of £3.4m (2022: £2.4m). The Group believes that these sites should be disposed of in the coming 12 months.

Notes to the consolidated financial statements (continued)

Note 13 Interests in joint ventures

The Group has three joint ventures as summarised below. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in all three joint ventures using the equity method of accounting. There are no quoted market prices for any of the Group's investments in joint ventures.

(a) WCT Group Holdings Limited

The Group holds 49% of the equity and voting rights in WCT Group Holdings Limited ("WCT Group"). The principal business of the group headed by WCT Group was the operation of inter-city train services under the West Coast rail franchise. It ceased operating train services in December 2019. WCT Group is incorporated in the UK.

The Group considers that it has joint control of WCT Group even though it controls less than half of the voting rights in WCT Group. That joint control results from contractual arrangements between the shareholders of WCT Group that require the agreement of both shareholders to make decisions on key matters.

WCT Group's dividend policy was revised during the year ended 30 April 2022, with the agreement of both of its shareholders. The revised policy is that WCT Group intends to pay dividends on a quarterly basis, but that any dividend paid will be subject to (a) the requirements of applicable laws and regulations, and (b) the directors' evaluation of the appropriateness of any distribution in the context of contingent liabilities, or other risks to the WCT Group's financial position.

(b) Scottish Citylink Coaches Limited

The Group holds 37.5% of the equity and voting rights in Scottish Citylink Coaches Limited ("Citylink"), and increase from the 35.0% held at 30 April 2022. Further details on the increase in investment in Citylink during the year ended 29 April 2023 is detailed in note 4. The principal business of Citylink is the operation of inter-city coach services to, from and within Scotland. It is incorporated in the UK.

The Group considers that it has joint control of Citylink even although it controls less than half of the voting rights in Citylink. That joint control results from contractual arrangements between the shareholders of Citylink that require the agreement of both shareholders to make decisions on key matters.

The profit after tax of Citylink is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Citylink in respect of loans from its shareholders and accrued interest on such loans. Both shareholders in Citylink need to agree to any changes to or deviations from that dividend policy.

(c) Crown Sightseeing Limited

The Group holds 33.3% of the equity and voting rights in Crown Sightseeing Limited ("Crown Sightseeing"). The principal business of Crown Sightseeing is the operation of open-top hop-on, hop-off bus services providing tours to some of London's major tourist attractions. The company was formed in September 2020 and began trading in May 2021. Crown Sightseeing is incorporated in the UK.

The Group considers that it has joint control of Crown Sightseeing even though it controls less than half of the voting rights in Crown Sightseeing. That joint control results from contractual arrangements between the shareholders of Crown Sightseeing that require the agreement of all shareholders to make decisions on key matters.

The profit after tax of Crown Sightseeing is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Crown Sightseeing in respect of loans from its shareholders and accrued interest on such loans. All shareholders in Crown Sightseeing need to agree to any changes to, or deviations from, that dividend policy.

(d) Movements in carrying values

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

	WCT Group £m	Citylink £m	Crown £m	Total 2023 £m	Total 2022 £m
Net book value					
At beginning of year	**2.0**	**5.1**	**0.1**	**7.2**	6.7
Share of recognised profit	**0.2**	**4.8**	**0.6**	**5.6**	3.4
Additional investment	**–**	**1.7**	**–**	**1.7**	–
Dividends received in cash	**(2.2)**	**–**	**(0.3)**	**(2.5)**	(2.9)
At end of year	**–**	**11.6**	**0.4**	**12.0**	7.2

A loan payable to Citylink of £7.8m (2022: £1.7m) is included within current liabilities under the caption "Trade and other payables". A loan of £0.1m receivable from Crown Sightseeing was repaid and related provision of £0.1m was released during year to 29 April 2023.

Notes to the consolidated financial statements (continued)

Note 13 Interests in joint ventures (continued)

(e) Summarised financial information of joint ventures

The summarised financial information shown below is in accordance with IFRS and the Group's accounting policies. Adjustments have been made, as appropriate, to reflect fair value adjustments made at the time of acquisition. Except where stated, the amounts shown are in respect of 100% of each joint venture and not just the Group's share of the joint venture.

Each of the Group's joint ventures has a statutory financial year-end that differs from that of the Group's, which is the Saturday nearest to 30 April. In applying the equity method of accounting to its interests in joint ventures, the Group refers to the edition of each joint venture's management accounts that has a balance sheet date closest to the Group's balance sheet date. In some cases, the balance sheet date differs from the Group's but the impact of that on the Group's consolidated financial statements is not material. Further information on the relevant dates in respect of joint ventures is below:

Joint venture	WCT Group	Citylink	Crown
Latest statutory balance sheet date closest to 30 April 2023	**31 December 2022**	**31 December 2022**	**31 December 2022**
Balance sheet date of management accounts	**29 April 2023**	**21 April 2023**	**29 April 2023**

The consolidated balance sheets of each of the Group's significant joint ventures are summarised below:

As at 29 April 2023	WCT Group £m	Citylink £m	Crown £m	Total 2023 £m
Non-current assets	**–**	**3.1**	**0.8**	
Cash and cash equivalents	**1.8**	**1.8**	**1.5**	
Other current assets	**–**	**28.7**	**0.8**	
Current liabilities	**(1.7)**	**(10.9)**	**(1.3)**	
Non-current liabilities	**–**	**(0.8)**	**(0.4)**	
Net assets	**0.1**	**21.9**	**1.4**	
Shareholders' funds	**0.1**	**21.9**	**1.4**	
Group share	**49%**	**37.5%**	**33.3%**	
Group share of net assets	**–**	**8.2**	**0.4**	**8.6**
Goodwill	**–**	**3.4**	**–**	**3.4**
Group interest in joint ventures	**–**	**11.6**	**0.4**	**12.0**

As at 30 April 2022	WCT Group £m	Citylink £m	Crown £m	Total 2022 £m
Non-current assets	–	1.3	0.8	
Cash and cash equivalents	7.8	4.0	0.5	
Other current assets	–	13.1	0.4	
Current liabilities	(3.5)	(10.4)	(0.5)	
Non-current liabilities	–	(0.9)	(0.9)	
Net assets	4.3	7.1	0.3	
Non-controlling interest	(0.1)	–	–	
Shareholders' funds	4.2	7.1	0.3	
Group share	49%	35%	33.3%	
Group share of net assets	2.0	2.5	0.1	4.6
Goodwill	–	2.6	–	2.6
Group interest in joint ventures	2.0	5.1	0.1	7.2

Note 13 Interests in joint ventures (continued)

(e) Summarised financial information of joint ventures (continued)

The assets and liabilities shown above include the following financial assets and financial liabilities (excluding cash, cash equivalents, trade receivables, other receivables, trade payables and other payables):

	2023 £m	2022 £m
Citylink		
Current assets		
– loan to Stagecoach Group	**7.8**	1.7
– loan to Braddell Limited	**13.2**	3.2

The financial performance of each of the Group's joint ventures is summarised below:

	2023			2022		
Years ended 29 April 2023 and 30 April 2022	**WCT Group £m**	**Citylink £m**	**Crown Sightseeing £m**	WCT Group £m	Citylink £m	Crown Sightseeing £m
Revenue	**0.4**	**78.3**	**8.9**	0.4	34.0	2.9
Operating costs and other operating income	**0.1**	**(62.0)**	**(6.6)**	6.2	(32.6)	(2.5)
Operating profit	**0.5**	**16.3**	**2.3**	6.6	1.4	0.4
Finance income	**–**	**–**	**(0.1)**	–	–	–
Taxation charge	**(0.1)**	**(3.2)**	**(0.4)**	(0.5)	(0.3)	(0.1)
Profit after tax	**0.4**	**13.1**	**1.8**	6.1	1.1	0.3

Notes to the consolidated financial statements (continued)

Note 14 Inventories

Inventories were as follows:

	2023 £m	2022 £m
Parts and consumables	**12.3**	12.3

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete inventories were as follows:

	2023 £m	2022 £m
At beginning of year	**(1.0)**	(0.7)
Charged to income statement	**(3.9)**	(0.3)
At end of year	**(4.9)**	(1.0)

Note 15 Trade and other receivables

Trade and other receivables were as follows:

	2023 £m	2022 £m
Non-current:		
Prepayments	**3.0**	3.3
Deferred Payment Instrument	**3.5**	2.9
Insurance claim receivables	**8.9**	14.0
Other receivables	**–**	0.2
	15.4	20.4
Current:		
Trade receivables	**32.6**	29.7
Less: provision for impairment	**(3.4)**	(3.5)
Trade receivables – net	**29.2**	26.2
Other receivables	**2.7**	11.9
Prepayments	**14.8**	16.0
Prepayments for purchase of property, plant and equipment	**5.8**	–
Accrued income	**29.9**	26.0
VAT and other government receivables	**29.7**	53.4
	112.1	133.5

Further information about the Deferred Payment Instrument, which formed part of the consideration for the sale of the North America business in April 2019 is included in notes 4 and 23.

The movements in the provision for impairment of current trade receivables were as follows:

	2023 £m	2022 £m
At beginning of year	**(3.5)**	(2.8)
Impairment losses in year charged to income statement	**(0.3)**	(1.0)
Reversal of impairment losses credited to income	**0.3**	0.2
Amounts utilised	**0.1**	0.1
At end of year	**(3.4)**	(3.5)

Of the above provision for impairment, £3.4m (2022: £3.5m) relates to receivables arising from contracts with customers. Further information on credit risk is provided in note 23.

Note 16 Contract balances

	2023 £m	2022 £m
Trade receivables (note 15)	**29.2**	26.2
Contract liabilities (note 18)	**19.5**	22.9

Trade receivables are non-interest bearing and are on terms of 30 to 90 days.

Contract liabilities represents amounts advanced by customers in respect of which the Group has not yet met the performance obligations to allow the recognition of the balance as revenue. These mainly relate to the season tickets held by passengers which cross over the year-end date and concessionary payments received by the Group in respect of services that had yet to be performed.

The contract liabilities as at 29 April 2023 are expected to be recognised as revenue in the year to 27 April 2024. The contract liabilities at the previous balance sheet date were predominately recognised within revenue in the subsequent year.

Changes in the contract liabilities relating to customer contracts at each year-end principally reflect changes in the volume of season tickets purchased in advance of the respective year-end dates.

Note 17 Cash and cash equivalents

	2023 £m	2022 £m
Cash and cash equivalents on deposit and in hand	**241.6**	243.5
Cash in transit	**4.0**	5.4
Cash and cash equivalents shown in the consolidated balance sheet	**245.6**	248.9
Bank overdrafts included in other borrowings	**(1.8)**	–
Cash and cash equivalents shown in the consolidated statement of cash flows	**243.8**	248.9

The cash and cash equivalents amounts as at 29 April 2023 include:
- £45.0m on 3 month deposit maturing by May 2023
- £40.0m on 1 month deposit maturing by May 2023
- £45.0m on 2 week deposit maturing by May 2023

The cash and cash equivalents amounts as at 30 April 2022 include:
- £50.0m on 12 month deposit maturing by April 2023
- £20.0m on 6 month deposit maturing by October 2022
- £20.0m on 3 month deposit maturing by May 2022
- £20.0m on 2 week deposit maturing by May 2022
- £5.0m in a 35 day notice account

The deposits above can be accessed prior to the end of the deposit period without incurring material break costs. The remaining cash and cash equivalent amounts are accessible to the Group within one day (2022: one day).

Cash in transit represents outstanding cash receipts in respect of on-bus debit card and credit card payments made by customers. These are normally received into the Group's bank accounts within three days of the payment being made by the customer.

Notes to the consolidated financial statements (continued)

Note 18 Trade and other payables

Trade and other payables were as follows:

	2023 £m	2022 £m
Current		
Trade payables	**37.0**	31.3
Payables for purchase of property, plant and equipment	**9.3**	3.6
Interest payable	**0.4**	0.2
Accruals	**135.3**	135.4
Deferred consideration	**1.6**	–
Contract liabilities	**19.5**	22.9
PAYE and NIC payable	**22.0**	19.5
Deferred capital grant income	**4.9**	3.2
Other deferred income	**1.5**	6.8
Loans from joint ventures	**7.8**	1.7
VAT and other government payables	**9.0**	43.9
	248.3	268.5
Non-current		
Accruals	**1.5**	–
PAYE and NIC payable	**0.2**	0.6
Deferred consideration	**8.0**	–
Deferred capital grant income	**42.0**	27.3
	51.7	27.9

The Group agreed to accept delivery prior to 29 April 2023 of certain vehicles for which the supplier put in place supplier financing arrangements for these vehicles and the due date for payment by the Group fell after 29 April 2023. As at 29 April 2023, £Nil (2022: £0.4m) in respect of vehicles acquired subject to supplier financing arrangements is included in payables for purchase of property, plant and equipment.

Note 19 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:

As at 29 April 2023	Bank overdrafts £m	Sterling 4.00% Notes £m	Borrowings excluding leases £m	Leases £m	Total borrowings £m
On demand or within 1 year	**1.8**	**–**	**1.8**	**25.0**	**26.8**
Within 1-2 years	**–**	**–**	**–**	**13.1**	**13.1**
Within 2-5 years	**–**	**407.1**	**407.1**	**15.1**	**422.2**
Over 5 years	**–**	**–**	**–**	**32.1**	**32.1**
Total borrowings	**1.8**	**407.1**	**408.9**	**85.3**	**494.2**
Less current maturities	**(1.8)**	**–**	**(1.8)**	**(25.0)**	**(26.8)**
Non-current portion of borrowings	**–**	**407.1**	**407.1**	**60.3**	**467.4**

As at 30 April 2022	Sterling 4.00% Notes £m	Leases (restated – see note 1(b)) £m	Total borrowings £m
On demand or within 1 year	–	23.5	23.5
Within 1-2 years	–	16.9	16.9
Within 2-5 years	404.7	18.2	422.9
Over 5 years	–	22.3	22.3
Total borrowings	404.7	80.9	485.6
Less current maturities	–	(23.5)	(23.5)
Non-current portion of borrowings	404.7	57.4	462.1

The Sterling 4.00% Notes are unsecured.

(b) Sterling 4.00% notes

On 29 September 2015, the Group issued £400m of 4.00% Notes. Interest is paid annually in arrears and the Notes are due to be redeemed at their principal amount on 29 September 2025. These Notes are listed on the London Stock Exchange.

The Notes were issued at 98.979% of their principal amount. The consolidated carrying value of the Notes at 29 April 2023 was £407.1m (2022: £404.7m) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

Notes to the consolidated financial statements (continued)

Note 20 Deferred tax

The movement in deferred tax during the year was as follows:

	2023 £m	2022 (restated – See note 1(b)) £m
At beginning of year	**(48.4)**	(0.9)
Credited/(charged) to income statement	**2.4**	(15.2)
Charged to equity	**(18.8)**	(32.3)
Deferred tax arising on business combination and credited to goodwill	**5.0**	–
At end of year	**(59.8)**	(48.4)

Deferred taxation is analysed as follows:

	2023			2022		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Accelerated capital allowances	**–**	**(74.6)**	**(74.6)**	–	(72.4)	(72.4)
Pension temporary differences	**3.5**	**–**	**3.5**	21.6	–	21.6
Other temporary differences:						
– Employee remuneration and share based payments	**3.2**	**–**	**3.2**	3.7	–	3.7
– Other temporary differences	**5.0**	**(1.4)**	**3.6**	–	(1.3)	(1.3)
Losses carried forward	**4.5**	**–**	**4.5**	–	–	–
	16.2	**(76.0)**	**(59.8)**	25.3	(73.7)	(48.4)

The amount of deferred tax recognised in the income statement by type of temporary difference was as follows:

	2023 £m	2022 (restated – see note 1(b)) £m
Accelerated capital allowances	**(2.2)**	(17.9)
Pension temporary differences	**0.7**	3.9
Losses carried forward	**4.5**	–
Other temporary differences	**(0.6)**	(1.2)
	2.4	(15.2)

Note 21 Provisions

The movements in provisions were as follows:

	Litigation provisions £m	Claims provisions £m	Environmental provisions £m	Dilapidations provision £m	Restructuring provisions £m	Onerous contracts £m	Total £m
Year ended 29 April 2023							
At beginning of year	**1.0**	**97.9**	**0.8**	**3.8**	**–**	**8.3**	**111.8**
Provided during year (after discounting)	**0.6**	**29.9**	**–**	**4.5**	**7.4**	**2.0**	**44.4**
Amounts recognised through business combinations	**–**	**0.9**	**–**	**–**	**–**	**18.9**	**19.8**
Unused amounts credited to income statement	**(0.3)**	**(2.2)**	**–**	**(0.8)**	**–**	**–**	**(3.3)**
Unwinding of discount	**–**	**1.9**	**–**	**–**	**–**	**–**	**1.9**
Utilised in the year	**(0.7)**	**(27.8)**	**–**	**(0.1)**	**–**	**(6.1)**	**(34.7)**
At end of year	**0.6**	**100.6**	**0.8**	**7.4**	**7.4**	**23.1**	**139.9**
As at 29 April 2023							
Current	**0.6**	**32.9**	**0.8**	**3.3**	**4.8**	**14.0**	**56.4**
Non-current	**–**	**67.7**	**–**	**4.1**	**2.6**	**9.1**	**83.5**
	0.6	**100.6**	**0.8**	**7.4**	**7.4**	**23.1**	**139.9**
As at 30 April 2022							
Current	1.0	27.5	0.8	1.8	–	5.6	36.7
Non-current	–	70.4	–	2.0	–	2.7	75.1
	1.0	97.9	0.8	3.8	–	8.3	111.8

The litigation provisions reflect the best estimate of the expenditure required to settle ongoing litigation, to the extent not covered by other liabilities such as the claims provisions. Any payments are expected to be made within one year (2022: one year). The amount and timing of payments may be affected by negotiations between the relevant parties and/or court decisions. The amount provided is based on legal advice.

The claims provisions relate to estimated liabilities on incurred incidents up to the year-end in each year. The obligating event is the incident (e.g. an accident involving one of the Group's vehicles) giving rise to an actual or possible liability of the Group. The estimates of the provisions are based on legal advice, actuarial reviews and prior claims history. Claims are typically settled within five years (2022: five years) of origination. Due to new obligating events arising each financial year, the overall claims provisions amount is not, however, necessarily expected to reduce over time. Information on estimation uncertainty regarding claims provisions is included in note 1(e)(ii). Related receivables from insurance companies of £8.9m (2022: £14.0m) are included within receivables.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required, and is expected to be utilised as the work is undertaken over the next one to four years (2022: one to four years).

The dilapidations provision is based on the future expected repair costs to restore certain of the Group's leased assets to their contractually required condition at the end of their respective lease terms. The provision is the Group's best estimate on a lease by lease basis of the likely committed cash flow. The provision is expected to be utilised within five years (2022: five years).

Provisions for onerous contracts relate to contracts where the unavoidable costs of fulfilling the contract outweigh the economic benefits to be received. The onerous contract provision as at 29 April 2023 principally relates to the onerous contracts acquired through the two London acquisitions in the year and the Sheffield Supertram concession agreement. The London onerous contracts are expected to be utilised over the next two to seven years in line with the duration of the contracts. The Sheffield Supertram element is expected to be utilised over the forthcoming year (2022: two years). See note 1(e)(ii) for details of estimation uncertainty in respect of the provisions for onerous contracts.

Notes to the consolidated financial statements (continued)

Note 22 Retirement benefits

(a) Description of retirement benefit arrangements

Funded schemes

The Group participates in a number of pension schemes. The principal defined benefit schemes are as follows:

	Date as at which last relevant scheme valuation was prepared
• The Stagecoach Group Pension Scheme ("SPS");	31 October 2022
• Two UK Local Government Pension Schemes ("LGPS").	31 March 2022

For the defined benefit schemes, benefits are related to length of service and pensionable salary. The weighted average duration as at 29 April 2023 of the discounted, expected benefit payments across all UK defined benefit schemes is estimated at 13 years (2022: 16 years).

The SPS is comprised of three sections: the Main Section, the London Section and the Sheffield Supertram Section. The Sheffield Supertram Section was established in the year ended 30 April 2022.

The SPS is generally closed to new members from the Group. The Main Section of the SPS closed to future accrual in April 2017, although in March 2021 a small number of former members of the Tyne & Wear LGPS ceased active participation in that scheme and commenced accrual in the Main Section, as a limited exception to the no ongoing accrual in that section. The London Section is closed to new entrants but is open to future accrual for the existing remaining members. The Sheffield Supertram Section was created in March 2022 to enable a bulk transfer in of the Group's membership in the Omnibus Section of the Railways Pension Scheme. The Sheffield Supertram Section is closed to new entrants but is open to future accrual for the existing members.

The Group is a participating employer in two UK LGPS, both closed to new members from the Group and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents less than 1.0% (2022: 1.0%) of the pensions charge (excluding separately disclosed items) in the consolidated income statement, but historic liabilities mean that these schemes represent around 10.1% (2022: 9.5%) of the gross present value of pension obligations as at 29 April 2023 shown in the consolidated balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time. When the participating Group employer has no remaining active participating employees in an LGPS scheme, the applicable regulations provide that the employer ceases to have an active participation in that scheme unless a deferred participation arrangement has been agreed. In such cases, the scheme produces an exit valuation resulting in an exit payment by, or to, the employer. There is otherwise no right for the Group to receive any surplus in the schemes.

The Group also contributes to a number of defined contribution schemes covering UK employees, for which the Group has no further payment obligation once the contributions are paid other than lump sum death in service benefits that are provided for certain UK employees.

Unfunded schemes

The Group provides benefits under an unapproved employer financed retirement benefit scheme ("EFURBS") in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Group has set aside assets to meet its obligations under the scheme. The scheme holds a guarantee over assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 29 April 2023 was £17.1m (2022: £16.5m). The EFURBS scheme is included within the figures for "Other" schemes in this note 22.

Other unfunded benefits are provided to a small number of former employees with the liabilities included within the "Unfunded schemes" reported in the tables that follow.

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 29 April 2023 and 30 April 2022 are shown below on a weighted average basis across the relevant schemes:

	2023	2022
Discount rate	**4.9%**	3.2%
Retail Prices inflation assumption	**3.0%**	3.5%
Consumer Prices inflation assumption	**2.5%**	2.8%
Rate of increase in pensionable salaries*	**3.0%**	3.3%
Rate of increase of pensions in payment	**2.5%**	2.9%
Life expectancies in years		
Current pensioners at 65 – male	**19.8**	19.5
Current pensioners at 65 – female	**22.0**	22.7
Future pensioners at 65 aged 45 now – male	**20.7**	20.9
Future pensioners at 65 aged 45 now – female	**23.6**	24.1

* Future accrual is limited to: (a) Participation in the London Section of SPS, where annual increases in pensionable salaries have been capped at 0.5% in any year until 5 April 2019. Whilst the cap will be retained for past service, basic pay at 6 April each year is used to define pensionable pay for all future service; (b) Participation by former members of the Tyne & Wear LGPS.

The Directors consider pension assumptions, such as those summarised above, to be a key source of estimation uncertainty as explained in note 1(e)(ii).

The assumptions shown above are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not be borne out in practice. The discount rate assumption is not determined using a cash-weighted method and is based on market yields on high quality corporate bonds at the balance sheet date, adjusted to reflect the duration of the schemes' liabilities. The life expectancy assumptions have been chosen with regard to the latest available published tables adjusted to reflect scheme specific experience, taking into account the Group and its sector, and allowing for expected increases in life expectancies.

Note 22 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £199.4m (2022 restated: £55.8m) and retirement benefit obligations of £3.5m (2022 restated: £ 74.8m), resulting in a net surplus of £195.9m (2022 restated: deficit of £19.0m). The amounts recognised in the balance sheet were as follows:

	Funded schemes				
As at 29 April 2023	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
Equities – quoted	**71.5**	**33.7**	**–**	**–**	**105.2**
Bonds – quoted	**1,179.5**	**114.4**	**15.3**	**–**	**1,309.2**
Total quoted investments	**1,251.0**	**148.1**	**15.3**	**–**	**1,414.4**
Private Equity – unquoted	**13.1**	**3.3**	**–**	**–**	**16.4**
Cash – unquoted	**25.4**	**4.1**	**1.8**	**–**	**31.3**
Property – unquoted	**116.7**	**4.9**	**–**	**–**	**121.6**
Total unquoted investments	**155.2**	**12.3**	**1.8**	**–**	**169.3**
Fair value of scheme assets	**1,406.2**	**160.4**	**17.1**	**–**	**1,583.7**
Present value of obligations	**(1,155.6)**	**(130.7)**	**(10.3)**	**(3.5)**	**(1,300.1)**
Surplus/(deficit) in the schemes	**250.6**	**29.7**	**6.8**	**(3.5)**	**283.6**
Withholding tax payable on surplus	**(87.7)**	**–**	**–**	**–**	**(87.7)**
Net asset/(liability)	**162.9**	**29.7**	**6.8**	**(3.5)**	**195.9**

	Funded schemes				
As at 30 April 2022 - (restated see note 1(b))	SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
Equities – quoted	1,045.6	44.3	16.4	–	1,106.3
Bonds – quoted	270.1	130.8	–	–	400.9
Total quoted investments	1,315.7	175.1	16.4	–	1,507.2
Private Equity – unquoted	19.5	–	–	–	19.5
Cash – unquoted	53.2	4.6	0.1	–	57.9
Property – unquoted	107.1	5.6	–	–	112.7
Total unquoted investments	179.8	10.2	0.1	–	190.1
Fair value of scheme assets	1,495.5	185.3	16.5	–	1,697.3
Present value of obligations	(1,502.8)	(174.5)	(12.8)	(4.0)	(1,694.1)
Surplus/(deficit) in the schemes	(7.3)	10.8	3.7	(4.0)	3.2
Withholding tax payable on surplus	(22.2)	–	–	–	(22.2)
Net asset/(liability)	(29.5)	10.8	3.7	(4.0)	(19.0)

At 29 April 2023, 91% (2022: 92%) of scheme assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The LGPS assets are not sectionalised and so assets are effectively comingled with other participating employers. Therefore, the Group's asset value is a notional value based on a share of fund calculation which is undertaken by the LGPS Fund Actuary.

The vast majority of assets held by the LGPS arrangements are invested in pooled funds with a quoted market price. In the above tables, the Group's holdings are allocated between the various asset categories in proportion to that of the overall LGPS funds in which the Group participates.

(d) Funding arrangements and schemes

All pension schemes in which the Group participates aim to invest their assets to:
- Maximise the returns on scheme assets;
- Minimise the risks associated with lower than expected returns on scheme assets; and
- Ensure sufficient liquidity such that the scheme is able to meet its liabilities as and when they fall due.

Trustees are required to regularly review the investment strategy in light of the term and nature of the scheme liabilities.

The defined benefit pension schemes typically expose the Group to actuarial funding risks such as investment risk, interest rate risk, inflation risk, and life expectancy risk. There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to fund deficits.

As explained in section 1.5 of this Annual Report, the Directors are focused on maintaining an investment grade credit rating. Each of the credit rating agencies consider pensions funding risks as part of their wider risk assessment. Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method.

Notes to the consolidated financial statements (continued)

Note 22 Retirement benefits (continued)

(d) Funding arrangements and schemes (continued)

Stagecoach Group Pension Scheme

The regulatory framework in the UK requires the Trustees of the Stagecoach Group Pension Scheme and the Group to agree upon the assumptions underlying the funding target, and then to agree upon the contributions necessary to fund the benefits, including any deficit recovery amounts, over a reasonable period of time. The Board participates in major decisions on the funding and design of the Scheme.

During the financial year, the Trustees of the SPS took advantage of the exceptional rise in gilt yields to move away from an equity and multi-asset growth led strategy to a liability driven investment ("LDI") strategy with the majority of assets now in gilts and high-quality credit. At the balance sheet date the SPS had achieved a hedge of liabilities against interest and inflation movements in excess of 95%.

With the agreement of the employer, the Trustees conducted another out-of-cycle valuation as at 31 October 2022 to recognise and align the new investment and funding strategies and to perform the first valuation of the Sheffield Supertram Section formed in March 2022. The results of this valuation have been incorporated in these financial statements.

The combined surplus across all three sections of the Scheme at 31 October 2022 on the Trustees' technical provisions basis was £87.3m (compared to £48.7m at the 30 September 2021 for the then two sections) comprising scheme assets of £1,433.8m less benefit obligations of £1,346.5m. Revised contributions agreed from 1 May 2023 are for £4.1m for one year with a further two years at the same rate being paid into an escrow account to be called upon if required.

Local Government Pension Schemes

There are particular funding risks with the LGPS to which the Group contributes. The Group has limited ability to influence the funding strategy of these schemes. Furthermore, the contributions that the Group is required to make to the schemes are determined by the schemes, which tend to take a cautious approach in setting contribution rates for non-government employers. This can result in the Group being required to make higher levels of contributions than it believes is necessary or desirable. Known future contribution levels are taken account of in determining the reported deficit or surplus in each scheme in these consolidated financial statements.

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2022. The combined surplus across those schemes on the funding basis agreed by each of the Administering Authorities was £0.3m, comprising scheme assets of £197.8m less benefit obligations of £197.5m.

Scheme exit or "buy-out"

Neither the valuation surpluses on the various Trustees' technical provisions bases nor the net retirement benefits surpluses reflected in these financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy-out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

The Group forecasts to contribute £10.3m (forecast at 30 April 2022 for year ended 29 April 2023: £17.7m) to defined benefit schemes in the year ending 27 April 2024.

(e) Changes in net retirement benefit obligations

The change in net liabilities (excluding withholding tax on surpluses) recognised in the balance sheet in respect of defined benefit schemes is comprised as follows:

	Funded schemes				
Year ended 29 April 2023	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
At beginning of year – (liability)/asset	**(7.3)**	**10.8**	**3.7**	**(4.0)**	**3.2**
Expense charged to consolidated income statement	**(5.0)**	**(0.1)**	**(1.9)**	**–**	**(7.0)**
Recognised in the consolidated statement of comprehensive income	**246.1**	**18.5**	**4.4**	**0.3**	**269.3**
Employers' contributions	**16.8**	**0.5**	**0.6**	**0.2**	**18.1**
At end of year – asset/(liability)	**250.6**	**29.7**	**6.8**	**(3.5)**	**283.6**

	Funded schemes				
Year ended 30 April 2022	SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
At beginning of year – (liability)/asset	(258.9)	(0.7)	0.3	(4.5)	(263.8)
Prior year adjustment – see note 1(b)	–	14.3	–	–	14.3
At beginning of year (as restated) – (liability)/asset	(258.9)	13.6	0.3	(4.5)	(249.5)
Expense charged to consolidated income statement	(10.8)	(0.4)	(1.2)	(0.1)	(12.5)
Recognised in the consolidated statement of comprehensive income	251.9	8.2	3.9	0.3	264.3
Employers' contributions and settlements	10.5	0.5	0.7	0.3	12.0
Settlement	–	(11.1)	–	–	(11.1)
At end of year – asset/(liability)	(7.3)	10.8	3.7	(4.0)	3.2

Note 22 Retirement benefits (continued)

(f) Sensitivity of retirement benefit obligations to changes in assumptions

The measurement of the defined benefit obligations is particularly sensitive to changes in key assumptions as summarised below:

As at 29 April 2023	Change in assumption	Impact on overall net pensions liabilities
Discount rate	Increase by 10 basis points/Decrease by 10 basis points	Decrease by £15.8m/Increase by £15.7m.
Rate of inflation	Increase by 10 basis points/Decrease by 10 basis points	Increase by £16.0m/Decrease by £16.1m.
Rate of increase in pensionable salaries	Increase by 10 basis points/Decrease by 10 basis points	Increase by £0.6m/Decrease by £0.6m.
Rate of increase in pension payments	Increase by 10 basis points/Decrease by 10 basis points	Increase by £11.9m/Decrease by £12.0m.
Life expectancy	Increase by 1 year/Decrease by 1 year	Increase by £38.8m/Decrease by £38.8m.
As at 30 April 2022		
Discount rate	Increase by 10 basis points/Decrease by 10 basis points	Decrease by £21.2m/Increase by £21.6m.
Rate of inflation	Increase by 10 basis points/Decrease by 10 basis points	Increase by £22.5m/Decrease by £22.2m.
Rate of increase in pensionable salaries	Increase by 10 basis points/Decrease by 10 basis points	Increase by £0.7m/Decrease by £0.7m.
Rate of increase in pension payments	Increase by 10 basis points/Decrease by 10 basis points	Increase by £17.0m/Decrease by £16.8m.
Life expectancy	Increase by 1 year/Decrease by 1 year	Increase by £61.3m/Decrease by £61.3m.

These sensitivities have been calculated to show the movement in the net liability in isolation, and assuming no other changes in market conditions at the balance sheet date. In practice, a change in discount rate is unlikely to occur without any movement in the value of the invested assets held by the schemes.

Due to the changes detailed in note 22(d) and the high level of hedging now in place at the balance sheet date, other than any impact associated with changes in life expectancy, the impact of the hedging against movements in interest rates and inflation rates should materially reduce the actual effect and sensitivities noted above.

(g) Pension amounts recognised in income statement

The amounts recognised in the consolidated income statement are analysed as follows:

	Funded schemes				
Year ended 29 April 2023	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded and DC schemes £m**	**Total £m**
Current service cost	**(4.0)**	**(0.4)**	**(1.1)**	**–**	**(5.5)**
Administration costs	**(0.8)**	**–**	**–**	**–**	**(0.8)**
Separately disclosed items: current and past service cost	**–**	**–**	**(0.9)**	**–**	**(0.9)**
Defined contribution costs	**–**	**–**	**–**	**(53.8)**	**(53.8)**
Included in operating profit	**(4.8)**	**(0.4)**	**(2.0)**	**(53.8)**	**(61.0)**
Net interest (expense)/income	**(0.2)**	**0.3**	**0.1**	**–**	**0.2**
	(5.0)	**(0.1)**	**(1.9)**	**(53.8)**	**(60.8)**

	Funded schemes				
Year ended 30 April 2022 (restated – see note 1(b))	SPS £m	LGPS £m	Other £m	Unfunded and DC schemes £m	Total £m
Current service cost	(4.8)	(0.5)	(1.2)	–	(6.5)
Administration costs	(0.8)	–	–	–	(0.8)
Defined contribution costs	–	–	–	(49.6)	(49.6)
Included in operating profit	(5.6)	(0.5)	(1.2)	(49.6)	(56.9)
Net interest (expense)/income	(5.2)	0.1	–	(0.1)	(5.2)
	(10.8)	(0.4)	(1.2)	(49.7)	(62.1)

Service costs, administration costs, loss on settlement and defined contribution costs are recognised in operating costs and net interest (expense)/income and interest expense on asset ceiling are recognised in net finance costs.

Notes to the consolidated financial statements (continued)

Note 22 Retirement benefits (continued)

(h) Pension amounts recognised in statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income are analysed as follows:

Year ended 29 April 2023	Funded schemes SPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
Actual return on scheme assets lower than the discount rate	**(83.8)**	**(23.0)**	**(0.4)**	**–**	**(107.2)**
Changes in financial assumptions	**373.0**	**39.3**	**4.6**	**0.3**	**417.2**
Changes in demographic assumptions	**42.4**	**1.0**	**0.1**	**0.1**	**43.6**
Experience on benefit obligations	**(85.5)**	**1.2**	**0.1**	**(0.1)**	**(84.3)**
	246.1	**18.5**	**4.4**	**0.3**	**269.3**
Withholding tax on surplus from actuarial gains in year	**(65.5)**	**–**	**–**	**–**	**(65.5)**
	180.6	**18.5**	**4.4**	**0.3**	**203.8**

Year ended 30 April 2022 (restated – see note 1(b))	Funded schemes SPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
Actual return on scheme assets higher/(lower) than the discount rate	53.1	2.1	(0.6)	–	54.6
Changes in financial assumptions	234.8	12.7	3.1	0.1	250.7
Changes in demographic assumptions	4.7	0.3	–	0.1	5.1
Experience on benefit obligations	(40.7)	(6.9)	1.1	0.1	(46.4)
Changes in asset ceiling (net of interest)	–	–	0.3	–	0.3
	251.9	8.2	3.9	0.3	264.3
Withholding tax on surplus from actuarial gains in year	(22.2)	–	–	–	(22.2)
	229.7	8.2	3.9	0.3	242.1

(i) Benefit obligations

Changes in the present value of the defined benefit obligations are analysed as follows:

Year ended 29 April 2023	Funded schemes SPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
At beginning of year	**1,502.8**	**174.5**	**12.8**	**4.0**	**1,694.1**
Separately disclosed items: current and past service costs	**–**	**–**	**0.9**	**–**	**0.9**
Current service cost	**4.0**	**0.4**	**1.1**	**–**	**5.5**
Interest on benefit obligations	**46.3**	**5.4**	**0.4**	**–**	**52.1**
Benefits paid	**(68.0)**	**(8.2)**	**(0.1)**	**(0.2)**	**(76.5)**
Contributions by employees	**0.4**	**0.1**	**–**	**–**	**0.5**
Actuarial losses/(gains) due to:					
– Changes in demographic assumptions	**(42.4)**	**(1.0)**	**(0.1)**	**(0.1)**	**(43.6)**
– Changes in financial assumptions	**(373.0)**	**(39.3)**	**(4.6)**	**(0.3)**	**(417.2)**
– Experience on benefit obligations	**85.5**	**(1.2)**	**(0.1)**	**0.1**	**84.3**
At end of year	**1,155.6**	**130.7**	**10.3**	**3.5**	**1,300.1**

Year ended 30 April 2022 (restated – see note 1(b))	Funded schemes SPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
At beginning of year	1,721.2	233.2	22.2	4.5	1,981.1
Prior year adjustment	–	16.1	–	–	16.1
	1,721.2	249.3	22.2	4.5	1,997.2
Current service cost	4.8	0.5	1.2	–	6.5
Interest on benefit obligations	33.1	4.3	0.4	0.1	37.9
Benefits paid	(64.4)	(8.8)	(0.2)	(0.3)	(73.7)
Contributions by employees	0.3	0.2	–	–	0.5
Actuarial losses/(gains) due to:					
– Changes in demographic assumptions	(4.7)	(0.3)	–	(0.1)	(5.1)
– Changes in financial assumptions	(234.8)	(12.7)	(3.1)	(0.1)	(250.7)
– Experience on benefit obligations	40.7	6.9	(1.1)	(0.1)	46.4
Transfer	6.6	–	(6.6)	–	–
Settlement	–	(64.9)	–	–	(64.9)
At end of year	1,502.8	174.5	12.8	4.0	1,694.1

Note 22 Retirement benefits (continued)

(j) Scheme assets

The movement in the fair value of scheme assets was as follows:

	Funded schemes				
Year ended 29 April 2023	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
At beginning of year	**1,495.5**	**185.3**	**16.5**	**–**	**1,697.3**
Administration costs	**(0.8)**	**–**	**–**	**–**	**(0.8)**
Interest income	**46.1**	**5.7**	**0.5**	**–**	**52.3**
Employer contributions	**16.8**	**0.5**	**0.6**	**0.2**	**18.1**
Contributions by employees	**0.4**	**0.1**	**–**	**–**	**0.5**
Benefits paid	**(68.0)**	**(8.2)**	**(0.1)**	**(0.2)**	**(76.5)**
Remeasurements					
– Return on assets excluding amounts included in net interest	**(83.8)**	**(23.0)**	**(0.4)**	**–**	**(107.2)**
Transfer	**–**	**–**	**–**	**–**	**–**
At end of year	**1,406.2**	**160.4**	**17.1**	**–**	**1,583.7**

	Funded schemes				
Year ended 30 April 2022	SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
At beginning of year	1,462.3	262.9	22.8	–	1,748.0
Administration costs	(0.8)	–	–	–	(0.8)
Interest income	27.9	4.4	0.4	–	32.7
Employer contributions	10.5	0.5	0.7	0.3	12.0
Contributions by employees	0.3	0.2	–	–	0.5
Benefits paid	(64.4)	(8.8)	(0.2)	(0.3)	(73.7)
Remeasurements					
– Return on assets excluding amounts included in net interest	53.1	2.1	(0.6)	–	54.6
Transfer	6.6	–	(6.6)	–	–
Settlement	–	(76.0)	–	–	(76.0)
At end of year	1,495.5	185.3	16.5	–	1,697.3

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2023 £m	2022 (restated – see note 1(b)) £m
At beginning of year	**–**	(30.7)
Prior year adjustment	**–**	30.4
At beginning of the year (as restated)	**–**	(0.3)
Remeasurements	**–**	0.3
At end of year	**–**	–

(l) Withholding tax provision

The movement in the withholding tax provision is shown below:

	2023 £m	2022 £m
At beginning of year	**22.2**	–
Credit for the year	**65.5**	22.2
At end of year	**87.7**	22.2

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments

(a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries and joint ventures accounted for in accordance with International Financial Reporting Standard 10 ("IFRS 10"), Consolidated Financial Statements and International Financial Reporting Standard 11 ("IFRS 11"), Joint Arrangements.
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, prepayments, provisions and deferred income) are not financial liabilities or financial assets. Accordingly, prepayments, provisions, deferred income and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

(b) Carrying values of financial assets and financial liabilities

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

		Carrying value		Fair value	
	Note	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Financial assets					
Financial assets measured at fair value through profit or loss					
– Non-current assets					
– Deferred Payment Instrument	*15*	**3.5**	2.9	**3.5**	2.9
Financial assets measured at amortised cost					
– Non-current assets					
– Insurance claim receivables	*15*	**8.9**	14.0	**8.9**	14.0
– Other receivables	*15*	**–**	0.2	**–**	0.2
– Current assets					
– Accrued income	*15*	**29.9**	26.0	**29.9**	26.0
– Trade receivables, net of impairment	*15*	**29.2**	26.2	**29.2**	26.2
– Other receivables	*15*	**2.7**	0.8	**2.7**	0.8
– Cash and cash equivalents	*17*	**245.6**	248.9	**245.6**	248.9
Total financial assets		**319.8**	319.0	**319.8**	319.0
Financial liabilities					
Financial liabilities measured at amortised cost					
– Non-current liabilities					
– Borrowings	*19*	**(467.4)**	(457.0)	**(445.3)**	(465.8)
– Deferred consideration of business combinations		**(8.0)**	–	**(8.0)**	–
– Current liabilities					
– Trade payables	*18*	**(37.0)**	(31.3)	**(37.0)**	(31.3)
– Deferred consideration of business combinations		**(1.6)**	–	**(1.6)**	–
– Payables for purchase of property, plant and equipment	*18*	**(9.3)**	(3.6)	**(9.3)**	(3.6)
– Interest payable	*18*	**(0.4)**	(0.2)	**(0.4)**	(0.2)
– Accruals	*18*	**(135.3)**	(135.4)	**(135.3)**	(135.4)
– Loans from joint ventures	*18*	**(7.8)**	(1.7)	**(7.8)**	(1.7)
– Borrowings	*19*	**(26.8)**	(22.1)	**(26.8)**	(22.1)
Total financial liabilities		**(693.6)**	(651.3)	**(671.5)**	(660.1)
Net financial liabilities		**(373.8)**	(332.3)	**(351.7)**	(341.1)

Financial derivatives with bank counterparties are not shown in the above table. Information on the carrying value of such derivatives is provided in note 23(f).

The consideration for the sale of the North American business in April 2019 included a Deferred Payment Instrument of US$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 October 2024 or (b) in part, after distributions of US$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the 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 £3.5m as at 29 April 2023 (2022: £2.9m).

The North America business continues to operate a variety of different types of transportation services over a wide area of North America. The Group has no control or significant influence over the North America business following its disposal on 16 April 2019.

Note 23 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities (continued)

The financial performance of the North America business is influenced by various different factors, many of which are specific to the individual markets and locations in which it operates. Factors that can affect financial performance include the extent and timing of how demand recovers from the COVID-19 situation; changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions; cost pressures including the availability of sufficient staff; and regulatory change. The performance of the North America business has a direct impact on the purchaser's ability to settle the instrument. The initial contractual value of the instrument was US$65m and the range of values that the Group could recover over the 66 months of its term varies from US$Nil up to US$65m plus interest.

No specific assumptions have been made regarding climate change in valuing the Deferred Payment Instrument. While climate change does present both opportunities and risks to the North America business, we do not consider that climate change considerations materially affect the fair value of the instrument as at 29 April 2023, taking account of the approximate remaining 1.5-year term of the instrument.

The fair values of the other financial assets and financial liabilities shown above are determined as follows:

- The carrying value of cash and cash equivalents, accrued income, trade receivables, insurance claim receivables, and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, payables for purchase of property, plant and equipment, interest payable, accruals and loans to/from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 ("IFRS 7"), Financial Instruments: Disclosures, does not require the disclosure of fair values for leases.
- The fair value of other borrowings on which interest was payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments, other than the Deferred Payment Instrument, would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed rate notes liability by around £12.1m (2022: £12.6m).

Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:
Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 29 April 2023.

	Note	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Deferred Payment Instrument from disposal of subsidiaries		**–**	**3.5**	**3.5**
Financial derivatives	*23(f)*	**25.4**	**–**	**25.4**
Total assets		**25.4**	**3.5**	**28.9**
Liabilities				
Deferred consideration for acquisition of business		**–**	**(9.6)**	**(9.6)**
Financial derivatives	*23(f)*	**(21.5)**	**–**	**(21.5)**
Total liabilities		**(21.5)**	**(9.6)**	**(31.1)**

There were no transfers between levels during the year ended 29 April 2023.

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2022.

	Note	Level 2 £m	Level 3 £m	Total £m
Assets				
Deferred Payment Instrument from disposal of subsidiaries		–	2.9	2.9
Financial derivatives	*23(f)*	97.4	–	97.4
Total assets		97.4	2.9	100.3
Liabilities				
Financial derivatives	*23(f)*	(3.8)	–	(3.8)

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments

The Group's use of financial instruments exposes it to a variety of financial risks, principally:
- Market risk – including currency risk, interest rate risk and price risk;
- Credit risk; and
- Liquidity risk.

This note (c) presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the year ended 29 April 2023. This note (c) also provides summary quantitative data about the Group's exposure to each risk.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments from time to time to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business units. The Board provides written principles for overall treasury risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters.

The Group enters into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally, the Group seeks to apply hedge accounting in order to reduce volatility in the consolidated income statement.

Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's consolidated income statement is principally exposed to movements in foreign exchange rates in relation to the translation of the Deferred Payment Instrument from the disposal of the North America business.

The Group's consolidated balance sheet exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

	2023 £m	2022 £m
US dollars		
– Deferred Payment Instrument from disposal of subsidiaries	**3.5**	2.9

The amounts shown above are the carrying values of all US dollar items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that financial derivatives are excluded.

The Directors do not consider the sensitivity of the above amounts to reasonably probable movements in foreign exchange rates to be material to the Group (2022: immaterial).

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

The effect of reasonably probable changes in foreign exchange rates on the Group's consolidated income statement is not material. That is based on the assumption that only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in the sterling value of commodity prices that indirectly occur due to changes in foreign exchange rates are not included in the sensitivity calculation.

Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 29 April 2023, there were no material net transactional foreign currency exposures (2022: none).

The Group's exposure to commodity price risk includes a foreign currency element due to the impact of foreign exchange rate movements on the sterling cost of fuel for the Group's UK operations. The effect of foreign exchange rate movements on sterling-denominated fuel prices is managed through the use of fuel derivative financial instruments denominated in the functional currency in which the fuel is purchased. Further information on fuel hedging is given under the heading "Price risk" later in this note 23(c)(i).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates), cash, cash equivalents and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to reduce the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

At 29 April 2023, the interest rate profile of the Group's interest bearing financial liabilities was as follows, excluding lease liabilities:

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	**121.8**	**287.1**	**408.9**	**4.0**	**2.4**

The above figures take account of the effect of interest rate derivatives which swap £120m of the £400m Notes maturing September 2025 for the period from September 2020 to September 2023.

At 30 April 2022, the interest rate profile of the Group's interest bearing financial liabilities was as follows, excluding other lease liabilities:

Currency	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	120.0	284.7	404.7	4.0	3.4

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(i) Market risk (continued)

The Group's financial assets on which floating interest is receivable include cash deposits, cash in hand and cash equivalents of £243.8m (2022: £248.9m) and a loan to a joint venture of £Nil (2022: £0.1m). The Group's financial asset on which fixed interest is receivable is a Deferred Payment Instrument receivable of £3.5m (2022: £2.9m) arising from the sale of the North America business in April 2019. As at 29 April 2023, the Group had no other financial assets on which fixed interest is receivable (2022: £Nil).

With the exception of the Deferred Payment Instrument, the Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

The net impact of a change of 100 basis points on all relevant floating interest rates on annualised net interest payable on cash and borrowings balances outstanding at the balance sheet date was not material (2022: not material).

Price risk

The Group is exposed to commodity price risk. The Group's future profit and cash flows are exposed to movements in the underlying price of diesel fuel.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of the fuel used. The fuel derivatives hedge the underlying commodity price risk (denominated in US$). They also hedge the currency risk due to the commodity being priced in US$ and the functional currency of the businesses being pounds sterling.

As at 29 April 2023, we had financial derivatives in place covering a net 180.0m litres of fuel consumption by our UK bus business in the year ending 27 April 2024. We are forecasting to consume 181.6m litres of fuel in the year ending 27 April 2024. The price of the underlying product as at 29 April 2023 was 47.8 pence per litre. Taking account of the financial derivatives in place, the table below shows the sensitivity of our fuel costs (amounts payable/receivable on derivatives and purchase cost of the underlying product, excluding taxes, delivery margins and bus operating grants) to different levels of consumption and fuel prices.

Year ending 27 April 2024

Volume of diesel consumed (millions of litres)		163.4	181.6	199.8
Fuel costs	**pence/litre**	**£m**	**£m**	**£m**
At 29 April 2023 price	47.8	(66.6)	(75.2)	(84.0)
At 10% higher than 29 April 2023 price	52.6	(66.7)	(76.2)	(85.8)
– increase versus 29 April price		(0.1)	(1.0)	(1.8)
At 10% lower than 29 April 2023 price	43.0	(66.5)	(74.3)	(82.1)
– decrease versus 29 April price		0.1	0.9	1.9

Demand for the Group's services can also be affected by movements in fuel prices due to the impact on the cost of competing transport services, including private cars.

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

In determining whether a financial asset is impaired, the Group takes account of:
- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

The movement in the provision for impairment of trade receivables is shown in note 15. In addition, a £Nil (2022: £0.1m) provision for impairment of a loan to a joint venture was held as at 29 April 2023. There was no opening or closing loss allowance for any of the other financial assets measured at amortised cost.

The table below shows the financial assets that are exposed to credit risk at the balance sheet date:

	Gross 2023 £m	**Impairment 2023 £m**	**Net Exposure 2023 £m**	Gross 2022 £m	Impairment 2022 £m	Net Exposure 2022 £m
Deferred Payment Instrument	**3.5**	**–**	**3.5**	2.9	–	2.9
Trade receivables	**32.6**	**(3.4)**	**29.2**	29.7	(3.5)	26.2
Loans, other receivables and accrued income	**41.5**	**–**	**41.5**	41.1	(0.1)	41.0
Cash and cash equivalents – other	**245.6**	**–**	**245.6**	248.9	–	248.9
Excluding derivative financial instruments	**323.2**	**(3.4)**	**319.8**	322.6	(3.6)	319.0
Financial derivatives	**25.4**	**–**	**25.4**	97.4	–	97.4
Total exposure to credit risk	**348.6**	**(3.4)**	**345.2**	420.0	(3.6)	416.4

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are generally to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

The Group's total net exposure to credit risk by geographic region is analysed below:

	2023 £m	2022 £m
United Kingdom & Europe	**341.7**	413.5
North America	**3.5**	2.9
	345.2	416.4

The Group's financial assets by currency are analysed below:

	2023 £m	2022 £m
Sterling & Euros	**341.7**	413.5
US dollars	**3.5**	2.9
	345.2	416.4

The Group does not hold any collateral in respect of its credit risk exposures set out above (2022: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 29 April 2023 (2022: £Nil).

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(ii) Credit risk (continued)

Trade receivables, other receivables and accrued income

To measure the expected credit losses, trade receivables, other receivables measured at amortised cost and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for other receivables measured at amortised cost and accrued income.

The expected loss rates are based on the payment profiles of sales over a period of 36 months to the balance sheet dates and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that UK GDP, the impact of COVID-19 and unemployment rates are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The loss allowance as at 29 April 2023 and 30 April 2022 was determined for trade receivables, other receivables measured at amortised cost and accrued income as set out in the following tables:

As at 29 April 2023	**Trade receivables £m**	**Other receivables £m**	**Accrued income £m**	**Loss allowance £m**
Amounts not yet due	**27.7**	**11.6**	**29.9**	**(0.3)**
Amounts 1 to 90 days overdue	**2.1**	**–**	**–**	**(0.3)**
Amounts 91 to 180 days overdue	**0.6**	**–**	**–**	**(0.6)**
Amounts 181 to 365 days overdue	**0.3**	**–**	**–**	**(0.3)**
Amounts greater than 365 days overdue	**1.9**	**–**	**–**	**(1.9)**
Total	**32.6**	**11.6**	**29.9**	**(3.4)**

As at 30 April 2022	Trade receivables £m	Other receivables £m	Accrued income £m	Loss allowance £m
Amounts not yet due	24.3	15.1	26.0	(0.3)
Amounts 1 to 90 days overdue	2.5	–	–	(0.6)
Amounts 91 to 180 days overdue	1.1	–	–	(1.1)
Amounts 181 to 365 days overdue	0.4	–	–	(0.2)
Amounts greater than 365 days overdue	1.4	–	–	(1.4)
Total	29.7	15.1	26.0	(3.6)

(iii) Liquidity risk

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

As at 29 April 2023 the Group's credit facilities were £411.0m (2022: £500.4m), £120.0m (2022: £138.4m) of which were utilised, including utilisation for the issuance of bank guarantees, and letters of credit.

The Group had the following undrawn committed bank facilities, and uncommitted bank and asset finance facilities:

	2023 £m	2022 £m
Expiring within one year	**56.1**	77.1
Expiring beyond two years	**234.9**	284.9
	291.0	362.0

Although there is an element of seasonality in the Group's operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has an investment grade credit rating which should allow it access at short notice to additional bank and capital markets debt funding. The Group has bank lines of credit arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance bonds, guarantees and letters of credit.

Note 23 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(iii) Liquidity risk (continued)

The committed bank facilities and their utilisation, as at 29 April 2023, was:

As at 29 April 2023, facilities expiring in:	Facility £m	Performance bonds, guarantees etc. drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES				
– 2023	55.1	(46.4)	(8.7)	–
– 2026	275.0	(40.1)	–	234.9
	330.1	(86.5)	(8.7)	234.9
SHORT-TERM FACILITIES				
– 2024	2.1	–	–	2.1
	332.2	(86.5)	(8.7)	237.0

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, excluding lease liabilities, including interest payments.

As at 29 April 2023	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	5+ years £m
Non-derivative financial liabilities:						
Bank overdrafts	**(1.8)**	**(1.8)**	**(1.8)**	**–**	**–**	**–**
Unsecured bond issues	**(407.1)**	**(448.0)**	**(16.0)**	**(16.0)**	**(416.0)**	**–**
Trade and other payables	**(199.4)**	**(200.6)**	**(191.6)**	**(1.0)**	**(3.0)**	**(5.0)**
	(608.3)	**(650.4)**	**(209.4)**	**(17.0)**	**(419.0)**	**(5.0)**
Derivative financial liabilities:						
Financial derivatives	**(21.5)**	**(21.5)**	**(9.0)**	**(3.1)**	**(9.4)**	**–**
	(629.8)	**(671.9)**	**(218.4)**	**(20.1)**	**(428.4)**	**(5.0)**

As at 30 April 2022	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m
Non-derivative financial liabilities:					
Unsecured bond issues	(404.7)	(464.0)	(16.0)	(16.0)	(432.0)
Trade and other payables	(172.2)	(172.2)	(172.2)	–	–
	(576.9)	(636.2)	(188.2)	(16.0)	(432.0)
Derivative financial liabilities:					
Financial derivatives	(3.8)	(3.8)	(2.2)	(1.6)	–
	(580.7)	(640.0)	(190.4)	(17.6)	(432.0)

The “contractual cash flows” shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on an interest rate or credit rating in the future, the contractual cash flows in the above table have been determined with reference to the interest rate or credit rating as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity.

The following are contractual maturities of lease liabilities:

As at 29 April 2023	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Lease liabilities	**(85.3)**	**(140.0)**	**(25.1)**	**(15.8)**	**(21.3)**	**(77.8)**

As at 30 April 2022 (restated – see note 1(b))	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Lease liabilities	(80.9)	(102.7)	(25.8)	(17.2)	(22.3)	(37.4)

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments (continued)

(d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

(e) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 29 April 2023 and 30 April 2022 and no loans payable were in default as at 29 April 2023 and 30 April 2022. The Group was in compliance with all bank covenants as at 29 April 2023 and 30 April 2022.

(f) Financial derivatives and hedge accounting

A summary of the Group's hedging arrangements that applied during the years ended 29 April 2023 and 30 April 2022 is provided in the table below.

Type of hedge	Risks hedged by the Group	Hedging instruments used
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Fair value hedges	– Interest rate risk	– Derivatives (interest rate swaps)

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2023			2022		
	Interest derivatives £m	**Fuel derivatives £m**	**Total £m**	Interest derivatives £m	Fuel derivatives £m	Total £m
Non-current assets	**–**	**11.5**	**11.5**	–	36.2	36.2
Current assets	**–**	**13.9**	**13.9**	–	61.2	61.2
Current liabilities	**(4.7)**	**(4.4)**	**(9.1)**	(2.2)	–	(2.2)
Non-current liabilities	**–**	**(12.4)**	**(12.4)**	(1.6)	–	(1.6)
Total	**(4.7)**	**8.6**	**3.9**	(3.8)	97.4	93.6

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Cash flow hedges – fuel

The movements in the fair value of fuel derivatives in the year were as follows:

	2023 £m	2022 £m
Fuel derivatives		
Fair value at start of year	**97.4**	(6.3)
Changes in fair value during year taken to cash flow hedging reserve	**(19.7)**	111.0
Cash received during the year	**(69.1)**	(7.3)
Fair value at end of year	**8.6**	97.4

Note 23 Financial instruments (continued)

(f) Financial derivatives and hedge accounting (continued)

Cash flow hedges – fuel (continued)

Commodity price risk

The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the fuel forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The fair value of the fuel derivatives, split by maturity, was as follows:

	Assets £m	Liabilities £m
As at 29 April 2023		
Within one year	**13.9**	**(4.4)**
1 to 2 years	**8.3**	**(3.1)**
2 to 3 years	**3.0**	**(6.3)**
More than 3 years	**0.2**	**(3.0)**
	25.4	**(16.8)**
As at 30 April 2022		
Within one year	61.2	–
1 to 2 years	26.4	–
2 to 3 years	9.0	–
More than 3 years	0.8	–
	97.4	–

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value £m	Notional quantity of fuel covered by derivatives Millions of litres
As at 29 April 2023		
Sterling denominated – UK Bus (regional operations)	**7.5**	**284.0**
Sterling denominated – UK Bus (London)	**1.1**	**62.0**
	8.6	**346.0**
As at 30 April 2022		
Sterling denominated – UK Bus (regional operations)	81.4	341.5
Sterling denominated – UK Bus (London)	16.0	60.7
	97.4	402.2

The maturity profile of the above fuel derivative contracts is as follows:

	Up to 1 year	1 to 2 years	2+ years	Total
As at 29 April 2023				
Notional amount (in millions of litres)	**165.7**	**112.2**	**68.1**	**346.0**
Notional amount (in £m)	**67.2**	**50.9**	**37.8**	**155.9**
Average hedge rate (in £/litre)	**0.41**	**0.45**	**0.56**	**0.45**
As at 30 April 2022				
Notional amount (in millions of litres)	173.5	134.6	94.1	402.2
Notional amount (in £m)	60.4	47.1	36.7	144.2
Average hedge rate (in £/litre)	0.35	0.35	0.39	0.36

Notes to the consolidated financial statements (continued)

Note 23 Financial instruments (continued)

(f) Financial derivatives and hedge accounting (continued)

Fair value hedges – interest

The Group entered into £120m (notional value) of interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from September 2020 to September 2023. The movements in the fair value of these derivatives were as follows:

	Fair value hedges	
	2023 £m	2022 £m
Interest rate derivatives		
Fair value at beginning of year	**(3.8)**	(0.9)
Cash paid in year	**0.9**	0.2
Changes in fair value reflected in carrying value of hedged item	**1.7**	(2.8)
Interest expense on fair value hedges	**(3.5)**	(0.3)
Fair value at end of year	**(4.7)**	(3.8)

All of the interest rate derivatives were managed and held centrally.

The fair value of the interest rate derivatives split by maturity as at 29 April 2023 was as follows:

	2023 £m	2022 £m
Within one year	**(4.7)**	(2.2)
1 to 2 years	**–**	(1.6)
	(4.7)	(3.8)

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	2023 £m	2022 £m
Cash flow hedging reserve at beginning of year	**75.4**	(4.8)
Changes in fair value during the year taken to cash flow hedging reserve	**(19.7)**	111.0
Cash flow hedges reclassified and reported in profit for year	**(66.4)**	(12.0)
Tax effect of cash flow hedges	**16.8**	(18.8)
Cash flow hedging reserve at end of year	**6.1**	75.4
Cash flow hedging reserve before tax	**7.1**	93.2
Tax to be credited to income statement in future periods	**(1.0)**	(17.8)
Cash flow hedging reserve after tax	**6.1**	75.4

As at 29 April 2023 and 30 April 2022, all of the hedged forecast transactions (i.e. hedged future purchases of fuel) were assessed as highly probable.

Notes to the consolidated financial statements (continued)

Note 24 Share capital

The allotted, called-up and fully paid ordinary share capital was:

	2023		2022	
	No. of shares	**£m**	No. of shares	£m
Allotted, called-up and fully paid ordinary shares of 125/228 pence each				
At beginning and end of year	**576,099,960**	**3.2**	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 14,143,274 (2022: 24,581,369) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements.

Note 25 Share based payments

Until the change of control, the Group operated a Buy as You Earn scheme ("BAYE"), a Long Term Incentive Plan ("LTIP"), a Restricted Share Plan ("RSP") and an Executive Participation Plan ("EPP").

Each of these schemes was wound up on 20 May 2022, following the change of control of the Company, as detailed below:

As disclosed in note 6, share based payment charges of £3.9m (2022: £3.4m) have been recognised in the income statement during the year in relation to the above schemes. £3.7m (2022: £Nil) of this charge has been recognised within separately disclosed items in relation to the early vesting due to the change of control of the Group.

Long Term Incentive Plan

All of the awards under the LTIP scheme lapsed, with no amounts payable to the holders, on 20 May 2022, following the change of control of the Company.

The following assumptions were applied in accounting for awards under the LTIP scheme:

Grant date	**June 2019**	**December 2019**
Share price at time of grant/award (£)	1.210	1.368
Vesting period (years)	3	3
Option/award life (years)	3	3
Expected life (years)	3	3
Expected dividends expressed as an average annual dividend yield	6.87%	6.08%
Option pricing model	**Bespoke simulation**	**Bespoke simulation**

LTIP awards were based on Incentive Units. One Incentive Unit had a value equal to one of the Company's ordinary shares but subject to the performance conditions explained in the Directors' remuneration report. LTIP awards were not share options and were valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market based performance criteria are reflected in the fair value of the LTIP awards.

The movements in the LTIP Incentive Units during the year to 29 April 2023 were as follows:

Award date	Outstanding at start of year (Incentive Units)	Lapsed in year (Incentive Units)	Outstanding at end of year (Incentive Units)	Fair value per LTIP unit at grant* £	Fair value per LTIP unit at 29 April 2023* £	TSR ranking at 29 April 2023**	Vesting date
27 June 2019	1,455,767	(1,455,767)	–	0.8279	n/a	n/a	n/a
12 Dec 2019	1,329,808	(1,329,808)	–	0.9360	n/a	n/a	n/a
	2,785,575	(2,785,575)	–				

* The fair values of the LTIP Incentive Units shown above take account of both market based vesting conditions (total shareholder return performance versus a benchmark) and non-market based vesting conditions (earnings per share related targets for certain awards). The fair values have not been adjusted for service conditions and assume all holders of LTIP Incentive Units remain employed by the Group throughout the relevant vesting periods.

** TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Notes to the consolidated financial statements (continued)

Note 25 Share based payments (continued)

Restricted Share Plan

All of the awards under the RSP either vested or lapsed on 23 May 2022, following the change of control of the Company. The proportion of each tranche of awards that vested was equal to the proportion of the vesting period that had elapsed by the date of vesting.

A Restricted Share Plan commenced during the year ended 1 May 2021, as a successor to the Long Term Incentive Plan. All Restricted Share Awards under the plan were subject to performance underpins under which the Remuneration Committee could reduce an award in whole or in part if it was not satisfied with the management of the business. No adjustment has been made to the fair values of Restricted Share Awards shown below to take account of those performance underpins. Accordingly, the value of each Restricted Share is equivalent to the value of an ordinary share in the Company.

The movements in Restricted Share Awards in the year ended 29 April 2023 were as follows:

Award date	Outstanding at start of year	Awards granted in year	Awards vested	Awards lapsed	Outstanding at end of year	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
12 Oct 2020	171,316	–	(68,948)	(102,368)	–	23 May 2022	70,000	0.4086
12 Oct 2020	171,317	–	(55,166)	(116,151)	–	23 May 2022	70,000	0.4086
12 Oct 2020	171,317	–	(45,975)	(125,342)	–	23 May 2022	70,000	0.4086
10 Dec 2020	933,257	–	(337,914)	(595,343)	–	23 May 2022	734,007	0.7865
10 Dec 2020	933.257	–	(270,368)	(662,889)	–	23 May 2022	734,007	0.7865
10 Dec 2020	933,258	–	(225,327)	(707,931)	–	23 May 2022	734,007	0.7865
1 Jul 2021	937,610	–	(209,213)	(728,397)	–	23 May 2022	769,778	0.8210
1 Jul 2021	937,610	–	(167,394)	(770,216)	–	23 May 2022	769,778	0.8210
1 Jul 2021	937,624	–	(139,508)	(798,116)	–	23 May 2022	769,789	0.8210
	6,126,566	–	(1,519,813)	(4,606,753)	–			

Executive Participation Plan

All of the awards under the EPP vested in full, on 23 May 2022, following the change of control of the Company.

Under the EPP, executives and senior managers sacrificed part of their actual annual cash bonus and were awarded Deferred Bonus Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Bonus Shares in the year ended 29 April 2023 were as follows:

Award date	Outstanding at start of year (Deferred Bonus Shares)	Awards granted in year (Deferred Bonus Shares)	Vested in year (Deferred Bonus Shares)	Lapsed in year (Deferred Bonus Shares)	Outstanding at end of year (Deferred Bonus Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
27 June 2019	1,752,868	–	(1,752,868)	–	–	23 May 2022	2,148,818	1.2100
10 Dec 2020	3,003,616	–	(3,003,616)	–	–	23 May 2022	2,423,424	0.7865
1 Jul 2021	4,161,798	–	(4,161,798)	–	–	23 May 2022	3,443,436	0.8210
	8,918,282	–	(8,918,282)	–	–			

Buy As You Earn scheme

BAYE enabled eligible employees to purchase shares ("partnership shares") from their gross income. The Company provided two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares were held in trust for five years or more, no income tax and national insurance was payable. The matching shares were forfeited if the corresponding partnership shares were removed from trust within three years of award. In light of the COVID-19 situation, share investments under the BAYE Plan were suspended from 6 April 2020.

At 30 April 2022, there were 3,163 participants in the BAYE scheme to which were attributed 4,927,979 shares that they purchased, 1,750,606 matching shares that the Company contributed and 1,247,772 shares in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

All of the shares held in trust were subject to the offer for the Company. Following the change of control on 20 May 2022, all shares were purchased by Inframobility UK Bidco Limited and proceeds returned to participants.

Notes to the consolidated financial statements (continued)

Note 26 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 62.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits and losses of the Group.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Details of own shares held are given in note 24. The own shares reserve represents the cumulative cost of shares in Stagecoach Group Limited purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts, offset by cumulative sales proceeds.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Note 27 Consolidated cash flows

Cash and cash equivalents of £243.8m (2022: £248.9m) shown in the consolidated statement of cash flows, and in this note 27, include the cash and cash equivalents of £245.6m (2022: £248.9m) shown on the consolidated balance sheet, less bank overdrafts of £1.8m (2022: £Nil) included in other borrowings within current liabilities in the consolidated balance sheet.

(a) Reconciliation of operating profit to cash generated by operations

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

	2023 £m	2022 (restated – see note 1(b)) £m
Operating profit of Group companies	**41.9**	79.4
Separately disclosed items	**30.3**	(10.0)
Depreciation	**106.9**	104.9
Software amortisation	**1.0**	1.4
Impairment of intangible assets	**0.3**	–
Impairment of property, plant and equipment	**3.0**	4.4
EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA from Group Companies")	**183.4**	180.1
Cash effect of current year separately disclosed items	**(16.7)**	(0.1)
Loss on disposal of property, plant and equipment	**1.3**	1.6
Capital grant amortisation	**(3.4)**	(1.5)
Loss on disposal of intangible assets	**0.1**	–
Share based payment movements	**0.2**	3.5
Operating cashflows before working capital movements	**164.9**	183.6
Decrease/(increase) in inventories	**0.6**	(2.8)
Decrease in receivables	**35.6**	2.6
Decrease in payables	**(39.0)**	(14.4)
Increase/(decrease) in provisions	**0.6**	(7.9)
Differences between employer contributions and pension expense in adjusted operating profit	**(11.8)**	(4.7)
Cash generated by operations	**150.9**	156.4

(b) Reconciliation of net cash flow to movement in net debt

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

	2023 £m	2022 (restated – see note 1(b)) £m
Decrease in cash and cash equivalents	**(5.1)**	(234.3)
Cash flow from movement in borrowings (excluding bank overdrafts)	**29.6**	342.8
	24.5	108.5
New leases in year		
– Acquired through business combinations	**(20.8)**	–
– Other new leases	**(13.5)**	(21.8)
– Lease disposal	**0.3**	2.4
Other movements	**(0.8)**	(2.5)
(Increase)/decrease in net debt	**(10.3)**	86.6
Opening net debt (as defined in note 32)	**(230.8)**	(317.4)
Closing net debt (as defined in note 32)	**(241.1)**	(230.8)

Notes to the consolidated financial statements (continued)

Note 27 Consolidated cash flows (continued)

(c) Changes in net debt

Changes in net debt are summarised below:

Year to 29 April 2023	Opening £m	Cashflows £m	New leases £m	Lease additions from business combinations £m	Lease disposal £m	Charged to income statement £m	Closing £m
Cash and cash equivalents	**248.9**	**(5.1)**	**–**	**–**	**–**	**–**	**243.8**
Gross debt – see split in note 27(d) below	**(479.7)**	**29.6**	**(13.5)**	**(20.8)**	**0.3**	**(0.8)**	**(484.9)**
Net debt	**(230.8)**	**24.5**	**(13.5)**	**(20.8)**	**0.3**	**(0.8)**	**(241.1)**

Year to 30 April 2022 (restated – see note 1(b))	Opening £m	Cashflows £m	New leases £m	Lease disposal £m	Charged to income statement £m	Closing £m
Cash and cash equivalents – pledged as collateral	17.4	(17.4)	–	–	–	–
Cash and cash equivalents – other	465.8	(216.9)	–	–	–	248.9
Total cash and cash equivalents	483.2	(234.3)	–	–	–	248.9
Gross debt – see split in note 27(d) below	(800.6)	342.8	(21.8)	2.4	(2.5)	(479.7)
Net debt	(317.4)	108.5	(21.8)	2.4	(2.5)	(230.8)

(d) Liabilities arising from financing activities

Liabilities arising from financing activities include all liabilities that give rise to cash flows that are classified as financing activities in the consolidated statement of cash flows. They include borrowings (except bank overdrafts) and loans from joint ventures. They also include certain interest rate derivatives that are hedging instruments of liabilities that give rise to financing cash flows.

The liabilities arising from financing activities are presented in the consolidated balance sheet as follows.

	2023 £m	2022 (restated – see note 1(b)) £m
Current liabilities: borrowings	**(26.8)**	(23.5)
– Less bank overdrafts shown in cash and cash equivalents in this note 27	**1.8**	–
Non-current liabilities: borrowings	**(467.4)**	(462.1)
Current liabilities: interest rate derivatives included in financial derivatives	**(4.7)**	(2.2)
Non-current liabilities: interest rate derivatives included in financial derivatives	**–**	(1.6)
Current liabilities: loans from joint ventures	**(7.8)**	(1.7)
Total liabilities arising from financing activities	**(504.9)**	(491.1)

Changes in liabilities from financing activities are presented in the tables below.

Year to 29 April 2023	Opening £m	Cashflows £m	New leases £m	Lease additions from business combinations £m	Lease disposal £m	Fair value movements on hedge £m	Charged to income statement £m	Closing £m
Lease liabilities	**(80.9)**	**29.6**	**(13.5)**	**(20.8)**	**0.3**	**–**	**–**	**(85.3)**
Bonds								
– Principal	**(400.0)**	**–**	**–**	**–**	**–**	**–**	**–**	**(400.0)**
– Unamortised costs & discounts on issue	**1.2**	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**0.4**
Gross debt	**(479.7)**	**29.6**	**(13.5)**	**(20.8)**	**0.3**	**–**	**(0.8)**	**(484.9)**
Loans from joint ventures	**(1.7)**	**(6.1)**	**–**	**–**	**–**	**–**	**–**	**(7.8)**
Accrued interest on bonds	**(9.5)**	**16.1**	**–**	**–**	**–**	**–**	**(16.0)**	**(9.4)**
Effect of fair value hedges on carrying value of borrowings	**3.6**	**–**	**–**	**–**	**–**	**(1.7)**	**–**	**1.9**
Interest rate derivatives that hedge liabilities from financing activities	**(3.8)**	**0.9**	**–**	**–**	**–**	**1.7**	**(3.5)**	**(4.7)**
Total liabilities arising from financing activities	**(491.1)**	**40.5**	**(13.5)**	**(20.8)**	**0.3**	**–**	**(20.3)**	**(504.9)**

Note 27 Consolidated cash flows (continued)

(d) Liabilities arising from financing activities (continued)

Year to 30 April 2022 – (restated – see note 1(b))	Opening £m	Cashflows £m	New leases £m	Lease disposal £m	Fair value movements on hedge £m	Charged to income statement £m	Closing £m
Lease liabilities	(86.9)	25.4	(21.8)	2.4	–	–	(80.9)
Loan notes	(17.4)	17.4	–	–	–	–	–
Covid Corporate Financing Facility	(298.4)	300.0	–	–	–	(1.6)	–
Bonds							
– Principal	(400.0)	–	–	–	–	–	(400.0)
– Unamortised costs & discounts on issue	2.1	–	–	–	–	(0.9)	1.2
Gross debt	(800.6)	342.8	(21.8)	2.4	–	(2.5)	(479.7)
Loans from joint ventures	(1.7)	–	–	–	–	–	(1.7)
Accrued interest on bonds	(9.5)	16.0	–	–	–	(16.0)	(9.5)
Effect of fair value hedges on carrying value of borrowings	0.8	–	–	–	2.8	–	3.6
Interest rate derivatives that hedge liabilities from financing activities	(0.9)	0.2	–	–	(2.8)	(0.3)	(3.8)
Total liabilities arising from financing activities	(811.9)	359.0	(21.8)	2.4	–	(18.8)	(491.1)

(e) Non-cash transactions

The effect of new leases on net debt are shown in note 27(b) to the consolidated financial statements.

As explained in note 4(f), the Group disposed of businesses in the year ended 29 April 2023 in exchange for non-cash consideration in the form of shares in its joint venture, Scottish Citylink Coaches Limited. The estimated fair value of the shares received by the Group was £1.7m.

Note 28 Contingencies

Contingent liabilities

(i) 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. 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 is estimated at around £38m (excluding interest).

In October 2021, the CAT granted the collective proceedings order ("CPO") sought by the proposed class representative. In November 2021, SSWT sought permission to appeal against the CAT's decision to grant the CPO. Permission was refused and SSWT applied to the Court of Appeal for permission to bring the appeal, which was granted. The appeal was heard in June 2022, which was unsuccessful.

The claim is disputed in respect of its technical merits. No provision is held as at 29 April 2023 (2022: £Nil) for any damages or settlement payable in respect of this matter.

(ii) 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 29 April 2023, the liabilities in the consolidated financial statements for such matters total £0.6m (2022: £1.0m) in addition to those covered by the claims provisions.

(iii) The Group sold its North American business in April 2019. 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 July 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 those periods. As at 29 April 2023, the North America business had provided for an estimated £19.1m (2022: £32.1m) 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 (2022: £Nil).

Notes to the consolidated financial statements (continued)

Note 29 Financial commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2023 £m	2022 £m
Contracted for but not provided:		
For delivery within one year	**42.6**	19.3

Note 30 Related party transactions

Details of major related party transactions during the year ended 29 April 2023 are provided below, except for those relating to the remuneration of the Directors and management.

(i) WCT Group Holdings Limited

Two of the Group's directors who served during the year were non-executive directors of the Group's joint venture, WCT Group Holdings Limited. During the year ended 29 April 2023, the Group earned fees of £0.1m (2022: £0.2m) from WCT Group Holdings Limited in this regard. In addition, the Group had sales in the year ended 29 April 2023 to the group headed by WCT Group Holdings Limited of £0.4m (2022: £1.1m).

(ii) Pension schemes

Details of contributions made to pension schemes are contained in note 22.

(iii) Scottish Citylink Coaches Limited

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:
- the megabus retail platform and customer service business, which sells and markets inter-city coach services in England and Wales.
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the year ended 29 April 2023.

A non-interest bearing loan of £1.7m (2022: £1.7m) and an interest bearing loan of £6.1m (2022: £Nil) was due to Scottish Citylink Coaches Limited, as at 29 April 2023. The Group earned £31.2m in the year ended 29 April 2023 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2022: £18.0m).

The Group also collected revenue of £30.5m on behalf of Scottish Citylink Coaches Limited in the year ended 29 April 2023 (2022: £16.2m). As at 29 April 2023, the Group had a net £2.3m payable (2022: receivable £2.1m) to Scottish Citylink Coaches Limited, excluding the loan referred to above.

(iv) 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 29 April 2023, other Group companies earned £0.3m (2022: £0.3m) from East Coast Main Line Company Limited in respect of the provision of certain services. As at 29 April 2023, the Group had a £0.2m receivable (2022: £Nil) in this respect.

(v) Crown Sightseeing Limited

The Group owns 33.3% of the ordinary shares of Crown Sightseeing Limited, a joint venture formed in the year ended 1 May 2021. As at 29 April 2023, an interest bearing loan of £Nil (2022: £0.1m) advanced by the Group to Crown Sightseeing Limited was outstanding. The loan accrues interest at the Bank of England base rate plus 3%. In addition, the Group earned £2.4m in the year ended 29 April 2023 (2022: £1.2m) in respect of the operation of bus services subcontracted by Crown Sightseeing. As at 29 April 2023, the Group had a £0.4m (2022: £0.3m) receivable in this respect.

Note 31 Post balance sheet events

In June 2023 it was announced that the Group had been awarded three contracts from Transport for Greater Manchester ("TfGM") under its new franchising system. We will operate these services under TfGM's new Bee network from the Middleton, Oldham and Queens Road depots from March 2024.

Note 32 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 29 April 2023 and for comparative amounts shown in this document for prior years.

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 29 April 2023 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each segment is shown in note 2(a) to the financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

Year ended 29 April 2023		**Reported revenue**	**Exclude expired rail franchises**	**Exclude acquisitions**	**Exclude disposals**	**Like-for-like revenue**
UK Bus (regional operations)	£m	**1,029.9**	**–**	**–**	**(11.1)**	**1,018.8**
UK Bus (London)	£m	**327.5**	**–**	**(51.4)**	**–**	**276.1**
UK Rail	£m	**15.2**	**(0.3)**	**–**	**–**	**14.9**

Year ended 30 April 2022		Reported revenue	Exclude expired rail franchises	Exclude acquisitions	Exclude disposals	Like-for-like revenue
UK Bus (regional operations)	£m	892.2	–	–	(15.1)	877.1
UK Bus (London)	£m	272.6	–	–	–	272.6
UK Rail	£m	11.7	(0.4)	–	–	11.3

Liquidity

References to liquidity mean the aggregate amount of cash and cash equivalents (net of bank overdrafts in bank offset arrangements), money market deposits and undrawn committed headroom under bank facilities, adjusted to exclude: (i) foreign currency bank and cash balances, (ii) petty cash balances, (iii) cash in transit and (iv) cash pledged as collateral in respect of liabilities for loan notes.

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. Both total operating profit and operating profit of Group companies are shown on the face of the consolidated income statement.

Operating profit (or loss) for a particular business unit or segment within the Group refers to profit (or loss) before net finance income/costs, taxation, non-controlling interests, separately disclosed items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from note 2(b).

Adjusted operating profit

Adjusted operating profit for the Group as a whole is operating profit before all separately disclosed items as shown on the face of the consolidated income statement.

Operating margin

Operating margin for a particular business unit or segment within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from notes 2(a) and 2(b). Where relevant, the revenue, operating profit (or loss) and operating margin for each segment are also shown on pages 3 and 4 of this Annual Report.

Adjusted EBITDA

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

A reconciliation of adjusted EBITDA for the year ended 29 April 2023, and the comparative prior year, to the financial statements is shown in section 1.5.4 of this Annual Report.

Adjusted EBITDA from Group companies

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

Adjusted EBITDA from Group companies is directly identifiable from note 27(a) to the financial statements.

Net finance costs

Net finance costs are finance costs less finance income, each as shown on the face of the consolidated income statement.

Adjusted net finance costs

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

Notes to the consolidated financial statements (continued)

Note 32 Definitions (continued)

(a) Alternative performance measures (continued)

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude bank overdrafts, 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 27(d) to the financial statements.

Net debt

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

The components of net debt are shown in note 27(c) to the financial statements.

Net capital expenditure

Net capital expenditure is the impact of purchases, new leases, lease disposals, and sales of property, plant and equipment on net debt. Its reconciliation to the consolidated financial statements is explained in section 1.5.8 of this Annual Report.

Net debt plus train operating company liabilities

Net debt plus train operating company liabilities is the aggregate of net debt (see above) and net liabilities (excluding cash) in relation to major rail franchises previously operated by the Group. The reconciliation to the consolidated financial statements is shown below:

	2023 £m	2022 (restated – see note 1(b)) £m
Net debt as shown in note 27(c)	**241.1**	230.8
Net train operating company liabilities as shown in note 2(d)	**24.7**	40.2
Net debt plus train operating company liabilities	**265.8**	271.0

(b) Other definition

The following other definition is also used in this document:

Separately disclosed items

Separately disclosed items means:
- Non-software intangible asset amortisation;
- Items which individually or, if of a similar type, in aggregate, need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group; and
- Changes in the fair value of the Deferred Payment Instrument received in relation to the sale of the North America Division in April 2019.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the issuer 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.

Separately disclosed items can include both pre-tax and tax-related items.

Note 33 Ultimate parent undertaking

The Company's immediate holding Company is Inframobility UK Bidco Limited (registered number 13957417), registered in England. Its ultimate holding company is Pan-European Infrastructure III, SCSp ("PEIF III"), an infrastructure fund managed and advised by DWS Infrastructure. PEIF III is not under the control of any single party or, parties acting in concert.

The parent undertaking of the smallest group of which the company is a member and for which consolidated financial statements are expected to be prepared, is Inframobility UK Midco Ltd, a company registered in England with registered number 13954049 and registered address at C/O Stagecoach Services Limited One Stockport Exchange, 20 Railway Road, Stockport, United Kingdom, SK1 3SW. That company has yet to produce its first financial statements.

The parent undertaking of the largest group of which the company is a member and for which consolidated financial statements are expected to be prepared, is Inframobility UK Topco Ltd, a company registered in England with registered number 13919225 and registered address at C/O Stagecoach Services Limited One Stockport Exchange, 20 Railway Road, Stockport, United Kingdom, SK1 3SW. That company has yet to produce its first financial statements.

10. Separate financial statements of the parent company, Stagecoach Group Limited

Company balance sheet

As at 29 April 2023

	Notes	2023 £m	2022 £m
ASSETS			
Non-current assets			
Property, plant and equipment			
– Owned assets	*2(a)*	**3.1**	3.2
– Right-of-use assets	*2(b)*	**3.9**	3.7
Investments	*3*	**1,049.4**	1,045.5
Deferred tax asset	*6*	**3.2**	3.6
Other receivables	*4*	**6.2**	15.6
Retirement benefit assets	*8*	**6.7**	3.7
Derivative instruments at fair value	*7*	**11.5**	36.2
		1,084.0	1,111.5
Current assets			
Other receivables	*4*	**14.8**	11.2
Current tax assets		**1.4**	–
Derivative instruments at fair value	*7*	**13.9**	61.2
Cash and cash equivalents		**212.3**	196.0
		242.4	268.4
Total assets		**1,326.4**	1,379.9
LIABILITIES			
Current liabilities			
Trade and other payables	*5*	**307.3**	274.9
Current tax liabilities		**–**	6.4
Derivative instruments at fair value	*7*	**9.1**	2.2
		316.4	283.5
Non-current liabilities			
Other payables	*5*	**409.4**	406.8
Derivative instruments at fair value	*7*	**12.4**	1.6
Retirement benefit obligations	*8*	**2.1**	2.3
		423.9	410.7
Total liabilities		**740.3**	694.2
Net assets		**586.1**	685.7
EQUITY			
Ordinary share capital	*9*	**3.2**	3.2
Share premium account	*10*	**8.4**	8.4
Retained earnings	*10*	**221.3**	320.9
Capital redemption reserve	*10*	**422.8**	422.8
Own shares	*10*	**(69.6)**	(69.6)
Total equity		**586.1**	685.7

In accordance with the concession granted under section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company have not been separately presented in these financial statements. The loss of the Company was £56.4m (2022: profit of £62.4m).

These financial statements were approved for issue by the Board of Directors on 29 June 2023. The accompanying notes form an integral part of this balance sheet.

Ray O'Toole
Executive Chairman

Bruce Dingwall
Chief Financial Officer

10. Separate financial statements of the parent company, Stagecoach Group Limited (continued)

Company statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Total equity £m
Balance at 1 May 2021	3.2	8.4	255.0	422.8	(69.6)	619.8
Profit for the year and total comprehensive expense	–	–	62.4	–	–	62.4
Credit in relation to equity-settled share based payments	–	–	3.5	–	–	3.5
Balance at 30 April 2022	3.2	8.4	320.9	422.8	(69.6)	685.7
Loss for the year and total comprehensive income	–	–	(56.4)	–	–	(56.4)
Credit in relation to equity-settled share based payments	–	–	3.9	–	–	3.9
Tax credit in relation to equity settled share based payments	–	–	0.4	–	–	0.4
Dividends paid on ordinary shares	–	–	(47.5)	–	–	(47.5)
Balance at 29 April 2023	**3.2**	**8.4**	**221.3**	**422.8**	**(69.6)**	**586.1**

Notes to the Company financial statements

Note 1 Parent company accounting policies

These financial statements are presented in respect of Stagecoach Group Limited. Stagecoach Group Limited is a private limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth PH1 5TW.

The Company financial statements are prepared in accordance with Financial Reporting Standard 101, *Reduced Disclosure Framework* ("FRS 101").

(a) Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

These financial statements have been prepared on a going concern basis. Taking account of the continued recovery from COVID-19, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the Company financial statements. The Directors have a reasonable expectation that the Company will continue to operate as a going concern for the duration of the going concern period, being the period to 26 October 2024.

The Strategic report in section 1 of this Annual Report includes information on the outlook for the Group (including in sections 1.3 and 1.6) and the Group's financial position and liquidity (including in section 1.5.9). Section 2.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern. Section 4.4 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusions of the Audit Committee in respect of that.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. The parent company financial statements have therefore been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 as issued by the Financial Reporting Council. The Company has taken advantage of the legal dispensation contained in section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, *Share-based payments*
- IFRS 7, *Financial Instruments: Disclosures*
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1, *Presentation of financial statements*
- IAS 7, *Statement of cash flows*
- Paragraphs 30 and 31 of IAS 8, *Accounting policies, changes in accounting estimates and errors*
- Paragraph 17 of IAS 24, *Related party disclosures*
- The requirements in IAS 24, *Related party disclosures,* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member
- Paragraphs 91-99 of IFRS 13, *Fair Value Measurements*

(b) New accounting standards adopted during the year

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 29 April 2023 that have a material impact on the Company's financial statements.

(c) Critical accounting judgements and key source of estimation uncertainty

Preparation of the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101, requires directors to make judgements and estimates that affect the reported amounts in the Company financial statements and accompanying notes. The Directors believe that the key source of estimation uncertainty discussed below represents that requiring the greatest exercise of judgement.

The discussion below should be read in conjunction with the full statement of accounting policies.

(i) Judgements

Apart from those involving estimations (see (ii) below), the Directors do not consider there to be significant judgements involved in the process of applying the Company's accounting policies.

(ii) Key source of estimation uncertainty

The Directors consider the following to be the most significant source of estimation uncertainty. The Directors have used their best judgement in determining the estimates and assumptions used in this area but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

Carrying value of investments in subsidiary undertaking

The carrying value of the Company's investment in Stagecoach Transport Holdings Limited, a wholly owned subsidiary, was £1,049.4m as at 29 April 2023 (2022: £1,045.5m). Stagecoach Transport Holdings Limited holds investments in a number of businesses within the Group, including the UK regional bus business. The estimated value in use of the investment was £1,270.2m as at 29 April 2023 (2022: £1,080.0m) but alternative assumptions could result in an impairment loss.

The value in use of the Company's investment in Stagecoach Transport Holdings Limited is most sensitive to assumptions regarding the future financial performance of the Group's regional bus business.

Further information on the estimation uncertainty, including sensitivity analyses, is provided in note 3 to the Company financial statements.

Notes to the Company financial statements (continued)

Note 1 IFRS accounting policies (continued)

(d) Property, plant and equipment

Property, plant and equipment are shown at their original historic cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use.

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

Freehold buildings	50 years
IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any impairment is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

(e) Leases

The Company leases company cars, vans and other vehicles not for passenger service.

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

Contracts can contain lease and non-lease components. For all current motor vehicle leases, the Company has elected not to separate lease and non-lease components but instead accounts for these as a single lease component.

The lease agreements do not generally impose any financial covenants.

Measurement of lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments, less any lease incentives receivable.

There are no leases with any form of variable payment.

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

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

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

Right-of-use assets

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

(f) Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

(g) Taxation

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

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar matters, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authorities. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

Notes to the Company financial statements (continued)

Note 1 IFRS accounting policies (continued)

(h) Foreign currencies

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year-end. Any exchange differences so arising are dealt with through the income statement.

For the principal rates of exchange used, see note 1(o) to the consolidated financial statements.

(i) Share based payments

The Company issued equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the income statement to the extent that the amount is not recharged to each subsidiary company.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense (or as an increase in investments in subsidiary undertakings) over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense or investment is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Company's equity-settled transactions had any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved.

Changes in the carrying amount of the liability are recognised in the income statement for the period. Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company could choose to settle awards under the Executive Participation Plan and the Restricted Share Plan in either cash or equity, although until its recent change of control, generally expected to settle all such outstanding awards in equity. Awards under the Executive Participation Plan and the Restricted Share Plan are accounted for as equity-settled transactions (see above).

(j) Dividends

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

(k) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9 "Financial Instruments", and IFRS 7 "Financial instruments: Disclosures" which is the same as the accounting policy for the Group. Therefore, for details of the Company's accounting policy for financial instruments, refer to note 1(z) to the consolidated financial statements.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. Interest rate derivatives that are accounted as fair value hedges in the consolidated financial statements are accounted for in the same manner in the Company financial statements. However, all fuel derivatives are accounted for in the Company financial statements at fair value through profit or loss.

(l) Investment in own shares

Own shares held in treasury by the Company are classified as deductions from equity.

(m) Retirement benefit obligations

The Company is the "principal employer" of the main section of the Stagecoach Group Pension Scheme ("SPS"). Where other participating employers are unable to meet their liabilities to the main section of the SPS, the Company is liable for the remaining liabilities. No liability has been recognised in the Company's financial statements for that as the participating employers are expected to meet their liabilities to SPS. The Company provides benefits to certain employees of subsidiary undertakings under an unapproved employer financed retirement benefit scheme in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Company has set aside assets to meet its obligations under the scheme. The scheme holds a guarantee over assets which the Company has set aside. The Company considers that the assets set aside are in substance pension assets and so the amounts of those assets are included within the net pension amounts reported in the Company balance sheet.

The Company is not liable for a share in any of the other funded Group defined benefit schemes that are disclosed in note 22 to the consolidated financial statements. It does have unfunded liabilities in respect of former employees and these are reflected in the balance sheet.

Notes to the Company financial statements (continued)

Note 2 Property, plant and equipment

(a) Owned assets

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

	Land & Buildings 2023 £m	Other plant & equipment 2023 £m	Total 2023 £m
Cost			
At beginning of year	**3.2**	**1.4**	**4.6**
Disposals	**–**	**(0.2)**	**(0.2)**
At end of year	**3.2**	**1.2**	**4.4**
Depreciation			
At beginning of year	**–**	**(1.4)**	**(1.4)**
Depreciation charged to income statement	**(0.1)**	**–**	**(0.1)**
Disposals	**–**	**0.2**	**0.2**
At end of year	**(0.1)**	**(1.2)**	**(1.3)**
Net book value at beginning of year	**3.2**	**–**	**3.2**
Net book value at end of year	**3.1**	**–**	**3.1**

(b) Leases

(i) Movements in right-of-use assets

The movements in right-of-use assets were as follows:

	Other plant & equipment 2023 £m	Other plant & equipment 2022 £m
Cost		
At beginning of year	**7.2**	6.7
Additions	**1.9**	1.8
Disposals	**(1.4)**	(1.3)
At end of year	**7.7**	7.2
Depreciation		
At beginning of year	**(3.5)**	(2.9)
Depreciation charged to income statement	**(1.8)**	(1.9)
Disposals	**1.5**	1.3
At end of year	**(3.8)**	(3.5)
Net book value at beginning of year	**3.7**	3.8
Net book value at end of year	**3.9**	3.7

(ii) Lease liabilities

	2023 £m	2022 £m
Current	**1.6**	1.7
Non-current	**2.3**	2.1
	3.9	3.8

(iii) Amounts recognised in the income statement

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

	2023 £m	2022 £m
Depreciation on right-of-use assets	**1.8**	1.9
Lease costs included within operating profit	**1.8**	1.9
Interest expense included in finance costs	**0.1**	0.1
Lease costs included within profit before tax	**1.9**	2.0

(iv) Amounts recognised in statement of cash flows

Cash flows for leases were:

	2023 £m	2022 £m
Total cash outflow for leases	**1.9**	1.8

Notes to the Company financial statements (continued)

Note 3 Investments

The movements in investments were as follows:

	Subsidiary undertakings	
	2023 £m	2022 £m
Cost and net book value		
At beginning of year	**1,045.5**	1,042.0
Additions	**3.9**	3.5
At end of year	**1,049.4**	1,045.5

The carrying value of the Company's investment in Stagecoach Transport Holdings Limited, a wholly owned subsidiary, was £1,049.4m as at 29 April 2023 (2022: £1,045.5m). Stagecoach Transport Holdings Limited holds investments in a number of businesses within the Group, including the UK regional bus business. The estimated value in use of the investment was £1,270.2m (2022: £1,080.0m) as at 29 April 2023 but alternative assumptions could result in an impairment loss.

The value in use of the Company's investment in Stagecoach Transport Holdings Limited is most sensitive to assumptions regarding the future financial performance of the Group's regional bus business.

Our base case forecast assumes that regional bus commercial revenue returns to 98% of pre-COVID levels in the year ending 27 April 2024, reflecting the assumed return in patronage as the country emerges from the long-term effect of the pandemic. Concessionary revenue for the year ending 27 April 2024 is forecast at 100% of pre-COVID levels. We have discounted our cash flow projections using a pre-tax discount rate of 11.2% (2022: 9.1%), and a growth rate of 2.4% (2022: 2.1%) per annum is used to extrapolate cash flows beyond management's base forecasting period.

As at 29 April 2023, the value in use of the investment exceeded its carrying amount by £220.8m (2022: £34.5m). Our sensitivity analysis indicates that this headroom would be eliminated if the assumed regional bus revenue over the forecasting period was 2.8% (2022: 0.8%) lower, the assumed regional bus costs over the forecasting period were 3.1% (2022: 0.9%) higher, the assumed regional bus long-term growth rate fell by more than 667 basis points (2022: 31 basis points).

Note 4 Other receivables

Other receivables were as follows:

	2023 £m	2022 £m
Non-current:		
Amounts owed by Group undertakings	**19.9**	67.4
Less: provision for impairment	**(13.7)**	(51.8)
Amounts owed by Group undertakings – net	**6.2**	15.6
Current:		
Amounts owed by Group undertakings	**4.2**	–
Less: provision for impairment	**–**	–
Amounts owed by Group undertakings – net	**4.2**	–
Other receivables	**10.6**	10.9
Prepayments and accrued income	**–**	0.3
	14.8	11.2

Of amounts owed by Group undertakings, £11.6m (2022: £50.9m) accrue no interest and are repayable on demand. The remaining £12.5m (2022: £16.5m) owed by Group undertakings accrue interest at 4.7% per annum (2022: 2.5%). These are all repayable on demand.

Notes to the Company financial statements (continued)

Note 5 Payables

Trade and other payables were as follows:

	2023 £m	2022 £m
Current:		
Amounts owed to Group undertakings	**294.7**	267.0
Accruals and deferred income	**11.0**	6.2
Lease liabilities	**1.6**	1.7
	307.3	274.9
Non-current:		
Sterling 4.00% Notes	**407.1**	404.7
Lease liabilities	**2.3**	2.1
	409.4	406.8

Of amounts owed to Group undertakings, £244.7m (2022: £199.9m) accrue no interest and are repayable on demand. The remaining £50m owed to Group undertakings (2022: £67.1m) accrue interest at 6 month SONIA rate plus margin (2022: 6 month SONIA rate plus margin). These are all repayable on demand.

Borrowings are repayable as follows:

	2023 £m	2022 £m
On demand or within 1 year		
Lease liabilities	**1.6**	1.7
Repayable after 2 years, but within 5 years		
Lease liabilities	**2.3**	2.1
Sterling 4.00% Notes	**407.1**	404.7
Total borrowings	**411.0**	408.5

Note 6 Deferred tax

The movement in the deferred tax asset during the year was as follows:

	2023 £m	2022 £m
At beginning of year	**3.6**	2.8
Charge to the income statement	**(0.4)**	0.8
At end of year	**3.2**	3.6

Deferred taxation is analysed as follows:

	2023 £m	2022 £m
Pension temporary differences	**3.1**	3.5
Accelerated capital allowances	**0.1**	0.1
At end of year	**3.2**	3.6

Gross deductible temporary differences of £12.8m (2022: £15.7m) have been recognised as it is probable that sufficient taxable profit will be available in the future to utilise these and there is no restriction on their use.

Note 7 Derivative financial instruments

The fair values of derivative financial instruments, none of which are intra-Group, are set out below:

	2023 £m	2022 £m
Non-current assets		
Fuel derivatives	**11.5**	36.2
Current assets		
Fuel derivatives	**13.9**	61.2
Current liabilities		
Interest rate derivatives	**(4.7)**	(2.2)
Fuel derivatives	**(4.4)**	–
	(9.1)	(2.2)
Non-current liabilities		
Interest rate derivatives	**–**	(1.6)
Fuel derivatives	**(12.4)**	–
	(12.4)	(1.6)

Notes to the Company financial statements (continued)

Note 8 Retirement benefit obligations

	2023 £m	2022 £m
Retirement benefit asset	**6.7**	3.7
Retirement benefit obligations	**(2.1)**	(2.3)
	4.6	1.4

The Company no longer has any employees but has retirement benefit assets and liabilities in respect of former employees and current employees of subsidiary undertakings, which are shown above. See note 1(m) to the Company financial statements and note 22 to the consolidated financial statements for more details on retirement benefits.

Note 9 Share capital

Information on share capital is provided in note 24 to the consolidated financial statements.

Note 10 Equity reserves

The loss of £56.4m (2022: profit of £62.4m) shown in the statement of changes in equity is consolidated in the results of the Group. There were dividends paid during the year ended 29 April 2023 of £47.5m (2022: None).

The retained earnings are distributable but the amount available for distribution under the Companies Act 2006 by reference to these financial statements is reduced by the own shares reserve of £69.6m (2022: £69.6m). The other components of equity shown in the statement of changes in equity are not distributable.

The remuneration of the Directors is borne by other Group companies and is detailed in section 6 to the consolidated financial statements. The remuneration of the auditors is shown in note 3 to the consolidated financial statements.

Note 11 Share based payments

For details of share based payment awards and fair values, see note 25 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £3.9m (2022: £3.5m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2022: none) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment credit for the year of £Nil (2022: £0.1m) by recording an adjustment to the liability for this amount and recording a corresponding entry as a charge through the income statement. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the income statement.

Note 12 Guarantees, other financial commitments and contingent liabilities

(a) Guarantees

The Company has provided certain guarantees and indemnities to third parties in respect of liabilities and obligations of its subsidiary companies. Not all of those guarantees are subject to a specified monetary limit and they include performance guarantees in respect of subsidiaries' performance under certain contracts, including contracts with Transport for London to provide bus services. In light of that, it is not possible to determine the Company's maximum liability under the guarantees, although the Company currently does not expect to incur any liability in respect of those guarantees. The Company estimates that it could be liable for up to £196.1m (2022: £210.1m) in relation to guarantees of subsidiaries' obligations in respect of insurance/claims, local government pension schemes, payment processing arrangements and leases. Of that, £89.8m (2022: £89.1m) is included as liabilities in the consolidated financial statements.

The Company is also party to cross-guarantees whereby any bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the contingent liabilities referred to in note 28 to the consolidated financial statements.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2023 £m	2022 £m
Contracted for but not provided:		
For delivery in one year	**39.1**	19.0

Note 13 Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions entered into between two or more members of a group. Related party disclosures provided by the Group can be found in note 30 to the consolidated financial statements.

Note 14 Employees

The Company has no (2022: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

11. Subsidiary and related undertakings

The Company owns the following subsidiary and related undertakings. The Company indirectly owns 100% of each undertaking through its holding of the stated class or classes of share or other interest unless otherwise stated.

Company	Country of registration	Class of shares/other interest	Registered office address
Bluebird Buses Limited	Scotland	Ordinary shares	Perth
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares	Stockport
Cambus Limited	England	Ordinary shares	Stockport
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares	Stockport
Cleveland Transit Limited	England	Ordinary shares	Stockport
Crown Sightseeing Limited (33.3%)	England	Ordinary shares	London 2
East Coast Main Line Company Limited (90%)	England	Ordinary shares	Stockport
East Kent Road Car Company Limited	England	Ordinary shares	Stockport
East London Bus and Coach Company Limited	England	Ordinary shares	Stockport
East London Bus Group Property Investments Limited	England	Ordinary shares	Stockport
East London Bus Ltd.	England	Ordinary shares	Stockport
East Midlands Trains Limited	England	Ordinary shares	Stockport
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares	Perth
Go West Travel Limited	England	Ordinary shares	Stockport
Greater Manchester Buses South Limited	England	Ordinary shares	Stockport
Highland Country Buses Limited	Scotland	Ordinary shares	Perth
Inter City Railways Limited (90%)	England	A shares	Stockport
Lea Interchange Bus Company Limited	England	Ordinary shares	Stockport
Lincolnshire Road Car Company Limited	England	Ordinary shares	Stockport
Midland Red (South) Limited	England	Ordinary shares	Stockport
Nicecon Limited (50%)	Scotland	Ordinary shares	Aberdeen
Planet Coach BVBA	Belgium	Ordinary shares	Brussels
PSV Claims Bureau Limited	England	Ordinary shares	Stockport
Red & White Services Limited	England	Ordinary shares	Stockport
Redstar Ticketing Limited (49%)	England	Ordinary shares	London
Ribble Motor Services Limited	England	Ordinary shares	Stockport
SCOTO Limited	England	Ordinary shares	Stockport
SCOTO US Subsidiary Limited LLC	United States	LLC Units	Wilmington
Scottish Citylink Coaches Limited (37.5%)	Scotland	Ordinary shares	Glasgow
SCUSI Limited	England	Ordinary A and B shares	Stockport
SCUSI US Subsidiary Limited LLC	United States	LLC Units	Wilmington
South East London & Kent Bus Company Limited	England	Ordinary shares	Stockport
South Yorkshire Supertram Limited	England	Ordinary shares	Stockport
Stagecoach (North West) Limited	England	Ordinary shares	Stockport
Stagecoach (South) Limited	England	Ordinary shares	Stockport
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Bus Services LLC	United Arab Emirates	Ordinary shares	Dubai
Stagecoach Devon Limited	England	Ordinary shares	Stockport
Stagecoach Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach International Limited	Scotland	Ordinary shares	Perth
Stage-coach International Services Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares	Stockport
Stagecoach Services Limited	England	Ordinary shares	Stockport
Stagecoach South Western Trains Limited	England	Ordinary shares	Stockport
Stagecoach Supertram Maintenance Limited	England	Ordinary shares	Stockport
Stagecoach Transport Holdings Limited*	Scotland	Ordinary shares	Perth
Thames Transit Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Company Limited	England	Ordinary shares	Stockport
WCT Group Holdings Limited (49%)	England	Common stock B shares	London
WCT Group Limited (49%)	England	Ordinary and Preference shares	London
WCT Sales Limited (49%)	England	Ordinary shares	London
West Coast Partnership Limited (50%)	England	Ordinary shares	Stockport
West Coast Trains Limited (49%)	England	Ordinary shares	London
Western Buses Limited	England	Ordinary shares	Stockport

* Company is directly held by Stagecoach Group Limited.

11. Subsidiary and related undertakings (continued)

All subsidiary undertakings are included in the consolidated financial statements.

Registered office	Registered office address
Perth	10 Dunkeld Road, Perth PH1 5TW
Stockport	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Glasgow	Buchanan Bus Station, Killermont Street, Glasgow G2 3NP
Aberdeen	395 King Street, Aberdeen AB24 5RP
Brussels	Koningsstraat 97, 1000 Brussels
Wilmington	1209 Orange Street, Wilmington, DE 19801
London	66 Porchester Road, London, W2 6ET
London 2	120 Southampton Row, London, England, WC1B 5AB
Dubai	Office 13/14, Ground Floor, The Iridium Building, Umm Suqeim Road, Al Barsha 1, Dubai, United Arab Emirates

12. Corporate information

Corporate Information

Company Secretary

Mike Vaux

Registered Office

10 Dunkeld Road
Perth PH1 5TW

Telephone: +44 (0) 1738 442 111
Facsimile: +44 (0) 1738 447 588

Email: info@stagecoachgroup.com

Company Number

SC100764

www.stagecoachgroup.com

Registered Office:

10 Dunkeld Road, Perth PH1 5TW, Scotland
T: 01738 442111 | F: 01738 447588 | E: info@stagecoachgroup.com

Registered in Scotland | Number: SC100764

Designed and produced by emperor
Visit us at emperor.works

Registered Office:
10 Dunkeld Road
Perth PH1 5TW
Scotland
T: 01738 442111
F: 01738 447588
E: info@stagecoachgroup.com

stagecoachgroup.com

Registered in Scotland, number: SC100764