

Stagecoach Group plc – Preliminary results for the year ended 29 April 2017

Adjusted earnings per share in line with expectations

- Adjusted earnings per share of 24.4 pence (2016: 27.7 pence) in line with our expectations
- Basic earnings per share of 5.5 pence (2016: 17.1 pence) reflect exceptional charges
- Dividend per share for the year up 4.4% to 11.9 pence (2016: 11.4 pence)
- Substantial further investment – net capital expenditure of £157.3m (2016: £187.0m)
- Our expectation of 2017/18 earnings per share is broadly unchanged

Operational developments

- Engaged in discussions with Department for Transport on contractual matters at Virgin Trains East Coast, including implications of Network Rail's reprioritised infrastructure programme
 - £84.1m exceptional charge to provide for anticipated losses under current contract, over the next two years
 - Business expected to be profitable from 2019
 - £44.8m non-cash exceptional impairment of franchise intangible asset
 - High customer satisfaction and around £525m to date in premium payments to taxpayer - average monthly payments around 30% more than made by Directly Operated Railways
- Shortlisted for new East Midlands and South Eastern rail franchises
- New joint venture with Virgin and SNCF shortlisted to bid for West Coast Partnership rail franchise
- Management action taken across our bus operations in response to period of subdued revenue trends – targeted network, pricing and management changes
- Improving revenue trends and contract opportunities in North America
- Progress with digital and technology programme, including new initiatives outside of our core operating divisions

Financial summary

	Results excluding intangible asset expenses and exceptional items ⁺		Statutory results	
	2017	2016	2017	2016
Revenue (£m)	3,941.2	3,871.1	3,941.2	3,871.1
Total operating profit (£m)	192.8	228.8	47.3	171.1
Non-operating exceptional items (£m)	-	-	4.7	(2.0)
Net finance charges (£m)	(34.1)	(41.4)	(34.1)	(64.7)
Profit before taxation (£m)	158.7	187.4	17.9	104.4
Earnings per share (pence)	24.4p	27.7p	5.5p	17.1p
Proposed final dividend per share (pence)	8.1p	7.9p	8.1p	7.9p
Full year dividend per share (pence)	11.9p	11.4p	11.9p	11.4p

⁺ see definitions in note 22 to the condensed financial statements

Commenting on the results, Chief Executive, Martin Griffiths, said:

"I am pleased to report adjusted earnings per share for the year in line with our expectations and a further increase in our dividend per share. We continue to manage the business with a focus on sustainable growth over the long-term.

"Our multi-million pound investment in greener vehicles, smart technology and skilled employees is delivering a better and easier travel experience for our customers. Bus and rail services are an important part of achieving long-term growth for our communities and regional economies. We are working closely with public sector partners to deliver the full benefits of high quality public transport for customers and our business.

"We are delivering on our promised improvement programmes for customers and our significant financial commitments to the taxpayer across our existing rail portfolio. There are a number of forthcoming rail opportunities.

"We are engaged in discussions with the Department for Transport regarding our respective contractual rights and obligations under the current Virgin Trains East Coast franchise and reflecting the reprioritisation of Network Rail's infrastructure programme. However, separately we have made financial provisions to reflect the short-term outlook for that business over the next two years, including in view of the weak growth environment affecting the UK rail sector as a whole. We are disappointed to report losses at Virgin Trains East Coast. However, I am confident that we can return the business to profitability and build on the significant benefits we have delivered to date for customers and taxpayers.

"Overall, we believe in the long-term prospects for the business and public transport remain positive."

Copies of this announcement are available on the Stagecoach Group website at <http://www.stagecoach.com/media/news-releases/2017/28-06-2017.aspx>

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Notes to Editors

Stagecoach Group

- Stagecoach Group is an international public transport group, with extensive operations in the UK, the United States and Canada. The Group employs around 40,000 people, and operates around 12,700 buses, coaches, trains and trams.
- Stagecoach is one of the UK's biggest bus and coach operators with around 8,200 buses and coaches on a network stretching from south-west England to the Highlands and Islands of Scotland. Low-cost coach service, megabus.com, operates a network of inter-city services across the UK.
- Stagecoach is a major UK rail operator, running the South West Trains, Island Line and East Midlands Trains networks. It has a 49% shareholding in Virgin Rail Group, which operates the West Coast rail franchise. It also has a 90% shareholding in Virgin Trains East Coast, which operates the East Coast rail franchise.
- Stagecoach operates the Supertram light rail network in Sheffield.
- In North America, Stagecoach operates around 2,200 buses and coaches in the United States and Canada. megabus.com links around 130 key locations in North America. Stagecoach is also involved in operating commuter, transit, contracted, charter, airport shuttle and sightseeing services.

Preliminary management report for the year ended 29 April 2017

As intimated in our 2016 Annual Report, the Group now reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 1 May 2016 to 29 April 2017. When reporting like-for-like amounts, we have normalised for differences in the number of days between the current and prior years in order to provide comparable year-on-year amounts.

Description of the business

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its ordinary shares are publicly traded and it is not under the control of any single shareholder. The Company has its primary listing on the London Stock Exchange. Throughout this document, Stagecoach Group plc is referred to as "the Company" and the group headed by it is referred to as "Stagecoach" or "the Group".

The Group is a leading international public transport group, with extensive operations in the UK, the United States and Canada. A description of each of the Group's operating divisions is given on pages 3 to 6 of its 2016 Annual Report, and an updated version will be provided in the 2017 Annual Report.

Introduction and overview of financial results

We have achieved our recent expectation of adjusted earnings per share for the year ended 29 April 2017. Although the continuing trading challenges faced by our businesses are reflected in the financial results, we continue to manage the Group with its long-term success in mind. That approach is reflected in the substantial investment in the business during the year.

Our priority remains delivering safe, high quality and value-for-money travel for our customers. We are working closely with public sector partners to deliver on our joint responsibility for improving services, while also responding to the competitive environment from other modes of travel. We have made further significant investment in measures to make travel easier and more attractive to customers, as well as ensuring we have strong and sustainable transport businesses for the long-term.

Overall we have achieved further revenue growth during the year, although the rate of growth was more subdued than in previous years. Revenue for the year was up 1.8% at £3,941.2m (2016: £3,871.1m). Total operating profit (before intangible asset expenses and exceptional items) was £192.8m (2016: £228.8m). Unadjusted operating profit for the year was £47.3m (2016: £171.1m). Earnings per share before intangible asset expenses and exceptional items ("adjusted earnings per share") were 24.4p (2016: 27.7p), with the year-on-year decrease mostly due to the previously anticipated fall in operating profit from our UK Rail Division. Basic, unadjusted earnings per share decreased to 5.5p (2016: 17.1p), principally due to exceptional charges relating to Virgin Trains East Coast that are explained below.

We are engaged in discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the current franchise agreement. While any new agreement remains subject to approvals and contract, based on our interactions with the Department for Transport, we expect to finalise new commercial terms during the next year. These will provide clarity for customers, staff, investors and other stakeholders on the future operation of the franchise, and offer value for money for taxpayers. We look forward to continuing to deliver our vision and plans for the franchise through to at least 2023. Reflecting our contractual rights and obligations and based on our ongoing discussions with the Department for Transport and the reprioritisation of Network Rail's infrastructure programme, we expect Virgin Trains East Coast to be profitable from 2019 with the potential to earn a profit margin commensurate with that of a "direct award" franchise. However, we also expect Virgin Trains East Coast to incur losses under the current contract. Accordingly, in the financial statements for the year ended 29 April 2017, we have recorded an exceptional pre-tax charge of £84.1m to reflect that the current contractual arrangements give rise to an onerous contract. The calculation of that onerous contract provision takes account of the Stagecoach parent company's £165m loan commitment to Virgin Trains East Coast, from which £57.5m was already loaned at 29 April 2017. 10% of any loan is funded by Virgin. We have also recorded a £44.8m impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge.

We have proposed a final dividend of 8.1p per share (2016: 7.9p), which, if approved, would give a total dividend per share for the year up 4.4%. We have slowed the rate of dividend growth relative to recent years to ensure that the dividend remains at a level we consider to be sustainable. The dividend per ordinary share grew significantly from 2001/2 to 2015/16 at a compound annual growth rate of over 11% and we continue to seek to grow the dividend. The final dividend would be payable on 4 October 2017 to shareholders on the register at 1 September 2017. Shareholders who wish to participate in the dividend re-investment plan for this dividend should elect to do so by 13 September 2017. Election requests should be made to the Company's registrars in good time before that date.

In our UK Bus operations, regional growth trends are mixed, reflecting the variable economic picture and retail environment in town and cities in different parts of the country. We have taken actions in response to the period of subdued revenue trends. As well as strengthening our UK Bus management team, our low fares strategy has given us scope to have a targeted approach to pricing and network changes. We are pleased at the increasing take up of our digital offerings, which benefit our customers and allow us better insight into their needs.

We have maintained our sustainable approach to bidding for bus contracts in London, with a focus on cost efficiencies and capital discipline. While this can result in changes to the scale of our contract portfolio at certain points in the bidding cycle, we believe our approach brings long-term benefits to the business.

In North America, we see some evidence of improving revenue trends in markets previously affected by sustained low fuel prices, and heightened competition from cars and airlines. Measures we have taken to match service provision with consumer demand are starting to flow through to improved yields. We are also pleased that our strategy of seeking to grow our contract work has resulted in some recent success.

We are a significant and experienced participant in the UK rail market. As well as managing our existing portfolio and investing in improvements for our customers, we are actively pursuing other opportunities which we believe can deliver long-term value. While we were disappointed not to have been awarded the new South Western franchise, there are other new franchise opportunities. We have been shortlisted for the new East Midlands and South Eastern franchises and have formed a new joint venture with Virgin and SNCF to bid for the West Coast Partnership franchise. Across the UK, revenue growth in the franchised rail market remains low by historical standards. Growth rates in 2016/17 at our inter-city businesses out-performed those at our London commuter business.

We continue to invest in our people to equip them to meet the growing expectations of customers. Our employees are fundamental to our success and the Board extends its thanks to them for their hard work and professionalism. During the year, we have strengthened the Board with the appointments of Ray O'Toole and Julie Southern, both of whom bring considerable senior management experience and an in-depth understanding of transport.

Looking ahead, we remain cautious on the short-term outlook for revenue trends and operating profit in our bus and rail markets in the UK. Nevertheless, we have not significantly changed our expectation of our 2017/18 adjusted earnings per share and there are several medium to long-term positive drivers for our businesses. These include urbanisation, population growth, and the growing demand for action on road congestion and air quality. We remain confident that we can continue to deliver long-term value to our customers and investors.

Revenue by division is summarised below:

REVENUE	2017 £m	2016 £m	Functional currency	2017 Functional currency (m)	2016 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	1,015.7	1,032.8	£	1,015.7	1,032.8	(1.7)%
megabus Europe	20.2	18.4	£	20.2	18.4	9.8%
UK Bus (London)	263.4	267.1	£	263.4	267.1	(1.4)%
North America	488.8	430.9	US\$	632.3	647.7	(2.4)%
UK Rail	2,160.7	2,129.1	£	2,160.7	2,129.1	1.5%
Intra-Group revenue	(7.6)	(7.2)	£	(7.6)	(7.2)	
Group revenue	3,941.2	3,871.1				

Operating profit by division is summarised below:

OPERATING PROFIT	2017		2016		Functional currency	2017 Functional currency (m)	2016 Functional currency (m)
	£m	% margin	£m	% margin			
Continuing Group operations							
UK Bus (regional operations)	121.1	11.9%	137.3	13.3%	£	121.1	137.3
megabus Europe	(4.3)	(21.3)%	(24.1)	(131.0)%	£	(4.3)	(24.1)
UK Bus (London)	18.4	7.0%	20.2	7.6%	£	18.4	20.2
North America	19.3	4.0%	18.9	4.4%	US\$	25.0	28.4
UK Rail	31.0	1.4%	66.7	3.1%	£	31.0	66.7
Group overheads	(14.1)		(11.9)				
Restructuring costs	(4.8)		(3.1)				
Operating profit before joint ventures, intangible asset expenses and exceptional items	166.6		204.0				
Joint ventures – share of profit/(loss) after tax							
Virgin Rail Group	24.8		24.2				
Citylink	1.4		1.4				
Twin America	-		(0.8)				
Total operating profit before intangible asset expenses and exceptional items	192.8		228.8				
Intangible asset expenses	(16.8)		(15.8)				
Exceptional items	(128.7)		(41.9)				
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	47.3		171.1				

UK Bus (regional operations)

Summary	
•	High margin public transport business – c.12% operating margin
•	High passenger satisfaction – 86% in England, 90% in Scotland
•	Further investment in digital and technology
•	Action taken in response to a period of subdued revenue trends – targeted network, pricing and management changes
•	No change in our expectation of 2017/18 operating profit

Financial performance

The financial performance of the UK Bus (regional operations) Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	1,015.7	1,032.8	(1.7)%
Like-for-like* revenue	1,008.3	1,023.7	(1.5)%
Operating profit*	121.1	137.3	(11.8)%
Operating margin	11.9%	13.3%	(140)bp

While the operating profit for the year ended 29 April 2017 of £121.1m (2016: £137.3m) fell short of the target we set at the start of the financial year, the UK Bus (regional operations) Division remains a strong business with an operating margin of almost 12%, passenger satisfaction of 86% in England and passenger satisfaction of 90% in Scotland. We have made further investment in the future of the business, in new vehicles and new technology.

The Division is organised and managed based on a number of core regional bus businesses. Across those businesses, the operating margins in the year ranged upwards from around 8%. Although the margin varies from business to business, each of them continues to deliver a satisfactory level of profitability.

Like-for-like revenue can be analysed as follows:

	2017 £m	2016 £m	Change
Commercial on and off bus revenue			
- megabus.com	23.8	24.0	(0.8)%
- other	596.6	601.0	(0.7)%
Concessionary revenue	246.6	246.2	0.2%
Commercial & concessionary revenue	867.0	871.2	(0.5)%
Tendered and school revenue	99.9	110.3	(9.4)%
Contract revenue	38.8	39.3	(1.3)%
Hires and excursions	2.6	2.9	(10.3)%
Like-for-like revenue	1,008.3	1,023.7	(1.5)%

The like-for-like revenue growth rates across our core regional bus businesses ranged from around minus 4% to plus 4% in the year, reflecting our view that the

subdued revenue trends reflect variations in local economies and traffic conditions to a greater extent than they reflect any nationwide structural changes in transport markets.

The age at which older people are entitled to free bus travel in England has been increasing in line with changes to the state pension entitlement age. Therefore, the number of older people eligible for free bus travel in England has reduced year-on-year. While that has some adverse effect on the number of concessionary passenger journeys on our bus services, it should have a positive effect on the number of commercial (i.e. where the passenger pays for his or her own travel) journeys. To understand the year-on-year revenue trends, therefore, we consider commercial and concessionary revenue together.

Like-for-like combined commercial and concessionary revenue was 0.5% lower than in the previous year, although there was some improvement in revenue trends in the second half of the year.

Total like-for-like passenger journeys fell by 1.5%, largely as a result of weak underlying local economic conditions in some parts of the UK, sustained lower fuel prices and worsening road congestion. We continually review and adjust our local bus networks to take account of changing patterns of demand. We have therefore taken action in response to the current period of subdued revenue trends.

In partnership with transport authorities, we seek to maximise the value from their funding for socially necessary services to provide as wide a set of bus networks as possible for local communities. Revenue from tendered and school services provided under contract has continued to decline, as a result of local authorities reducing spending due to budget constraints. While contract revenue also declined year-on-year, that revenue stream does vary from year to year based on the particular contract opportunities available.

Road works and worsening road congestion in many towns and cities are increasingly having a negative impact on customer use of bus services, damaging reliability and adding to operating costs. Along with other bus operators, we are increasing pressure on local authorities to take practical steps to address road congestion and invest in bus priority measures which can help improve mobility and air quality for everyone.

The movement in operating margin was built up as follows:

Operating margin – 2015/16	13.3%
Change in:	
Staff costs	(1.8)%
Fuel costs	1.5%
Gain on disposal of property	0.6%
Depreciation	(0.6)%
Other	(1.1)%
Operating margin – 2016/17	11.9%

*See definitions in note 22 to the condensed financial statements

The main changes in the operating margin shown above are:

- Staff costs have continued to rise, against a backdrop of subdued revenue.
- Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.
- Non-exceptional gains on property disposals, principally on two specific properties, were higher than in the previous year.
- Our continued investment in our vehicle fleet and technology is reflected in higher depreciation charges.
- Other costs have increased, including higher IT and digital costs as we progress our digital programme.

Networks and pricing

Providing our customers with value-for-money travel is at the heart of our strategy. Independent research by transport specialists TAS, published in February 2017, found that weekly bus travel offered by Stagecoach is almost 10% cheaper than the UK average. Stagecoach was also found to have the country's lowest average single bus fares. Our market-leading low fares, and the fact that there were no price rises on many of our tickets in the previous 12 months, has also given us flexibility to make targeted changes to pricing recently whilst remaining competitive to the private car.

We are pleased to have partnered with Special Olympics Great Britain to support its National Games in Sheffield in August 2017. We will provide daily transport for around 3,000 competitors and their sports coaches between their event accommodation and the 13 sports venues.

We are continuing to develop our megabus.com inter-city coach brand in the UK. In May 2017, we significantly expanded the network with a series of new routes across the Midlands and south-west England, offering direct links to Heathrow or Gatwick Airport from 13 towns and cities.

Enhanced customer experience

We are continuing to invest in the quality of our services, initiatives to further increase customer satisfaction, and steps to deliver better air quality for local communities. In April 2017, we announced orders worth £70m for around 340 new Euro 6 standard vehicles for 2017/18, most of which will be built in the UK and support the country's manufacturing sector. Almost half the new vehicles meet the Government's Low Carbon Emission Bus specification, while around two-thirds feature innovative stop-start technology to help improve fuel consumption and reduce emissions. All new vehicles are fitted with CCTV and USB charging points, while most will also offer free Wi-Fi. It brings our total investment in new buses and coaches in the UK to well over £1bn in the past 11 years, delivering around 7,000 new vehicles.

We have also further invested in our digital offerings. Our new Stagecoach Bus smartphone app provides customers with journey planning, next-stop information and live bus tracking, and enables people to buy and download bus tickets straight to their mobile phone. Smart ticketing is in place at all Stagecoach regional

companies with more than two million StagecoachSmart cards in circulation and more than 330 million smart transactions every year. In partnership with other bus companies, we have ensured multi-operator smart ticketing is available in all of England's city regions, benefitting around 15 million people. We are pleased to have been part of the launch of Scotland's first smartcard multi-operator initiative covering Aberdeen City and Aberdeenshire, as well as the introduction of a similar initiative in Dundee. Further multi-operator schemes are set to follow in Glasgow and Edinburgh. These projects will provide a platform to deliver multi-modal travel in partnership with transport authorities. During 2016/17, we started the roll-out of contactless payment technology across our UK regional bus services. This technology allows passengers to pay for their travel with contactless credit or debit card, Apple Pay and Android Pay.

The most recent independent research by Transport Focus shows that our customers continue to have high levels of satisfaction with Stagecoach services, as high as 93% in some areas, and we have again been rated as offering the best value for money of any major bus company.

Local partnerships and devolved arrangements

One of the Division's strengths is the breadth of partnership working with local authorities who understand the joint responsibility we share for improving bus services for passengers. We are pleased to have signed a new partnership agreement that will deliver significant investment in improved bus services in Merseyside over the next five years. The Liverpool City Region Bus Alliance, a partnership with Merseytravel and Arriva, will deliver more than £25m worth of investment in bus services in the first year to boost services for existing passengers and attract more people to bus travel. Around 80% of public transport journeys in the Liverpool City Region are made by bus, with overall customer satisfaction at 89%. The partnership will provide a more modern bus fleet, improved smartcard ticketing, Wi-Fi and USB charging on all new buses, joint marketing campaigns, improved bus links, and clearly defined targets around punctuality and passenger satisfaction. This builds on existing strong partnerships in several other city regions and local authority areas around the country. We are developing similar partnership proposals in conjunction with fellow bus operators for other key regions.

New mayors have been appointed in a number of areas where we operate local bus services. We look forward to continuing to engage with the newly appointed mayors and local authorities in these regions and demonstrating how a partnership between bus operators and the public sector offers the best and most cost effective route to deliver on their aspirations for stronger and smarter local bus networks.

The Bus Services Act came into effect in April 2017 and makes some amendments to the framework for the delivery of bus services in England outside of London. We are pleased that this enabling legislation has retained a significant focus on partnerships and that some proposals introduced during its passage through Parliament which would not have benefitted either customers or taxpayers have been reversed. The important associated statutory instruments and guidance linked to the Act are not yet finalised and we are continuing to engage constructively with key stakeholders. Our focus is to ensure that there are proper protections for passengers, taxpayers and bus operators, including a robust and transparent assessment process for evaluating any proposed franchising of bus services. A National Transport Bill is expected to be introduced in Scotland in the near future. We are engaging with key stakeholders on what this may mean for our bus operations in Scotland and will continue to monitor developments.

Outlook

We continue to expect subdued revenue trends from our local bus services in the short-term. We have implemented targeted mileage reductions and selective fare rises, as we make changes to our services that we consider will support the long-term success of the business. Our costs remain well controlled, although the reduction in fuel costs in 2017/18 is anticipated to be more modest than that for the year ended 29 April 2017.

We have not significantly changed our expectation of the Division's operating profit for the year ending 28 April 2018 since our last update on trading.

megabus Europe

Summary
- Exit from megabus Europe business completed - No further losses expected

Financial performance

The financial performance of the megabus Europe Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue and like-for-like revenue	20.2	18.4	9.8%
Operating loss	(4.3)	(24.1)	(82.2)%
Operating margin	(21.3)%	(131.0)%	10,970bp

The Group completed the sale of the retailing part of the megabus Europe business to FlixBus on 1 July 2016. The consideration was satisfied by the issue of a loan note and that loan note was settled in full in December 2016. The Group also agreed to transfer a number of vehicles to FlixBus, or a nominee of FlixBus. These transfers are now largely completed. After taking account of costs and losses related to the sale, we have reported a pre-tax exceptional loss on the disposal of the business of £6.9m. The exceptional loss has increased from the loss of £2.8m reported for the half-year ended 29 October 2016, mainly reflecting additional

costs relating to the Group's exit from its operations in France.

The operating loss of £4.3m shown above represents the loss incurred prior to 1 July 2016, partly offset by a small profit from the operation from 1 July 2016 of an international network of coach services between the UK and mainland Europe. These services were operated by us under contract to FlixBus, where the revenue from passengers flowed to FlixBus and FlixBus paid us for the operation of the coach services. These services have now ceased operating. We have also ceased operating the other coach services we previously ran in mainland Europe prior to 1 July 2016. Losses on all of these services since 1 July 2016 and costs associated with terminating services, where applicable, have been accounted for as part of the exceptional loss on the sale of the retail business.

No further profits or losses are currently expected in respect of megabus Europe.

UK Bus (London)

Summary
- Significant value delivered since 2010 acquisition - London Bus operator of the year 2017 - Pressure on wage rates and competition for new contracts expected to result in lower operating profit in short-term - Significant value in freehold property portfolio

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	263.4	267.1	(1.4)%
Like-for-like revenue	263.4	265.6	(0.8)%
Operating profit	18.4	20.2	(8.9)%
Operating margin	7.0%	7.6%	(60)bp

We have generated significant value from our acquisition of the London bus business in 2010, when we paid around £60m to acquire the business. In the last three years alone, the business has delivered over £60m of operating profit.

The value of the business is supported by its freehold property portfolio. Property in London is expensive and our properties provide a strong base for the continuing operation of our bus services in East and South East London. We believe the properties would also realise significant value if they were to be sold to third parties.

As expected, like-for-like revenue was slightly down at 0.8% below the prior year. That reflected a net reduction in vehicle miles operated resulting from contract tenders concluded in the prior year. Revenue per vehicle mile increased 1.4%.

The movement in operating margin was built up as follows:

Operating margin – 2015/16	7.6%
Change in:	
Insurance and claims costs	0.7%
Fuel costs	0.6%
Staff costs	(0.3)%
Operating lease costs	(0.4)%
Other	(1.2)%
Operating margin – 2016/17	7.0%

Insurance and claims costs have reduced due to lower costs on the self-insured portion of claims.

Although the Division's fuel costs have reduced year-on-year, there is an offsetting effect from the impact of lower fuel costs on the indexation of contract revenue. Staff and other costs have continued to rise as a proportion of revenue.

We have built a sustainable business in the contracted London bus market through a measured approach to bidding, a focus on high operational quality and a close control of costs. Our East London bus business was named Bus Operator of the Year at the 2017 London Transport Awards in recognition of high levels of reliability, driving standards and customer satisfaction.

Road works and traffic congestion are a continuing challenge for operators in the London bus market. Engagement is ongoing with both Transport for London and the London Assembly on these issues. We believe congestion is a major factor in the decline in bus passenger volumes, which are now falling at a faster rate in the capital than in the rest of Great Britain. While London bus operators do not take passenger volume risk in the short-term, a combination of declining revenues and moves by central government to make the London bus network self-financing means that Transport for London's current business plan envisages no significant growth in London bus mileage for the next five years.

Outlook

We currently expect our UK Bus (London) operating profit to reduce in the year ending 28 April 2018. That reflects two main factors. Firstly, to ensure we recruit and retain sufficient bus drivers to continue to reliably provide the contracted bus services, we plan to increase our starting rates of pay for bus drivers reflecting market conditions in London. Secondly, we are seeing heightened competition for contracts in some parts of our London operations resulting in us losing some contracts. While this means that the 2017/18 operating margin is likely to be below our long-term aspiration of at least 7%, we plan to continue to bid for new contract opportunities at prices we believe would deliver appropriate rates of return.

North America

Summary	
•	Actions taken to adjust megabus.com networks to reflect passenger demand
•	New contract wins
•	Introduction of low-cost digital offerings for customers
•	Targeting growth in operating profit in 2017/18

Financial performance

The financial performance of the North America Division for the year ended 29 April 2017 is summarised below:

	2017 US\$m	2016 US\$m	Change
Revenue	632.3	647.7	(2.4)%
Like-for-like revenue	632.6	646.2	(2.1)%
Operating profit	25.0	28.4	(12.0)%
Operating margin	4.0%	4.4%	(40)bp

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

	2017 US\$m	2016 US\$m	Change
megabus.com	193.0	202.9	(4.9)%
Scheduled service			
– Commercial revenue	158.1	159.5	(0.9)%
– Support from local authorities	20.5	19.0	7.9%
Charter	119.0	121.7	(2.2)%
Sightseeing and tour	23.8	27.9	(14.7)%
Contract services	118.2	115.2	2.6%
Like-for-like revenue	632.6	646.2	(2.1)%

The market in North America has been challenging in recent years due to the effects of sustained lower fuel prices, which have heightened car and air competition. However, trading at our megabus.com inter-city coach business shows some signs of improvement (with the rate of revenue decline further moderating and revenue per mile for the year up 3.2%) including as a result of the positive action we have taken to match our services with changes in demand from customers. As well as having taken proactive steps to reduce the mileage operated by megabus.com in North America, we are making targeted use of smaller vehicles. In addition, we have moved the core operating bases of our Midwest operation from Chicago to Wisconsin and Ohio to deliver a more efficient service. Marketing activity to promote the megabus.com brand in North America and to generate new customers is particularly focused on digital channels. We remain well positioned to quickly respond to further recovery in demand.

Trading at the other businesses in North America remains in line with our expectations. While revenue from the more leisure-dependent activities (charter, sightseeing and tour) reduced during the year, we saw better trends in our scheduled service and contract revenues. The fall in like-for-like revenue from sightseeing and tours largely reflects reductions in mileage at our sightseeing business in California. Contract revenue growth of 2.6% includes contract wins and we are currently in discussions regarding several further opportunities to secure new contract business.

As in the UK, the North America Division is expanding its digital initiatives. Given the smaller size of the North America business relative to our UK business, a number of our digital initiatives in North America have been focused on ideas that are relatively low cost to the business but which are valued by customers. As well as offering a link to buy travel on some of our current commuter services to and from New York City, our new www.commuterwiz.com website also allows commuters to provide us with details of their commutes to enable us to develop new services for journeys not already well served by public transport. Our airport express services have increased their online sales significantly following the launch of more mobile-friendly websites. We currently have a small group of staff working on how we can further improve our digital offerings, marketing, branding and overall customer service at our airport express services. A new www.stewartairportexpress.com website has recently been launched to promote and sell our new coach services between Stewart International Airport and New York City, linking the City to new low-cost international flights from Norwegian Air.

The movement in the operating margin was built up as follows:

Operating margin – 2015/16	4.4%
Change in:	
Fuel costs	2.3%
Insurance and claim costs	(1.1)%
Staff costs	(1.0)%
Other	(0.6)%
Operating margin – 2016/17	4.0%

The main changes in the operating margin shown above are:

- Fuel costs have reduced by around US\$16m, reflecting changes in vehicle miles operated, market fuel prices and our fuel hedging programme.
- The change in insurance and claims costs reflects our latest assessment of the required provision for claims.
- Overall staff costs are in line with the previous year but have risen as a proportion of our lower revenue base.

Outlook

As oil prices have stabilised, the trend in our megabus.com revenue per vehicle mile has improved. If these revenue trends continue to recover, we have the fleet capacity and operational plans to increase our overall vehicle mileage.

We also see growth opportunities for the Division in new contract wins but will remain disciplined in ensuring that our contract bids are designed to deliver a satisfactory rate of return on capital.

Given the actions we have taken to match our services with customer demand, and new contract opportunities, we are targeting growth in the Division's operating profit in 2017/18.

UK Rail

Summary	
•	Engaged in discussions with Department for Transport on contractual matters at Virgin Trains East Coast, including implications of Network Rail's reprioritised infrastructure programme
•	Onerous contract provision at Virgin Trains East Coast, reflecting expected losses in the near-term, but business expected to be profitable from 2019
•	Rate of Stagecoach UK Rail revenue growth ahead of sector
•	South West Trains franchise due to end in August 2017
•	Shortlisted for new East Midlands and South Eastern franchises
•	Joint venture with Virgin and SNCF shortlisted to bid for new West Coast Partnership franchise
•	Shortlisted for involvement in California High Speed Rail project

Financial performance

The financial performance of the UK Rail Division (excluding exceptional items) for the year ended 29 April 2017 is summarised below:

	2017 £m	2016 £m	Change
Revenue	2,160.7	2,129.1	1.5%
Like-for-like revenue	2,160.7	2,118.0	2.0%
Operating profit	31.0	66.7	(53.5)%
Operating margin	1.4%	3.1%	(170)bp

As expected, profit at the UK Rail Division has declined year-on-year, principally due to our operations at Virgin Trains East Coast and South West Trains, where passenger revenue growth was insufficient to cover the combination of increased premia payments to Government and movements in operating costs.

Revenue growth at our UK Rail Division, and for the UK rail sector as a whole, has been lower over the last eighteen months or so than was generally seen in preceding years. Like-for-like revenue growth in our UK Rail Division was 2.0%. After normalising for differences in the timing of events between years and for one-off revenue effects, we estimate that underlying revenue growth was around 2.4%. This compares favourably to our estimate of 2.0% normalised revenue growth for UK franchised train operators in general over that period. We believe the reduced rate of growth over the last eighteen months or so reflects a number of factors including the following:

- Poor Network Rail operating performance impacting some train companies within our UK Rail Division,

although Virgin Rail Group's West Coast franchise is seeing notable improvements in infrastructure performance.

- Increased car competition as a result of historically low fuel prices.
- Continued aggressive competition from airlines in light of lower fuel prices.
- Slower UK GDP growth and weakened consumer and business confidence, including uncertainty among consumers and businesses following the UK's decision to leave the European Union.
- The effect of changing working patterns on commuter services.

Virgin Trains East Coast – contractual arrangements

We are engaged in discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise. This takes account of our respective rights and obligations under the existing franchise agreement, including in respect of the reprioritisation of Network Rail's infrastructure programme. Accordingly, we expect Virgin Trains East Coast to be profitable from 2019 under new commercial terms.

Virgin Trains East Coast has already delivered extensive promised improvements for passengers and completed a significant part of its overall £140m investment programme for the franchise to create a more personalised travel experience for customers. This has included a complete upgrade of the existing train fleet, new services and extra capacity, improved fares and ticketing, as well as harnessing new technology to deliver better information, on-board service and station facilities. As a result, Virgin Trains East Coast has amongst the highest customer satisfaction of any franchised rail operator. At the same time, Virgin Trains East Coast has continued to meet its contractual and financial obligations, including delivering around £525m to 29 April 2017 in premium payments to the taxpayer. This is around 30% more than the average monthly payments made by Directly Operated Railways when it ran the East Coast route. Trading, however, at Virgin Trains East Coast has been challenging for some time, for the reasons we have set out in previous reports. Revenue and profit at Virgin Trains East Coast has been below the levels anticipated in our 2014 bid for the franchise, albeit the shortfalls are primarily due to macroeconomic and other external factors beyond its control. Revenue growth for the UK rail sector as a whole has also been adversely affected by macroeconomic and other external factors. Recently, the business has incurred operating losses. While revenue trends showed some improvement in the second half of the year to 29 April 2017, revenue is not growing as strongly as we anticipated and most recently revenue has been adversely affected by increased terrorism concerns and political uncertainty. In addition, the amounts payable to and receivable from Network Rail in respect of operating performance remain volatile and uncertain.

Our bid for the franchise reflected forecast financial benefits of new rolling stock and enhanced railway infrastructure. While we and the Department for Transport continue to expect improved rolling stock and infrastructure, the scope and timing of those have been

reprioritised such that they are not consistent with what was assumed in our franchise bid and then contracted. Our contractual position is that the financial risks related to changes in the scope and timing of new rolling stock and infrastructure rest with the Department for Transport.

We expect Virgin Trains East Coast to incur losses under the current contract but taking account of our contractual rights and obligations, we would expect the franchise to be profitable from 2019. Accordingly, in the financial statements for the year ended 29 April 2017, we have recorded an exceptional pre-tax charge of £84.1m to reflect that the current contractual arrangements give rise to an onerous contract. We have also recorded a £44.8m impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge. The Stagecoach parent company is committed to loan up to £165m to Virgin Trains East Coast, of which 10% is to be funded by Virgin. As at 29 April 2017, the loan to Virgin Trains East Coast was £57.5m.

Virgin Trains East Coast – revenue, investment and customer satisfaction

As previously highlighted, revenue at Virgin Trains East Coast remains below our original plans for the franchise, with like-for-like revenue growth in the year of 3.2%. However, customers are responding well to our improvements and we are yet to deliver some of the major elements of our planned investment programme to transform customer journeys and increase revenue.

We have now completed a £40m investment in upgrading the existing train fleet, which has seen nearly 25,000 new seats installed. Customers can also now benefit from 42 additional services per week between Edinburgh and London, providing 22,000 extra seats. Next year should see the introduction of completely new Azuma trains being built in the UK by Hitachi. We are continuing to innovate to make travel easier and more enjoyable for our customers. In an industry first, Virgin Trains East Coast extended its booking horizon from the industry standard of three months to six months in advance for weekday tickets and has recently extended this to include weekends. We have launched a global first in rail travel technology with our new Explorer app which helps customers navigate their way around stations to locate friends, shops and platforms. The app also enables real time automatic sign translation for international customers to read signs in their own language. On board, we have had a positive response from customers to our "Beam" entertainment system, and we have introduced free WiFi for those customers that book direct with Virgin Trains East Coast. We have also transformed the dining and shopping experience for customers with a revamped menu and food bar packed with new products. A cross-Virgin Trains brand advertising campaign has been launched and Virgin Trains has also expanded its customer contact centre in Newcastle.

Our investment programme and marketing initiatives have had a positive impact on passenger volumes and customer satisfaction. There has been an increase in the number of passengers choosing train over plane, the result of a deliberate strategy by Virgin to win market

share on the UK's busiest domestic air route. Customers consistently rate Virgin Trains as one of the top long-distance rail franchise operators in the National Rail Passenger Survey ("NRPS") commissioned by industry watchdog, Transport Focus. Figures for the autumn 2016 survey show 91% satisfaction, which is the best autumn result on the East Coast route in three years and puts Virgin Trains East Coast top of the franchised long-distance rail operators.

East Midlands Trains

Like-for-like revenue at East Midlands Trains grew 3.3% in the year. The business is delivering a strong financial performance and a share of that strong performance is being paid to the Department for Transport under the franchise "profit share" arrangement.

The current East Midlands Trains franchise is contracted to run until 4 March 2018. The Department for Transport has the option to extend the contract by up to one year on commercial terms that have been agreed and has already indicated its intention to extend the franchise to November 2018.

South West Trains

South West Trains' like-for-like revenue grew by 0.6% in the year. It currently receives revenue support from the Department for Transport such that any future shortfall in revenue versus our current expectation would be 80% offset by increased revenue support income from the Department.

We were disappointed to hear in March 2017 that we had been unsuccessful in our bid to operate the next South Western franchise. The current South West Trains franchise is due to expire in August 2017. In the final months of our franchise, we are continuing to work hard to deliver a professional service to our customers, meet our obligations and ensure a smooth transition to the new operator. Satisfaction amongst South West Trains passengers is continuing to increase, with the latest independent research by Transport Focus showing that overall satisfaction has risen to 83%, up from 81% in autumn 2015. Overall satisfaction with South West Trains services was higher than both the national and London & South East sector average.

We are proud to have operated the network under the South West Trains brand for more than 20 years. Over that time, we have delivered significant improvements for our customers. We believe we submitted a strong bid for the new South Western franchise. It offered a transformation in the travel experience for our customers, more investment to help the railway support the communities and economy of the south-west, as well as a substantial and deliverable financial benefit to taxpayers to help fund better public services.

We have received feedback from the Department for Transport on the various elements of our bid. Together with our own review of our bid, this will inform our approach to bids for other new franchises.

We are most grateful to all of our employees and partners who have been involved in delivering our vision for the railway in the south-west over the past two decades as well as those who contributed to our strong

bid for the new franchise. We know they share our disappointment in the result.

Franchising update

We are pleased that the Group is one of three bidders to have been shortlisted by the Department for Transport for the new East Midlands rail franchise. The new franchise, which is likely to be for between 7 and 15 years, is due to start in 2018 when the current East Midlands Trains contract comes to an end.

We have also been shortlisted to bid for the new South Eastern franchise. The franchise, which runs from 2018, incorporates rail services in south east London, Kent, the Medway towns and East Sussex.

In April 2017, we confirmed that Stagecoach Group and Virgin Group had joined forces with French high speed operator, SNCF, to bid for the West Coast Partnership rail franchise. This creates a powerful world-class partnership, bringing together the team which has transformed inter-city rail travel in the UK with the most recognised and capable high speed operator in Europe. Collectively, we have been shortlisted to bid for the new franchise, which is expected to run from 2019 and include current West Coast services and the first three to five years of operation of High Speed 2 services. Stagecoach has a 50% share in the bid vehicle, West Coast Partnership Limited, with a 30% share held by SNCF and the remaining 20% owned by Virgin. It is envisaged that services under a successful bid would carry the Virgin brand.

We take some encouragement from how the UK franchising model is developing. The parent company of a franchised train operator is required to commit loan facilities, which can be drawn down by the train operator where necessary to meet contractual obligations or funding needs. We are encouraged by early signs of moderation in the amount of such loan commitments. We are also encouraged to hear that the Department for Transport recognises that the risk sharing arrangements on franchises awarded in recent years leaves train operators too financially exposed to risks outside of their control – in that regard, we welcome moves towards something more akin to a full sharing of revenue risk rather than just risk sharing arrangements based on specific macroeconomic measures.

We remain, however, concerned that the Department may continue to expect train operators to bear significant financial risks in relation to the availability of the train paths required to operate the train services that an operator planned in its franchise bid and/or in relation to Network Rail's delivery of infrastructure improvements. Both of these risks are affected by events outside of a train operator's control yet can have substantial financial consequences. We will continue to share our views and ideas on the UK franchising model with the Department for Transport.

We are one of five bidders shortlisted for an early train operator ("ETO") contract for a new high-speed railway being constructed in California. The ETO will provide advice during the design and construction of the new rail system and would also be expected to initially run the train service. We look forward to further understanding

the objectives and expectations of the high-speed rail authority with regards to the project.

Outlook

Our UK Rail operating profit for 2017/18 will reflect the end of our South West Trains franchise with an expected full-year profit at East Midlands Trains being partly offset by the costs of bidding for new opportunities. We continue with our emphasis on growing revenue, controlling costs and managing contracts.

Revenue has been weaker in recent weeks reflecting the effects on demand of the dreadful terrorist attacks in Manchester and London, as well as political uncertainty related to the General Election and the UK's planned exit from the European Union. This in turn increases uncertainty in forecasting revenue for the weeks and months ahead.

We will continue to consider rail bidding opportunities where we believe we can deliver benefits to passengers and add value for our investors. Our record of winning franchises, actively managing the contracts during the life of franchises and operational excellence leaves us well placed to consider contract opportunities, not just in the UK but also overseas.

Joint Ventures Virgin Rail Group

Summary	
•	Profit growth, record punctuality and high customer satisfaction
•	Revenue growth ahead of sector average
•	Opportunity for further "Direct Award" franchise through to March 2019

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 29 April 2017 is summarised below:

	2017	2016
49% share	£m	£m
Revenue	556.8	525.3
Operating profit	31.5	32.6
Net finance income	0.5	0.7
Taxation	(7.2)	(9.1)
Profit after tax	24.8	24.2
Operating margin	5.7%	6.2%

Our share of Virgin Rail Group's profit after tax increased from £24.2m in 2015/16 to £24.8m in 2016/17. The business continues to deliver strong profit margins for a franchised UK rail operator, notwithstanding the slowing of UK rail sector revenue growth. Virgin Rail Group's West Coast rail franchise continues to perform well, with revenue growth higher than the industry average, and that is benefitting taxpayers through profit share payments by the business to the UK Department for Transport. The franchise, which is contracted to run until March 2018, is continuing to perform ahead of our expectations at the time the contract was agreed. The Government has confirmed that it plans a short-term franchise of

approximately 12 months to cover the period from the end of the current West Coast franchise in March 2018 until the planned start of the West Coast Partnership franchise in April 2019. Virgin Rail Group is in discussions with the Department for Transport with a view to agreeing commercial terms to that end.

In March 2017, Virgin Trains marked 20 years of operating services on the West Coast route. Over the past two decades, Virgin Trains has revolutionised UK train travel with the introduction of new trains and increased frequency along the route, as well as setting the industry benchmark for customer service. Latest National Rail Passenger Survey results showed 90% customer satisfaction on West Coast, amongst the highest in the UK franchised rail sector. Passenger growth and satisfaction have also coincided with punctuality reaching its highest ever level since privatisation, as a result of strong partnership working with Network Rail.

During 2016/17, Virgin Trains West Coast has delivered further improvements for customers. It is the first train company to automatically compensate customers who book advance tickets through virgintrains.com or its app if their train service is delayed. In partnership with thetrainline.com, Virgin Trains has also become the first operator to give customers the option to add train tickets straight to their Apple Wallet. Recently, the company unveiled its vision for the station of the future, with a radical new £1m-plus open plan design for Birmingham International's ticket office. It features more user friendly information screens, improved ticket machines and touch screen information points. Customers can access roving staff equipped with tablets, wireless charging for devices, cashless payment at car park barriers to reduce queues and free station Wi-Fi.

Twin America

Financial performance

In February 2017, the Group completed the sale of its interest in the Twin America LLC joint venture. Twin America was a joint venture between Stagecoach North America and City Sights. It principally operated sightseeing bus services in New York City. Stagecoach North America, which held 50 per cent of the voting rights and 60 per cent of the economic rights of the joint venture, sold its interest to City Sights. We have recognised an exceptional gain of £11.6m in respect of the disposal. Our share of Twin America's profit for the year ended 29 April 2017 is not material. In the year ended 30 April 2016, we determined that the carrying value of the Group's investment in Twin America was impaired and an impairment loss was recorded to reduce the carrying value to nil as at 30 April 2016.

Litigation

Related to the Twin America litigation involving the Group's North America Division, which we have set out in previous reports and which as noted in our annual report for the year ended 30 April 2016 was settled, the Department of Justice investigated the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Group co-operated with the investigation, which is no longer ongoing, and we do not anticipate any further action.

Other business

We see both structural risks and opportunities from advancements in areas such as autonomous vehicles, electric vehicles, digital transport information and retail channels, the sharing economy such as digitally enabled car sharing and different operating models for transport. We continue to monitor developments in and participate in trials in these areas.

In some cases, our participation in these areas sit outside our existing, core operating divisions. That is because we believe we can better harness multi-modal opportunities and explore new areas of transport outwith the day-to-day management of the core divisions.

For example, earlier in 2017, we launched the TravelHero app. The TravelHero concept is to provide a customer the opportunity to select from multiple travel modes and/or operators for his or her journey. The app allows customers to plan, book, pay for and make travel. We are currently trialling it in Canterbury, East Kent where it can be used to plan and purchase travel by buses and taxis.

Also, earlier this year, we invested in Global Travel Ventures and now hold around 20% of the equity in that company. Global Travel Ventures builds clever technology to create better deals for travellers. In January 2017, it launched the first independent rail ticketing website, www.ticketclever.com, in Great Britain for five years and the UK's first post-pay contactless bus ticketing system outside London. www.ticketclever.com uses Global Travel Venture's in-house cloud technology to offer more cheap train journeys than anywhere else, saving up to 60% compared with station kiosks or other websites for on-the-day purchases.

Pre-exceptional EBITDA, depreciation and intangible asset expenses

Earnings from continuing operations before interest, taxation, depreciation, intangible asset expenses and exceptional items (pre-exceptional EBITDA) amounted to £345.4m (2016: £370.0m). Pre-exceptional EBITDA can be reconciled to the consolidated financial statements as follows:

	2017 £m	2016 £m
Total operating profit before intangible asset expenses and exceptional items	192.8	228.8
Depreciation	145.5	132.2
Add back joint venture finance income & tax	7.1	9.0
Pre-exceptional EBITDA	345.4	370.0

The income statement charge for regular intangible asset amortisation increased from £15.8m to £16.8m, principally due to higher software amortisation associated with investment in technology.

Depreciation increased by £13.3m reflecting continued capital investment and the effect of foreign exchange movements on the sterling amount of depreciation for the North America Division.

Exceptional items

The following exceptional items were recognised in the year ended 29 April 2017:

- A pre-tax exceptional loss of £3.2m was recognised in respect of an impairment of surplus vehicles following the withdrawal of the megabus Sleeper services in the UK.
- A pre-tax exceptional gain of £7.1m was recognised in respect of the disposal of a depot within the UK Bus (regional operations) Division. We do not ordinarily show gains and losses on the disposals of land and buildings as exceptional items. However, we consider that this gain arising from the sale of a single UK Bus depot is sufficiently large that it should be presented as an exceptional gain to allow a proper understanding of the Group's financial performance.
- As explained in the earlier section headed "megabus Europe", a pre-tax exceptional loss of £6.9m was recognised in relation to the sale of the retailing part of the megabus Europe business.
- A pre-tax exceptional loss of £3.7m was recorded in relation to the megabus.com Midwest restructuring of operations, explained in the earlier section headed "North America".
- As explained in the earlier section headed "UK Rail", an exceptional pre-tax expense of £84.1m has been recorded in respect of an onerous contract provision for Virgin Trains East Coast and an exceptional impairment charge of £44.8m has also been recognised in respect of Virgin Trains East Coast intangible assets.
- As explained in the earlier section headed "Twin America", a pre-tax exceptional gain of £11.6m was recognised in respect of the disposal of the Group's interest in Twin America.

The net effect of exceptional items was a pre-tax loss of £124.0m (2016: £67.2m).

Net finance costs

Net finance costs, excluding exceptional items, for the year ended 29 April 2017 were £34.1m (2016: £41.4m) and can be further analysed as follows:

	2017 £m	2016 £m
Finance costs, excluding exceptional items		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	4.7	5.9
Hire purchase and finance lease interest payable	1.7	2.1
Interest payable and other finance charges on bonds	22.0	25.9
Unwinding of discount on provisions	3.5	3.9
Interest charge on defined benefit pension schemes	3.7	5.3
	35.6	43.1
Finance income		
Interest receivable on cash	(1.2)	(1.4)
Effect of interest rate swaps	(0.3)	(0.3)
	(1.5)	(1.7)
Net finance costs, excluding exceptional items	34.1	41.4

The fall in net finance costs includes the benefit of the full-year effect of our 2015 bond re-financing.

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 2017, excluding exceptional items, was 17.5% (2016: 18.9%).

The tax charge can be analysed as follows:

	Pre-tax profit £m	Tax £m	Rate %
Excluding intangible asset expenses and exceptional items	166.3	(28.3)	17.0%
Intangible asset expenses	(16.8)	2.1	12.5%
	149.5	(26.2)	17.5%
Exceptional items	(124.0)	18.8	15.2%
	25.5	(7.4)	29.0%
Reclassify joint venture taxation for reporting purposes	(7.6)	7.6	
Reported in income statement	17.9	0.2	(1.1)%

The effective tax rate, excluding exceptional items, of 17.5% is lower than the 19.9% rate of UK corporation tax for the year. The difference is principally due to the utilisation of previously unrecognised historic tax losses.

The cash tax paid in the year of £21.6m compares to a tax credit for Group companies of £0.2m shown above. The largest difference relates to the £18.8m tax credit recognised on exceptional items that has yet to affect cash tax.

Where there is uncertainty regarding the amount of tax that will ultimately be payable, the Group generally recognises a liability for the maximum amount it expects will be payable or an asset for the minimum amount it expects to receive. In respect of periods up to 29 April 2017, the Group therefore considers there to be a low risk that it will be required to pay significantly more tax than is provided for in the consolidated financial statements. The areas where the Group sees uncertainty around the amount of tax that is payable relate to the financing of and transactions with overseas operations, losses incurred by overseas operations in the ordinary course of business, and overseas tax audits.

Taking account of the planned further reduction in the rates of UK corporate tax rate, and assuming that the composition of the Group remains broadly unchanged, we consider the Group's sustainable, effective tax rate to be in the range of 18% to 23%.

Fuel costs

The Group's operations as at 29 April 2017 consume approximately 411m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending April:	2018	2019	2020	2021
Total Group	81%	70%	48%	1%

The Group has no fuel hedges in place for periods beyond April 2021.

Cash flows and net debt

Net debt (as analysed in note 17 to the condensed financial statements) has, as expected, increased from 30 April 2016, reflecting additional investment in our businesses, movements in foreign exchange rates causing an increase in the sterling value of our US dollar debt, dividend payments and UK Rail working capital timing differences, partly offset by continued strong cash generation from operations.

Net cash from operating activities before tax for the year ended 29 April 2017 was £253.7m (2016: £301.9m) and can be further analysed as follows:

	2017 £m	2016 £m
EBITDA of Group companies before exceptional items	312.1	336.2
Cash effect of exceptional items	(3.7)	-
(Gain)/loss on disposal of property, plant and equipment	(4.3)	0.5
Equity-settled share based payment expense	1.9	2.2
Working capital movements	(53.7)	(35.2)
Net interest paid	(26.7)	(30.6)
Dividends from joint ventures	28.1	28.8
Net cash flows from operating activities before taxation	253.7	301.9

Net cash from operating activities before tax was £253.7m (2016: £301.9m) and after tax was £232.1m (2016: £278.9m). Net cash outflows from investing activities were £100.7m (2016: £178.9m). Net cash used in financing activities was £203.7m (2016: £114.8m).

The net impact of purchases of property, plant and equipment for the year on net debt was £203.3m (2016: £213.5m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £155.5m (2016: £191.2m) and new hire purchase and finance lease debt of £47.8m (2016: £22.3m). In addition, £46.0m (2016: £26.5m) cash was received from disposals of property, plant and equipment.

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

	2017 £m	2016 £m
UK Bus (regional operations)	97.4	118.5
megabus Europe	-	7.0
UK Bus (London)	1.6	2.8
North America	37.4	45.6
UK Rail	20.9	13.1
	157.3	187.0

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

Year to 29 April 2017	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	46.6	265.5	312.1
Cash effect of exceptional items	-	(3.7)	(3.7)
(Loss)/gain on disposal of property, plant and equipment	0.5	(4.8)	(4.3)
Equity-settled share based payment expense	0.7	1.2	1.9
Working capital movements	(42.1)	(11.6)	(53.7)
Net interest paid	(1.7)	(25.0)	(26.7)
Dividends from joint ventures	-	28.1	28.1
Net cash flows from operating activities before taxation	4.0	249.7	253.7
Inter-company movements	(29.2)	29.2	-
Tax paid	(12.7)	(8.9)	(21.6)
Investing activities	(25.8)	(122.7)	(148.5)
Financing activities	-	(70.2)	(70.2)
Foreign exchange/other	-	(23.5)	(23.5)
Movement in net debt	(63.7)	53.6	(10.1)
Opening net debt	283.1	(682.4)	(399.3)
Closing net debt	219.4	(628.8)	(409.4)

The cash held by the train operating companies at any point in time is affected by the timing of rail industry cash flows, which can be individually substantial. The working capital cash outflow shown above principally arises from funding received for specific projects in prior years (within the overall franchise payments made by our train operating companies), in advance of the related expenditure being made in the year to 29 April 2017.

As explained earlier, the current South West Trains franchise is due to expire in August 2017. We anticipate that, at around that time, certain assets and liabilities of the Group will transfer to the operator of the next South West Trains franchise. We currently anticipate that the net impact of the transfer on our consolidated net assets will be immaterial. However, taking account of the net cash that will transfer, we would forecast that the expiry of the current South West Trains franchise will result (all other things being equal) in an increase in our consolidated net debt of approximately £100m in 2017/18. As at 29 April 2017, £68.5m of cash held within South West Trains is included in our consolidated net debt and the credit rating agencies already exclude such cash from their own adjusted leverage figures.

Financial position and liquidity

The Group has maintained investment grade credit ratings and appropriate headroom under its debt facilities.

During the year ended 29 April 2017, we extended the duration of £480m of our committed, bi-lateral core bank facilities by a further year to October 2021.

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

The Group's financial position is evidenced by:

- The ratio of net debt at 29 April 2017 to pre-exceptional EBITDA for the year ended 29 April 2017 was 1.2 times (2016: 1.1 times).
- Pre-exceptional EBITDA for the year ended 29 April 2017 was 10.3 times (2016: 9.0 times) pre-exceptional net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £333.8m at 29 April 2017 (2016: £281.2m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.

Net assets

Net assets at 29 April 2017 were £68.5m (2016: £177.8m).

The decrease is after £67.1m of dividend payments and is principally due to the actuarial losses on defined benefit pension schemes and Virgin Trains East Coast exceptional items, partially mitigated by the solid underlying financial results for the year ended 29 April 2017 and fair value gains on cash flow hedges.

Retirement benefits

The reported net assets of £68.5m (2016: £177.8m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £232.5m (2016: £96.7m), and associated deferred tax assets of £44.4m (2016: £21.0m).

The Group recognised net pre-tax actuarial losses of £127.6m in the year ended 29 April 2017 (2016: gains of £68.5m) on Group defined benefit pension schemes.

The discount rate used to determine pension scheme liabilities is determined with reference to AA-rated bond yields. As AA-rated bond yields have generally decreased in the year ended 29 April 2017, the forecast future cash flows to settle pension scheme liabilities are now discounted at a lower rate. This is the principal reason for the pre-tax actuarial losses and the increase in the pre-tax retirement benefit liabilities as at 29 April 2017.

Related parties

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

Principal risks and uncertainties

Like most businesses, there is a range of risks and uncertainties facing the Group. A brief summary is given below of those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's financial position and/or future financial performance. Pages 8 to 12 of the Group's 2016 Annual Report set out specific risks and uncertainties in more detail. Further information and updates will be provided in the 2017 Annual Report.

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

- Catastrophic events – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. The ongoing negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pensions, financial instruments and other balances. UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff.
- Rail cost base – a substantial element of the cost base of the UK Rail Division is essentially fixed as under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is less able to flex supply in response to changes in demand.
- Sustainability of rail profit – there is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning new UK rail franchises or failing to retain its existing franchises.
- Breach of franchise – if the Group fails to comply with certain conditions as part of its rail franchise agreements it may be liable to penalties including potential termination of one or more of the rail franchise agreements.
- Changing customer habits – There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position.
- Pension scheme funding – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as investment performance, discount rates and life expectancies.
- Insurance and claims environment – there is a risk that the cost to the Group of settling claims against it is significantly higher or lower than expected.
- Regulatory changes and availability of public funding – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. The current UK Government's plans for greater devolution of powers within the UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations.
- Management and Board succession – there is a risk that the Group does not recruit and retain sufficient directors and managers with the skills important to the operation of the business.
- Disease – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease.
- Information security – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- Information technology – there is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand.
- Litigation – there is a risk of commercial and consumer litigation arising from the legal environment in some markets, particularly North America.
- Competition – in certain of the markets we operate in, there is a risk of increased competitive pressures from existing competitors and new entrants.
- Treasury risks – the Group is affected by changes in fuel prices, interest rates and exchange rates.

Use of non-GAAP measures

Our reported preliminary financial information is extracted from the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 22 to the condensed financial statements provides further information on these non-GAAP financial measures.

Updating definition of adjusted earnings per share

As well as reporting earnings per share in accordance with Generally Accepted Accounting Principles, we also report an adjusted earnings per share measure to help explain the financial performance of the Group.

For some years, our measure of adjusted earnings per share has been calculated with reference to profit excluding intangible asset expenses and exceptional items. The adjusted earnings per share of 24.4p that we have reported for the year ended 29 April 2017 has been determined on that basis.

Our intangible asset expenses include the amortisation of capitalised software costs. Prior to us adopting International Financial Reporting Standards, software assets were treated as tangible fixed assets but under International Financial Reporting Standards, are classified as intangible fixed assets. When we first applied International Financial Reporting Standards, software amortisation was relatively low. Those costs have since grown, reflecting our digital investment programme.

Given the growth in software amortisation, we have considered how best it should be treated for calculating adjusted earnings per share. It could be considered that such costs are more akin to depreciation on property, plant and equipment than amortisation on other intangible assets. We are therefore planning to discuss with analysts and investors whether adjusting our definition of adjusted earnings per share to include software amortisation costs would provide them with a more useful measure of performance. The effect on the year ended 29 April 2017 would be as follows:

	Build-up of adjusted EPS £m	Software amortisation £m	Revised build-up of adjusted EPS £m
UK Bus (regional operations)	121.1	(4.1)	117.0
megabus Europe	(4.3)	-	(4.3)
UK Bus (London)	18.4	-	18.4
North America	19.3	(1.1)	18.2
UK Rail	31.0	(2.5)	28.5
Group overheads and restructuring costs	(18.9)	-	(18.9)
Joint ventures	26.2	-	26.2
Finance costs (net)	(34.1)	-	(34.1)
Taxation	(20.7)	1.4	(19.3)
Non-controlling interests	1.7	0.1	1.8
Profit for adjusted earnings per share	139.7	(6.2)	133.5
	Pence	Pence	Pence
Adjusted earnings per share	24.4p	(1.1)p	23.3p

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the year ended 29 April 2017.

Current trading and outlook

We have made a satisfactory start to the year ending 28 April 2018 and have not significantly changed our expectation of adjusted earnings per share for the year. We see positive long-term prospects for public transport. There is a large market opportunity for modal shift from cars to public transport against a backdrop of technological advancements, rising road congestion and increasing environmental awareness. We have a growth strategy built on continued investment, value-for-money travel and high customer satisfaction.

The Group is in good financial shape. Our core debt is committed and in place for over a further four years and we remain investment grade rated.

Martin Griffiths
Chief Executive
28 June 2017

Cautionary statement

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

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Audited Year to 29 April 2017			Audited Year to 30 April 2016		
		Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
		£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	3(a)	3,941.2	-	3,941.2	3,871.1	-	3,871.1
Operating costs and other operating income		(3,774.6)	(145.5)	(3,920.1)	(3,667.1)	(21.8)	(3,688.9)
Operating profit of Group companies	3(b)	166.6	(145.5)	21.1	204.0	(21.8)	182.2
Share of profit/(loss) of joint ventures after finance costs, finance income and taxation	3(c)	26.2	-	26.2	24.8	(35.9)	(11.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	3(b)	192.8	(145.5)	47.3	228.8	(57.7)	171.1
Non-operating exceptional items	4	-	4.7	4.7	-	(2.0)	(2.0)
Profit before interest and taxation		192.8	(140.8)	52.0	228.8	(59.7)	169.1
Finance costs		(35.6)	-	(35.6)	(43.1)	(23.3)	(66.4)
Finance income		1.5	-	1.5	1.7	-	1.7
Profit before taxation		158.7	(140.8)	17.9	187.4	(83.0)	104.4
Taxation		(20.7)	20.9	0.2	(26.8)	21.4	(5.4)
Profit from continuing operations and profit after taxation for the year		138.0	(119.9)	18.1	160.6	(61.6)	99.0
Attributable to:							
Equity holders of the parent		139.7	(107.9)	31.8	158.8	(60.9)	97.9
Non-controlling interests		(1.7)	(12.0)	(13.7)	1.8	(0.7)	1.1
		138.0	(119.9)	18.1	160.6	(61.6)	99.0
Earnings per share (all of which relates to continuing operations)							
- Adjusted/Basic	6	24.4p		5.5p	27.7p		17.1p
- Adjusted diluted/Diluted	6	24.3p		5.5p	27.6p		17.0p
Dividends per ordinary share							
- Interim paid	5			3.8p			3.5p
- Final proposed	5			8.1p			7.9p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Profit for the year	18.1	99.0
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Net fair value gains/(losses) on cash flow hedges	17.6	(84.2)
- Reclassified and reported in profit for the year	21.0	67.8
- Share of other comprehensive income/(expense) on joint ventures' cash flow hedges	3.3	(0.3)
- Tax effect of cash flow hedges	(7.3)	2.9
- Tax effect of share of other comprehensive (income)/expense on joint ventures' cash flow hedges	(0.6)	-
Foreign exchange differences on translation of foreign operations (net of hedging)		
- Foreign exchange differences arising in year	13.5	3.1
- Reclassified and reported in profit for the year	(4.6)	-
Total items that may be reclassified to profit or loss	42.9	(10.7)
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on Group defined benefit pension schemes	(127.6)	68.5
Tax effect of actuarial losses/(gains) on Group defined benefit pension schemes	22.7	(16.0)
Share of actuarial gains on joint ventures' defined benefit schemes, net of tax	2.5	4.0
Total items that will not be reclassified to profit or loss	(102.4)	56.5
Other comprehensive (expense)/income for the year	(59.5)	45.8
Total comprehensive (expense)/income for the year	(41.4)	144.8
Attributable to:		
Equity holders of the parent	(29.9)	143.9
Non-controlling interests	(11.5)	0.9
	(41.4)	144.8

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

		Audited	Audited
		As at	As at
		29 April 2017	30 April 2016
	<i>Notes</i>	£m	£m
ASSETS			
Non-current assets			
Goodwill	7	148.2	136.9
Other intangible assets	8	45.0	88.7
Property, plant and equipment	9	1,190.3	1,165.2
Interests in joint ventures	10	25.7	22.4
Derivative instruments at fair value		7.0	5.6
Deferred tax asset		14.4	-
Retirement benefit asset	13	45.6	24.8
Other receivables		4.9	5.6
		1,481.1	1,449.2
Current assets			
Inventories		25.2	27.5
Trade and other receivables		449.0	382.2
Derivative instruments at fair value		7.3	1.0
Foreign tax recoverable		0.3	-
Cash and cash equivalents		313.3	382.3
		795.1	793.0
Total assets	3(d)	2,276.2	2,242.2
LIABILITIES			
Current liabilities			
Trade and other payables		848.0	825.2
Current tax liabilities		36.6	33.2
Borrowings		40.5	53.6
Derivative instruments at fair value		16.6	41.3
Provisions		118.6	54.9
		1,060.3	1,008.2
Non-current liabilities			
Other payables		35.8	45.5
Borrowings		693.0	738.2
Derivative instruments at fair value		6.9	19.5
Deferred tax liabilities		-	25.6
Provisions		133.6	105.9
Retirement benefit obligations	13	278.1	121.5
		1,147.4	1,056.2
Total liabilities	3(d)	2,207.7	2,064.4
Net assets	3(d)	68.5	177.8
EQUITY			
Ordinary share capital	14	3.2	3.2
Share premium account		8.4	8.4
Retained earnings		(320.4)	(185.1)
Capital redemption reserve		422.8	422.8
Own shares		(37.0)	(34.3)
Translation reserve		10.2	1.3
Cash flow hedging reserve		(9.0)	(40.3)
Total equity attributable to the parent		78.2	176.0
Non-controlling interests		(9.7)	1.8
Total equity		68.5	177.8

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Share premium account	Retained earnings	Capital redemption reserve	Own shares	Translation reserve	Cash flow hedging reserve	Total equity attributable to the parent	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 30 April 2015 and 1 May 2015	3.2	8.4	(279.6)	422.8	(32.1)	(1.8)	(26.8)	94.1	0.9	95.0
Profit for the year	-	-	97.9	-	-	-	-	97.9	1.1	99.0
Other comprehensive income/(expense) net of tax	-	-	56.4	-	-	3.1	(13.5)	46.0	(0.2)	45.8
Total comprehensive income/(expense)	-	-	154.3	-	-	3.1	(13.5)	143.9	0.9	144.8
Own ordinary shares purchased	-	-	-	-	(2.2)	-	-	(2.2)	-	(2.2)
Credit in relation to equity-settled share based payments	-	-	2.2	-	-	-	-	2.2	-	2.2
Dividends paid on ordinary shares	-	-	(62.0)	-	-	-	-	(62.0)	-	(62.0)
Balance at 30 April 2016 and 1 May 2016	3.2	8.4	(185.1)	422.8	(34.3)	1.3	(40.3)	176.0	1.8	177.8
Profit for the year	-	-	31.8	-	-	-	-	31.8	(13.7)	18.1
Other comprehensive income/(expense) net of tax	-	-	(101.9)	-	-	8.9	31.3	(61.7)	2.2	(59.5)
Total comprehensive income/(expense)	-	-	(70.1)	-	-	8.9	31.3	(29.9)	(11.5)	(41.4)
Own ordinary shares purchased	-	-	-	-	(2.7)	-	-	(2.7)	-	(2.7)
Credit in relation to equity-settled share based payments	-	-	1.9	-	-	-	-	1.9	-	1.9
Dividends paid on ordinary shares	-	-	(67.1)	-	-	-	-	(67.1)	-	(67.1)
Balance at 29 April 2017	3.2	8.4	(320.4)	422.8	(37.0)	10.2	(9.0)	78.2	(9.7)	68.5

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
	Notes		
Cash flows from operating activities			
Cash generated by operations	15	252.3	303.7
Interest paid		(26.9)	(32.3)
Interest received		0.2	1.7
Dividends received from joint ventures		28.1	28.8
Net cash flows from operating activities before tax		253.7	301.9
Tax paid		(21.6)	(23.0)
Net cash from operating activities after tax		232.1	278.9
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	11	-	(0.5)
Disposal of business		19.6	-
Purchase of property, plant and equipment		(155.5)	(191.2)
Disposal of property, plant and equipment		46.0	26.5
Purchase of intangible assets		(17.8)	(19.6)
Movements in loans to joint ventures		-	5.9
Disposal of investments in joint ventures		7.0	-
Net cash outflow from investing activities		(100.7)	(178.9)
Cash flows from financing activities			
Purchase of treasury shares		(2.7)	(2.2)
Repayments of hire purchase and lease finance		(58.1)	(35.4)
Redemption of 5.75% sterling bond – principal		-	(400.0)
Redemption of 5.75% sterling bond – exceptional items		-	(23.3)
Issue of new 4.00% sterling bond		-	393.5
Drawdown of other borrowings		182.9	270.0
Repayment of other borrowings		(258.3)	(255.2)
Dividends paid on ordinary shares	5	(67.1)	(62.0)
Sale of tokens		0.1	0.3
Redemption of tokens		(0.5)	(0.5)
Net cash used in financing activities		(203.7)	(114.8)
Net decrease in cash and cash equivalents		(72.3)	(14.8)
Cash and cash equivalents at the beginning of the year		382.3	395.6
Exchange rate effects		3.3	1.5
Cash and cash equivalents at the end of the year		313.3	382.3

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

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

NOTES

1 BASIS OF PREPARATION

As intimated in our 2016 Annual Report, the Group now reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 1 May 2016 to 29 April 2017.

These results are extracts of consolidated financial statements that have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union (that therefore comply with Article 4 of the EU IAS Regulation), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Except to the extent described below, the accounting policies and methods of computation adopted are consistent with those used in the last set of published financial statements.

New standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 1 May 2016, do not have any material effect on the consolidated financial statements of the Group.

The Board of Directors approved this announcement on 28 June 2017.

2 FOREIGN CURRENCIES

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

	Year to 29 April 2017	Year to 30 April 2016
US Dollar:		
Year end rate	1.2937	1.4649
Average rate	1.2937	1.5031
Canadian Dollar:		
Year end rate	1.7689	1.8349
Average rate	1.7036	1.9756

3 SEGMENTAL ANALYSIS

The Group is managed, and reports internally, on a basis consistent with its five operating segments, being UK Bus (regional operations), megabus Europe, UK Bus (London), North America and UK Rail. During the year ended 29 April 2017, the Group exited the operations of its megabus Europe Division. The Group's IFRS accounting policies are applied consistently, where appropriate, to each segment.

The segmental information provided in this note is on the basis of the five operating segments as follows:

<i>Segment name</i>	<i>Service operated</i>	<i>Countries of operation</i>
UK Bus (regional operations)	Coach and bus operations	United Kingdom
megabus Europe	Coach operations	United Kingdom and mainland Europe
UK Bus (London)	Bus operations	United Kingdom
North America	Coach and bus operations	United States and Canada
UK Rail	Rail operations	United Kingdom

The Group has interests in two material joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). During the year ended 29 April 2017, the Group sold its interest in the Twin America joint venture. The results of these joint ventures are shown separately in note 3(c).

3 SEGMENTAL ANALYSIS (CONTINUED)

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (i.e. United Kingdom, mainland Europe or North America) is the same in all cases, except in respect of an immaterial amount of revenue for services previously operated by megabus Europe between the UK and mainland Europe. As the Group 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.

Revenue split by segment was as follows:

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Continuing operations		
UK Bus (regional operations)	1,015.7	1,032.8
megabus Europe	20.2	18.4
UK Bus (London)	263.4	267.1
North America	488.8	430.9
Total bus continuing operations	1,788.1	1,749.2
UK Rail	2,160.7	2,129.1
Total Group revenue	3,948.8	3,878.3
Intra-Group revenue – UK Bus (regional operations)	(7.6)	(7.2)
Reported Group revenue	3,941.2	3,871.1

(b) Operating profit

Operating profit split by segment was as follows:

	Audited Year to 29 April 2017			Audited Year to 30 April 2016		
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items (note 4) £m	Results for the year £m
Continuing operations						
UK Bus (regional operations)	121.1	3.9	125.0	137.3	-	137.3
megabus Europe	(4.3)	-	(4.3)	(24.1)	-	(24.1)
UK Bus (London)	18.4	-	18.4	20.2	-	20.2
North America	19.3	-	19.3	18.9	-	18.9
Total bus continuing operations	154.5	3.9	158.4	152.3	-	152.3
UK Rail	31.0	(128.9)	(97.9)	66.7	(6.0)	60.7
Total continuing operations	185.5	(125.0)	60.5	219.0	(6.0)	213.0
Group overheads	(14.1)	-	(14.1)	(11.9)	-	(11.9)
Intangible asset expenses	-	(16.8)	(16.8)	-	(15.8)	(15.8)
Restructuring costs	(4.8)	(3.7)	(8.5)	(3.1)	-	(3.1)
Total operating profit of continuing Group companies	166.6	(145.5)	21.1	204.0	(21.8)	182.2
Share of joint ventures' profit/(loss) after finance costs, finance income and taxation	26.2	-	26.2	24.8	(35.9)	(11.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	192.8	(145.5)	47.3	228.8	(57.7)	171.1

3 SEGMENTAL ANALYSIS (CONTINUED)

(c) Joint ventures

The share of profit/(loss) from joint ventures was further split as follows:

	Audited			Audited		
	Year to 29 April 2017			Year to 30 April 2016		
	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Virgin Rail Group (UK Rail)						
Operating profit	31.5	-	31.5	32.6	-	32.6
Finance income (net)	0.5	-	0.5	0.7	-	0.7
Taxation	(7.2)	-	(7.2)	(9.1)	-	(9.1)
	24.8	-	24.8	24.2	-	24.2
Citylink (UK Bus regional operations)						
Operating profit	1.8	-	1.8	1.8	-	1.8
Taxation	(0.4)	-	(0.4)	(0.4)	-	(0.4)
	1.4	-	1.4	1.4	-	1.4
Twin America (North America)						
Operating loss	-	-	-	(0.6)	-	(0.6)
Impairment loss	-	-	-	-	(35.9)	(35.9)
Finance costs (net)	-	-	-	(0.2)	-	(0.2)
	-	-	-	(0.8)	(35.9)	(36.7)
Share of profit/(loss) of joint ventures after finance costs, finance income and taxation	26.2	-	26.2	24.8	(35.9)	(11.1)

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Audited			Audited		
	As at 29 April 2017			As at 30 April 2016		
	Gross assets	Gross liabilities	Net assets/(liabilities)	Gross assets	Gross liabilities	Net assets/(liabilities)
	£m	£m	£m	£m	£m	£m
Continuing operations						
UK Bus (regional operations)	952.5	(358.3)	594.2	909.2	(283.2)	626.0
megabus Europe	7.1	(10.1)	(3.0)	24.2	(5.6)	18.6
UK Bus (London)	69.1	(176.7)	(107.6)	74.3	(103.6)	(29.3)
North America	429.5	(144.7)	284.8	391.8	(132.4)	259.4
UK Rail	426.2	(704.3)	(278.1)	413.0	(635.8)	(222.8)
	1,884.4	(1,394.1)	490.3	1,812.5	(1,160.6)	651.9
Central functions	38.1	(43.5)	(5.4)	25.0	(53.2)	(28.2)
Joint ventures	25.7	-	25.7	22.4	-	22.4
Borrowings and cash	313.3	(733.5)	(420.2)	382.3	(791.8)	(409.5)
Taxation	14.7	(36.6)	(21.9)	-	(58.8)	(58.8)
Total	2,276.2	(2,207.7)	68.5	2,242.2	(2,064.4)	177.8

4 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET EXPENSES

The Group separately highlights intangible asset expenses and exceptional items. Exceptional items are defined in note 22. The items shown in the columns headed "Intangibles and exceptional items" on the face of the consolidated income statement can be further analysed as follows:

	Audited Year to 29 April 2017			Audited Year to 30 April 2016		
	Exceptional items £m	Intangible asset expenses £m	Intangibles and exceptional items £m	Exceptional items £m	Intangible asset expenses £m	Intangibles and exceptional items £m
Operating costs and other operating income						
Gain on disposal of property at UK Bus (regional operations)	7.1	-	7.1	-	-	-
Impairment of assets at UK Bus (regional operations)	(3.2)	-	(3.2)	-	-	-
North America restructuring	(3.7)	-	(3.7)	-	-	-
Impairment of assets at Sheffield Supertram	-	-	-	(6.0)	-	(6.0)
Impairment of Virgin Trains East Coast intangible asset	(44.8)	-	(44.8)	-	-	-
Onerous contract provision of Virgin Trains East Coast	(84.1)	-	(84.1)	-	-	-
Intangible asset expenses	-	(16.8)	(16.8)	-	(15.8)	(15.8)
	(128.7)	(16.8)	(145.5)	(6.0)	(15.8)	(21.8)
Share of profit/(loss) of joint ventures						
Impairment of interest in Twin America	-	-	-	(35.9)	-	(35.9)
Non-operating exceptional items						
Provision for commitment to Twin America	-	-	-	(2.0)	-	(2.0)
Megabus Europe disposal	(6.9)	-	(6.9)	-	-	-
Twin America disposal	11.6	-	11.6	-	-	-
Non-operating exceptional items	4.7	-	4.7	(2.0)	-	(2.0)
Finance costs						
Premium on early redemption of bonds	-	-	-	(21.3)	-	(21.3)
Cancellation of ineffective interest rate swaps	-	-	-	(2.0)	-	(2.0)
Finance costs	-	-	-	(23.3)	-	(23.3)
Intangible asset expenses and exceptional items	(124.0)	(16.8)	(140.8)	(67.2)	(15.8)	(83.0)
Tax effect	18.8	2.1	20.9	19.4	2.0	21.4
Intangible asset expenses and exceptional items after taxation	(105.2)	(14.7)	(119.9)	(47.8)	(13.8)	(61.6)

The impairment of Virgin Trains East Coast intangible asset is considered to be both an exceptional item and an intangible asset expense. It is presented as an exceptional item in the table above.

5 DIVIDENDS

Dividends on ordinary shares are shown below.

	Audited Year to 29 April 2017 pence per share	Audited Year to 30 April 2016 pence per share	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Amounts recognised as distributions in the year				
Dividends on ordinary shares:				
Final dividend in respect of the previous year	7.9	7.3	45.3	41.9
Interim dividend in respect of the current year	3.8	3.5	21.8	20.1
Amounts recognised as distributions to equity holders in the year	11.7	10.8	67.1	62.0
Dividends declared or proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares:				
Final dividend in respect of the current year	8.1	7.9	46.5	45.3

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 7 December 2016 and paid on 8 March 2017. The Board has proposed a final dividend of 8.1p per ordinary share payable on 4 October 2017 to shareholders on the register at 1 September 2017.

6 EARNINGS PER SHARE

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held in treasury and by employee share ownership trusts.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to executive share plans and long-term incentive plans.

	Audited Year to 29 April 2017 No. of shares million	Audited Year to 30 April 2016 No. of shares million
Basic weighted average number of ordinary shares	573.6	573.8
Dilutive ordinary shares		
- Executive Participation Plan	2.3	2.0
Diluted weighted average number of ordinary shares	575.9	575.8

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Notes		
Net profit attributable to equity holders of the parent (for basic EPS calculation)	31.8	97.9
Intangible asset expenses	4 16.8	15.8
Exceptional items before tax	4 124.0	67.2
Tax effect of intangible asset expenses and exceptional items	4 (20.9)	(21.4)
Non-controlling interest in intangible asset expenses	(0.8)	(0.7)
Non-controlling interest in exceptional items	(11.2)	-
Profit for adjusted EPS calculation	139.7	158.8

Earnings per share before intangible asset expenses and exceptional items is calculated after adding back intangible asset expenses and exceptional items after taking account of taxation and the non-controlling interest, as shown on the consolidated income statement. This has been presented to allow shareholders to gain a clearer understanding of underlying performance.

7 GOODWILL

The movements in goodwill were as follows:

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Net book value at beginning of year	136.9	132.9
Foreign exchange movements	11.3	4.0
At end of year	148.2	136.9

8 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Cost at beginning of year	142.9	133.4
Additions	17.8	19.6
Disposals	(0.5)	(11.4)
Foreign exchange movements	2.9	1.3
Cost at end of year	163.1	142.9
Accumulated amortisation at beginning of year	(54.2)	(48.7)
Amortisation charged to income statement	(16.8)	(15.8)
Impairment charged to income statement	(44.8)	-
Disposals	0.5	11.4
Foreign exchange movements	(2.8)	(1.1)
Accumulated amortisation at end of year	(118.1)	(54.2)
Net book value at beginning of year	88.7	84.7
Net book value at end of year	45.0	88.7

9 PROPERTY, PLANT AND EQUIPMENT

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

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Cost at beginning of year	2,049.4	1,913.1
Additions	199.5	219.6
Disposals	(133.0)	(104.9)
Foreign exchange movements	62.3	21.6
Cost at end of year	2,178.2	2,049.4
Depreciation at beginning of year	(884.2)	(815.2)
Depreciation charged to income statement	(145.5)	(132.2)
Impairment charged to income statement	(3.2)	-
Disposals	73.5	73.1
Foreign exchange movements	(28.5)	(9.9)
Depreciation at end of year	(987.9)	(884.2)
Net book value at beginning of year	1,165.2	1,097.9
Net book value at end of year	1,190.3	1,165.2

10 INTERESTS IN JOINT VENTURES

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

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Net book value at beginning of year	22.4	57.8
Share of recognised profit/(loss)	26.2	(11.1)
Share of actuarial gains on defined benefit schemes, net of tax	2.5	4.0
Share of other comprehensive income/(expense) on cash flow hedges, net of tax	2.7	(0.3)
Dividends received in cash	(28.1)	(28.8)
Foreign exchange movements	-	0.8
Net book value at end of year	25.7	22.4

A loan payable to Scottish Citylink Limited of £1.7m (2016: £1.7m) is included within current liabilities under the caption "Trade and other payables".

11 BUSINESS COMBINATIONS

The Group completed no material business combinations during the years ended 29 April 2017 and 30 April 2016. Details of business combinations completed in earlier periods are given in the Group's annual reports for the relevant periods.

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

These condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the Group's consolidated financial statements for the year ended 29 April 2017. There have been no material changes in any of the Group's significant financial risk management policies since 30 April 2016.

Liquidity risk

The contractual undiscounted cash outflows for financial liabilities will be set out in the Group's 2017 Annual Report.

Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy.

- Level 1* Quoted price (unadjusted) in active markets for identical assets or liabilities
- Level 2* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3* Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 29 April 2017.

	Audited Level 2 £m
Assets	
Derivatives used for hedging	14.3
Liabilities	
Derivatives used for hedging	(23.5)

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2016.

	Audited Level 2 £m
Assets	
Derivatives used for hedging	6.6
Liabilities	
Derivatives used for hedging	(60.8)

There were no transfers between levels during the year ended 29 April 2017.

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

		Audited		Audited	
		Carrying value	Fair Value	Carrying value	Fair value
		29 April 2017 £m	29 April 2017 £m	30 April 2016 £m	30 April 2016 £m
Loans and receivables					
- Non-current assets	- Other receivables	0.2	0.2	0.2	0.2
- Current assets	- Accrued income	54.0	54.0	38.5	38.5
	- Trade receivables, net of impairment	254.4	254.4	234.6	234.6
	- Other receivables	39.4	39.4	30.8	30.8
	- Cash and cash equivalents	313.3	313.3	382.3	382.3
Total financial assets		661.3	661.3	686.4	686.4
Financial liabilities measured at amortised cost					
- Non-current liabilities	- Accruals	-	-	(6.0)	(6.0)
	- Borrowings	(693.0)	(737.0)	(738.2)	(755.6)
- Current liabilities	- Trade payables	(270.0)	(270.0)	(270.3)	(270.3)
	- Accruals	(436.7)	(436.7)	(381.8)	(381.8)
	- Loans from joint ventures	(1.7)	(1.7)	(1.7)	(1.7)
	- Loan from non-controlling interest	(5.8)	(5.8)	(5.3)	(5.3)
	- Borrowings	(40.5)	(40.5)	(53.6)	(53.6)
Total financial liabilities		(1,447.7)	(1,491.7)	(1,456.9)	(1,474.3)
Net financial liabilities		(786.4)	(830.4)	(770.5)	(787.9)

Derivatives that are designated as effective hedging instruments are not shown in the above table.

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

- The carrying value of cash and cash equivalents, accrued income, trade receivables and other receivables 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, other payables, accruals, loan from non-controlling interest and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price at the balance sheet date.
- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

13 RETIREMENT BENEFITS

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

- Stagecoach Pension Schemes (“SPS”) comprising the Stagecoach Group Pension Scheme (“SGPS”) and the East London and Selkent Pension Scheme, the latter of which was merged into SGPS during the year ended 30 April 2016 and is now a separate section of SGPS;
- The South West Trains section of the Railways Pension Scheme (“RPS”);
- The Island Line section of the Railways Pension Scheme (“RPS”);
- The East Midlands Trains section of the Railways Pension Scheme (“RPS”);
- The East Coast Main Line section of the Railways Pensions Scheme (“RPS”); and
- A number of UK Local Government Pension Schemes (“LGPS”);

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the related franchises. In addition, under the terms of RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of RPS. The employees’ share of the deficit (or surplus) is reflected as an adjustment to the RPS liabilities (or assets). Therefore the liability (or asset) recognised for the relevant sections of RPS reflects that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The “franchise adjustment” is the portion of the deficit (or surplus) that is expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover).

In addition, the Group contributes to a number of defined contribution schemes.

The movements for the year ended 29 April 2017 in the net pre-tax retirement benefit liabilities recognised in the balance sheet were as follows:

	Audited					
	SPS £m	RPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
Liability/(asset) at beginning of year	110.2	(24.4)	4.3	2.8	3.8	96.7
Current service cost	17.9	48.9	0.8	1.4	-	69.0
Administration costs	0.8	0.5	-	-	-	1.3
Net interest expense	3.8	6.3	0.3	0.3	0.1	10.8
Unwinding of franchise adjustment	-	(7.1)	-	-	-	(7.1)
Employers’ contributions	(16.2)	(40.5)	(7.8)	(1.0)	(0.3)	(65.8)
Actuarial losses/(gains)	135.3	(28.8)	19.9	0.5	0.7	127.6
Liability/(asset) at end of year	251.8	(45.1)	17.5	4.0	4.3	232.5

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

	Audited As at 29 April 2017 £m	Audited As at 30 April 2016 £m
Retirement benefit asset	(45.6)	(24.8)
Retirement benefit obligations	278.1	121.5
Net retirement benefit liability	232.5	96.7

14 ORDINARY SHARE CAPITAL

At 29 April 2017, there were 576,099,960 ordinary shares in issue (2016: 576,099,960). This figure includes 2,467,204 (2016: 1,885,887) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from equity in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 29 April 2017, the QUEST held no (2016: 300,634) ordinary shares in the Company and the EBT held no (2016: none) ordinary shares in the Company. The trusts have waived dividends on the shares they hold and therefore received no dividends during the year ended 29 April 2017 (2016: £Nil). The trust deed for the EBT obliges the trustee to waive the right to any dividend on the shares unless and until they are vested in an individual. The trustee is confirmed not to be liable for any lost income as a result of that waiver. The QUEST deed requires the trustee to waive any dividends payable on the shares and the QUEST confirms that waiver within the deed. This can be reversed by a direction from the Company to the trustee but is otherwise ongoing.

15 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED BY OPERATIONS

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

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Operating profit of Group companies	21.1	182.2
Intangible asset expenses	16.8	15.8
Depreciation	145.5	132.2
Exceptional items	128.7	6.0
EBITDA of Group companies before exceptional items	312.1	336.2
Cash effect of exceptional items	(3.7)	-
(Gain)/loss on disposal of property, plant and equipment	(4.3)	0.5
Equity-settled share based payment expense	1.9	2.2
Operating cashflows before working capital movements	306.0	338.9
Decrease/(increase) in inventories	2.7	(0.5)
Increase in receivables	(59.8)	(11.2)
Increase/(decrease) in payables	1.6	(12.0)
Decrease in provisions	(2.7)	(16.2)
Differences between employer contributions and pension expense in operating profit	4.5	4.7
Cash generated by operations	252.3	303.7

16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

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

	Audited Year to 29 April 2017 £m	Audited Year to 30 April 2016 £m
Decrease in cash and cash equivalents	(72.3)	(14.8)
Cash flow from movement in borrowings	133.5	50.4
New hire purchase and finance leases	61.2	35.6
Foreign exchange movements	(47.8)	(22.3)
Other movements	(22.7)	(7.6)
Increase in net debt	(0.8)	(23.7)
Opening net debt	(10.1)	(18.0)
Closing net debt	(399.3)	(381.3)
	17	17
	(409.4)	(399.3)

During the year, the Group entered into hire purchase and finance lease arrangements in respect of new assets with a total capital value at inception of the contracts of £56.6m (2016: £22.3m). After taking account of deposits paid up front and other financing transactions, new hire purchase and finance lease liabilities of £47.8m (2016: £22.3m) were recognised.

17 ANALYSIS OF NET DEBT

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

	Audited					
	Opening £m	Cashflows £m	New hire purchase and finance leases £m	Foreign exchange movements £m	Charged to income statement/ Other £m	Closing £m
Cash and cash equivalents	363.7	(72.3)	-	3.3	-	294.7
Cash collateral	18.6	-	-	-	-	18.6
Hire purchase and finance lease obligations	(76.8)	58.1	(47.8)	(5.5)	-	(72.0)
Bank loans and loan notes	(208.9)	75.4	-	(6.9)	-	(140.4)
Bonds and Notes	(495.9)	-	-	(13.6)	(0.8)	(510.3)
Net debt	(399.3)	61.2	(47.8)	(22.7)	(0.8)	(409.4)
Accrued interest on bonds	(9.5)	21.3	-	(0.2)	(21.1)	(9.5)
Effect of fair value hedges	(0.7)	-	-	-	(0.6)	(1.3)
Net borrowings (IFRS)	(409.5)	82.5	(47.8)	(22.9)	(22.5)	(420.2)

The cash collateral balance as at 29 April 2017 of £18.6m (2016: £18.6m) comprises balances held in trust in respect of loan notes of £18.2m (2016: £18.2m) and North America restricted cash balances of £0.4m (2016: £0.4m). In addition, cash includes train operating company cash of £219.4m (2016: £283.1m) of which £68.5m (2016: £103.1m) relates to South West Trains and £28.3m (2016: £18.1m) is cash held by Virgin Trains East Coast that may only be used for innovation projects approved by the UK Department for Transport. Under the terms of the franchise agreements, other than with the Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach any franchise liquidity ratios.

18 CHANGES IN COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

Capital commitments contracted but not provided at 29 April 2017 were £115.2m (2016: £141.7m).

(ii) Rail bonds

At 29 April 2017, the Group has provided performance bonds backed by bank facilities or insurance arrangements of £75.3m (2016: £75.2m) and season ticket bonds backed by bank facilities or insurance arrangements of £72.1m (2016: £71.7m) to the Department for Transport in relation to the Group's rail franchise operations. £82.5m (2016: £82.5m) of an inter-company loan facility provided to subsidiary train operating companies was also backed by a bond issued under a bank facility.

(iii) Legal actions

Related to the Twin America litigation involving the Group's North America Division, which we have set out in previous reports and which as noted in our annual report for the year ended 30 April 2016 was settled, the Department of Justice investigated the conduct of company personnel in responding to discovery obligations in the investigation and litigation. The Group co-operated with the investigation, which is no longer ongoing, and we do not anticipate any further action.

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 2017, the accruals in the consolidated financial statements for such claims total £0.6m (2016: £0.1m).

19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the year ended 29 April 2017 are provided below, except for those relating to the remuneration of the Directors and management.

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

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the year ended 29 April 2017, the Group earned fees of £60,000 (2016: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 29 April 2017, the Group had £60,000 (2016: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £Nil (2016: £0.2m) from the group headed by Virgin Rail Group Holdings Limited in respect of work undertaken on rail franchise bids and had an outstanding receivable of £Nil as at 29 April 2017 (2016: £Nil) in this respect.

(ii) *West Coast Trains Limited*

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see above). In the year ended 29 April 2017, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2016: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were immaterial (2016: £0.3m). The outstanding amounts payable as at 29 April 2017 and 30 April 2016 were immaterial.

During the year ended 29 April 2017, South West Trains Limited (a subsidiary of the Group) sold services of £0.3m (2016: £Nil) to West Coast Trains Limited and as at 29 April 2017, had £Nil receivable in respect of this (2016: £Nil).

(iii) *Alexander Dennis Limited*

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2016: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which, Sir Ewan Brown (Non-Executive Director) is a director of its holding company) controls a further 33.2% (2016: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the year ended 29 April 2017, the Group purchased £75.2m (2016: £75.4m) of vehicles from Alexander Dennis Limited and £9.4m (2016: £9.8m) of spare parts and other services. As at 29 April 2017, the Group had £0.5m (2016: £1.0m) payable to Alexander Dennis Limited, along with outstanding orders of £56.7m (2016: £96.0m).

(iv) *Pension Schemes*

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

(v) *Scottish Citylink Coaches Limited*

A non interest bearing loan of £1.7m (2016: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 29 April 2017. The Group earned £18.2m in the year ended 29 April 2017 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2016: £22.0m). The Group also collected revenue of £19.3m on behalf of Scottish Citylink Coaches Limited in the year ended 29 April 2017 (2016: £18.6m). As at 29 April 2017, the Group had a net £1.6m (2016: £0.5m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) *Twin America LLC*

In the period from 1 May 2016 to 15 February 2017 (the date the Group disposed of its interest in Twin America LLC) the Group's joint venture, Twin America LLC, sold travel of £2.3m (year ended 30 April 2016: £2.4m) for tour services operated by the Group. The commission received by Twin America from the Group was not material. As at 29 April 2017, the Group had £Nil (30 April 2016: £0.2m) receivable from Twin America LLC in this regard.

19 RELATED PARTY TRANSACTIONS (CONTINUED)

(vii) *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 enters into various arm's length transactions with other Group companies. In the year ended 29 April 2017, other Group companies earned £19.2m from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services (2016: £16.3m). Other Group companies had a net payable balance of £4.5m as at 29 April 2017 (2016: £0.8m), which principally relates to VAT payments.

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £57.5m as at 29 April 2017 in respect of loans to East Coast Main Line Company Limited (2016: £52.5m). The interest receivable for the year ended 29 April 2017 was £1.8m (2016: £1.2m) and the accrued interest outstanding as at 29 April 2017 was £1.5m (2016: £0.3m). Related to that, the Group had an outstanding payable for £5.8m as at 29 April 2017 in respect of loans from Virgin Holdings Limited (2016: £5.3m) and accrued interest outstanding of £0.1m (2016: <£0.1m).

In addition, in the year ended 29 April 2017, East Coast Main Line Company Limited purchased services amounting to £Nil from Virgin Holdings Limited (2016: £2.2m). The Group had a payable balance of £Nil to Virgin Holdings Limited at 29 April 2017 in this respect (2016: £Nil).

20 POST BALANCE SHEET EVENTS

Details of the final dividend proposed are given in note 5.

21 STATUTORY FINANCIAL STATEMENTS

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 29 April 2017 within the meaning of section 434 of the Companies Act 2006 and has been extracted from the full financial statements for the years ended 29 April 2017 and 30 April 2016 respectively.

Statutory financial statements for the year ended 30 April 2016, which received an unqualified audit report, have been delivered to the Registrar of Companies.

The reports of the auditors on the financial statements for each of the years ended 30 April 2016 and 29 April 2017 were unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006. The financial statements for the year ended 29 April 2017 will be delivered to the Registrar of Companies and made available to all shareholders in due course. These financial statements will also be available on the Group's website and from the registered office of the Company at 10 Dunkeld Road, Perth PH1 5TW.

The Board of Directors approved this announcement on 28 June 2017.

22 DEFINITIONS

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 29 April 2017 and for comparative amounts shown in this document for prior periods.

Adjusted earnings per share

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

For the year ended 29 April 2017 and the comparative prior year period, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance pre intangibles and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 6 to the condensed financial statements.

Like-for-like amounts

Like-for-like amounts are derived, on a constant currency basis, by comparing the relevant year-to-date amount with the equivalent prior year period for those businesses and individual operating units that have been part of the Group throughout both periods. Where the number of days differs between the current and prior year periods, the prior year amount is normalised for that when calculating like-for-like amounts.

Like-for-like revenue growth for the year ended 29 April 2017 is calculated by comparing the revenue for the current and comparative periods, each adjusted as described above. The revenue of each segment is shown in note 3(a) to the condensed financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

		Audited			
		Year to 29 April 2017			
		Reported revenue	Exclude effect of businesses acquired	Exclude effect of foreign exchange	Like-for-like revenue
UK Bus (regional operations)	£m	1,015.7	(7.4)	-	1,008.3
megabus Europe	£m	20.2	-	-	20.2
UK Bus (London)	£m	263.4	-	-	263.4
North America	US\$m	632.3	-	0.3	632.6
UK Rail	£m	2,160.7	-	-	2,160.7

		Audited			
		Year to 30 April 2016			
		Reported revenue	Exclude effect of businesses acquired	Normalisation for number of days in year	Like-for-like revenue
UK Bus (regional operations)	£m	1,032.8	(3.5)	(5.6)	1,023.7
megabus Europe	£m	18.4	-	-	18.4
UK Bus (London)	£m	267.1	-	(1.5)	265.6
North America	US\$m	647.7	-	(1.5)	646.2
UK Rail	£m	2,129.1	-	(11.1)	2,118.0

Operating profit (or loss)

Operating profit (or loss) for a particular business unit or division within the Group refers to profit (or loss) before net finance income/charges, taxation, intangible asset expenses, exceptional items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from the financial statements – see note 3(b) to the condensed financial statements.

22 DEFINITIONS (CONTINUED)

Operating margin

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

Pre-exceptional EBITDA

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

A reconciliation of pre-exceptional EBITDA for the year ended 29 April 2017, and the comparative prior year period, to the financial statements is shown on page 14 of this document.

EBITDA from Group companies before exceptional items

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

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

Pre-exceptional net finance charges

Pre-exceptional net finance charges are finance costs (excluding exceptional items) less finance income, each as shown on the face of the consolidated income statement.

Gross debt

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

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

Net debt

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

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

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment. Its reconciliation to the consolidated financial statements is explained on pages 15 and 16 of this document.

(b) Other definition

The following other definition is also used in this document:

Exceptional items

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