

Stagecoach Group plc – Preliminary results for the year ended 28 April 2018

Key financials

- Earnings per share 12.3 pence (2017: 5.5 pence)
- Adjusted earnings per share⁺ 22.3 pence (2017 restated⁺⁺: 23.3 pence)
- £85.6m* net exceptional expenses in respect of Virgin Trains East Coast
- Profit before tax £95.3m (2017: £17.9m)
- Full year dividend rebased to 7.7 pence per share (2017: 11.9 pence per share)
- Maintaining our expectation of 2018/19 earnings per share

Good progress in bus and rail

- Positive trends in UK Bus (regional operations)
 - Pricing and network changes delivering improved revenue per vehicle mile
 - Commercial and technology-led initiatives to drive growth
- Moderating capital expenditure in bus divisions following several years of significant fleet and technology expenditure
- Greater clarity on Virgin Trains East Coast – operation of train services now transferred to publically owned company
- Significant progress, value and opportunities in UK rail market
 - o East Midlands Trains franchise extended to March 2019, with plan for further Direct Award
 - o New Virgin Trains West Coast Direct Award franchise expected to run to at least September 2019
 - o Bid submitted for new South Eastern franchise
 - o Progressing work on our shortlisted bids for East Midlands and West Coast Partnership franchises
 - o Reduced revenue risk on new franchise opportunities

Financial summary

	“Adjusted” results Results excluding non- software intangible asset amortisation and exceptional items ⁺		“Statutory” results	
	2018	2017 (Restated ⁺⁺)	2018	2017
Revenue (£m)	3,226.8	3,941.2	3,226.8	3,941.2
Total operating profit (£m)	179.9	185.1	132.1	47.3
Non-operating exceptional items (£m)	-	-	(1.7)	4.7
Net finance charges (£m)	(35.1)	(34.1)	(35.1)	(34.1)
Profit before taxation (£m)	144.8	151.0	95.3	17.9
Earnings per share (pence)	22.3p	23.3p	12.3p	5.5p
Proposed final dividend per share (pence)	3.9p	8.1p	3.9p	8.1p
Full year dividend per share (pence)	7.7p	11.9p	7.7p	11.9p

⁺ see definitions in note 22 to the condensed financial statements.

⁺⁺ see note 5 to the condensed financial statements for details of the restatement for the revised definition of adjusted earnings per share.

* The net exceptional expenses in respect of Virgin Trains East Coast of £85.6m are after taking account of tax and the non-controlling interest, and are analysed further on page 11.

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

"I am pleased to be reporting adjusted earnings per share that are ahead of our expectation. I am disappointed to be reporting significant exceptional costs in respect of Virgin Trains East Coast but I am pleased that there is now clarity for both customers and shareholders. We have made significant progress elsewhere in our rail portfolio and continue to see value and opportunities.

"We welcome the positive changes by the Department for Transport to ensure a more balanced share of revenue risk between the Department and UK train operators. We are continuing work on bids for new South Eastern, West Coast Partnership and East Midlands rail franchises and we will maintain a disciplined approach to all rail bids.

"The pricing and network changes we made across our bus and coach operations, together with our further investment in new vehicles and technology, have broadly delivered the results we expected. While there are challenges to growing bus and coach patronage, we remain positive on the opportunities for growth and further cost efficiencies.

"The Group remains in a good financial position and net debt has reduced in the year. Whilst the Board understands the importance of dividends to its shareholders, the Board also feels the dividend needs to be set at a level from which it can grow over time as well as being covered by normalised non-rail cash flows. Given these factors, the Board has taken the decision to rebase the dividend to 7.7p for the full year, a level we view as sustainable. We have maintained our expectation of adjusted earnings per share for 2018/19."

Copies of this announcement are available on the Stagecoach Group website at <http://www.stagecoach.com/media/news-releases/2018/28-06-2018.aspx>

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

The person responsible for arranging the release of this announcement on behalf of Stagecoach Group plc is Mike Vaux, Company Secretary.

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Notes to editors

Stagecoach Group

- Stagecoach Group is a leading international public transportation group, with extensive operations in the UK, the United States and Canada. The Group employs around 31,500 people.
- Stagecoach is one of the UK's biggest bus and coach operators with over 8,000 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 East Midlands Trains network and holding a 49% shareholding in Virgin Rail Group, which operates the West Coast rail franchise.
- Stagecoach operates the Supertram light rail network in Sheffield.
- In North America, Stagecoach operates around 2,100 buses and coaches in the United States and Canada. megabus.com operates a network of inter-city coach services 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 28 April 2018

The Directors of Stagecoach Group plc are pleased to present their report on the Group for the year ended 28 April 2018.

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 5 to 8 of its 2017 Annual Report, and an updated version will be provided in the 2018 Annual Report.

Introduction and overview of financial results

We are pleased with the Group’s underlying financial performance for the year ended 28 April 2018, when compared to our start of year expectations. We were however, surprised and disappointed by the Secretary of State for Transport’s decision to appoint an Operator of Last Resort to take over the operation of InterCity East Coast train services from our Virgin Trains East Coast business. We are also disappointed to report significant exceptional costs in relation to that business.

Revenue for the year was £3,226.8m (2017: £3,941.2m), with the decline reflecting the end of our South West Trains franchise in August 2017. Total operating profit (before non-software intangible asset amortisation and exceptional items) was £179.9m (2017 restated: £185.1m). Unadjusted operating profit for the year was £132.1m (2017: £47.3m). Earnings per share before non-software intangible asset amortisation and exceptional items (“adjusted earnings per share”) were 22.3p (2017 restated: 23.3p), with the year-on-year decrease mostly due to lower operating profit from our bus divisions. The adjusted earnings per share of 22.3p is above our recent expectation, principally due to a lower than anticipated tax charge, reflecting positive progress with the Group’s tax affairs during the year. Basic, unadjusted earnings per share increased to 12.3p (2017: 5.5p), and included exceptional charges relating to Virgin Trains East Coast that are explained below.

Consolidated net debt at 28 April 2018 was £395.8m (2017: £409.4m) and non-rail net debt was £567.0m (2017: £628.8m). Although the consolidated net debt at 28 April 2018 is less than we expected, that largely reflects variations in the timing of UK rail cash flows and the balance at 28 April 2018 includes £84.5m of Virgin Trains East Coast cash. We expect cash outflows in the year to 27 April 2019 in respect of the transfer of the East Coast rail business, further cash outflows in respect of the unwind of the expired South West Trains rail franchise and the reversal of cash flow timing benefits at East Midlands Trains. However, we do expect non-rail net debt to reduce further.

We are proposing a final dividend of 3.9p (2017: 8.1p), which will result in a full year dividend of 7.7p (2017: 11.9p) per share for the year ended 28 April 2018. While our growth ambitions have not changed, we have taken the decision to rebase the dividend to what we view as a sustainable level and which is covered by the normalised, annual free cash flows from our non-rail operations. We will look to at least maintain the rate of annual dividends at that rebased level of 7.7p per share. The proposed final dividend of 3.9p per share is payable to shareholders on the register at 24 August 2018 and, if approved, will be paid on 3 October 2018. Shareholders who wish to participate in the dividend re-investment plan should elect to do so by sending their requests to the Company’s registrars to arrive by 12 September 2018.

Our absolute focus remains on safety and operational excellence, which underpin our delivery of high quality public transport services. Providing good value travel and investing in our people, vehicle fleet and new technology is central to enhancing our customers’ experience. We also continue to take steps to improve the efficiency of our operations and maintain close control of costs.

We have again delivered high levels of customer satisfaction. Our UK bus business has achieved 90% satisfaction, according to the latest independent research published by consumer watchdog, Transport Focus, the biggest improvement in overall passenger satisfaction of any major UK operator. In the UK rail sector, our train companies are also amongst the highest performing franchised operators, while our tram operations recorded their second highest customer satisfaction level on record at 95%.

In our core regional UK bus market, our pricing and network changes have delivered improved revenue trends. We are pursuing a package of commercial and technology-led initiatives to drive growth and meet the evolving demand for transport linked to changes in working, social and retail patterns. We have been successful in winning new business with Transport for London in the contracted London bus market.

Financial performance in our North America Division has been satisfactory and we have made further progress in delivering new contract wins. Our actions in consolidating our megabus.com network and developing the brand's digital presence and wider product offer have helped us protect our market share in a competitive environment.

As previously announced, we have reported further, significant exceptional costs in the year ended 28 April 2018 in respect of our Virgin Trains East Coast franchise. Further details of these are provided on page 11. We regret the losses the Group has experienced on the East Coast franchise, notwithstanding that these were significantly influenced by factors outside of our control. We nevertheless continue to see good opportunities in UK rail. The introduction by the Department for Transport of a new "Forecast Revenue Mechanism" ("FRM") will result in the Department taking a greater share in revenue risk on new franchises and this reduction in revenue risk for train operators has been important in our decision to continue bidding for new UK rail franchises.

While we were surprised and disappointed by the decision of the Secretary of State for Transport to transfer responsibility for operating the East Coast train services from Virgin Trains East Coast to a publically owned company, we welcome the clarity that decision brings. Elsewhere in our rail portfolio, we have made significant progress over the last year. A new contract has been agreed with the Department for Transport on Virgin Trains West Coast, and we have secured the extension of our East Midlands Trains franchise. We are pleased to have submitted our bid for the new South Eastern franchise and we are well advanced in developing our proposals for the West Coast Partnership franchise with input from key stakeholders. We are also working on a further direct award franchise at East Midlands Trains as well as our shortlisted bid for the next competitively tendered East Midlands franchise.

Notwithstanding the contractual issues at Virgin Trains East Coast, we have continued to focus on providing a good, safe, reliable and value for money service to our customers as well as continuing to grow the business. Reflecting the hard work of the Virgin Trains East Coast team and the continuing support of the Stagecoach and Virgin shareholders, we have started to see improving revenue trends. Year-on-year revenue growth in the second half of the year ended 28 April 2018 of 4.3% compared to 3.0% in the first half and in the twelve weeks to 26 May 2018, revenue grew 5.6% from the equivalent prior year period.

Julie Southern, a non-executive director who joined the Board in October 2016, has indicated her intention to resign from the Board with effect from 31 August 2018 to enable her to take up a new position at another company. The Board extends its thanks to Julie for the contribution she has made to the Group.

During 2016/17, we undertook our biggest employee engagement programme to date covering the entire Group and this year, we launched a major initiative to strengthen further and embed our strong safety culture across our bus and rail businesses. As a responsible forward-looking business, we want to foster an open and inclusive environment, supporting a diverse workforce where everyone has access to the resources and the opportunity to contribute to the success of our business. Action plans are being progressed within our businesses to capitalise on what we have learned and introduce improvements, with planning already underway for our 2018 employee survey. The Board extends its appreciation to all of our people across the Group for their commitment and contribution to making every customer journey better.

Looking ahead, there is no change to our expectation of 2018/19 earnings per share. We recognise the importance of continuing to invest in our business and in the three years to 29 April 2017, our bus and coach divisions invested £490.0m in property, plant, equipment and software representing 1.34 times the related depreciation and amortisation expense. In the year to 28 April 2018, the ratio fell to 0.89 times partly reflecting lower bus and coach mileage but also recognising that the businesses are already well invested following several years of relatively high capital expenditure. For those divisions, we expect a similar expenditure ratio in the year to 27 April 2019 and, in the medium-term, we are planning for capital expenditure at a normalised level of around 1.2 times the related depreciation and amortisation expense. Our investment will be targeted where it will deliver the biggest impact in meeting the business challenges of today and securing future emerging opportunities. We believe there is growing recognition in government that action is needed to address road congestion and poor air quality in urban environments and that the public transport we offer is central to the solution to that. This provides a significant opportunity to deliver better outcomes for our customers and local communities, as well as continued long-term value to our investors.

Summary of financial results

Revenue by division is summarised below:

REVENUE

	2018 £m	2017 £m	Functional currency	2018 Functional currency (m)	2017 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	1,012.5	1,015.7	£	1,012.5	1,015.7	(0.3)%
megabus Europe	-	20.2	£	-	20.2	(100.0)%
UK Bus (London)	251.8	263.4	£	251.8	263.4	(4.4)%
North America	470.9	488.8	US\$	630.0	632.3	(0.4)%
UK Rail	1,495.2	2,160.7	£	1,495.2	2,160.7	(30.8)%
Intra-Group revenue	(3.6)	(7.6)	£	(3.6)	(7.6)	
Group revenue	3,226.8	3,941.2				

Operating profit by division is summarised below:

OPERATING PROFIT

	2018 £m	2018 % margin	2017 (restated) £m	2017 (restated) % margin	Functional currency	2018 Functional currency (m)	2017 (restated) Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	112.9	11.2%	117.0	11.5%	£	112.9	117.0
megabus Europe	-	-	(4.3)	(21.3)%	£	-	(4.3)
UK Bus (London)	13.3	5.3%	18.4	7.0%	£	13.3	18.4
North America	21.0	4.5%	18.2	3.7%	US\$	28.1	23.5
UK Rail	24.9	1.7%	28.5	1.3%	£	24.9	28.5
Group overheads	(15.3)		(14.1)				
Restructuring costs	(4.0)		(4.8)				
Operating profit before joint ventures, non-software intangible asset amortisation and exceptional items	152.8		158.9				
Joint ventures – share of profit after tax							
Virgin Rail Group	25.9		24.8				
Citylink	1.2		1.4				
Total operating profit before non-software intangible asset amortisation and exceptional items	179.9		185.1				
Non-software intangible asset amortisation	-		(9.1)				
Exceptional items	(47.8)		(128.7)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	132.1		47.3				

UK Bus (regional operations)

Summary

- Revenue per vehicle mile up 2.7%
- Investment in fleet, technology and enhancing customer experience
- Strong customer satisfaction

Financial performance

The financial performance of the UK Bus (regional operations) Division for the year ended 28 April 2018 is summarised below:

	2018 £m	2017 (restated) £m	Change
Revenue	1,012.5	1,015.7	(0.3)%
Like-for-like* revenue	1,012.3	1,013.8	(0.1)%
Operating profit*	112.9	117.0	(3.5)%
Operating margin	11.2%	11.5%	(30)bp

Actions we took in early 2017 to adjust our pricing and network of services to respond to changes in customer demand have helped reduce pressure on the profitability of the business and ensure we can continue to invest in customer improvements. We have worked closely with our local authority partners as part of our focus on operating sustainable networks and maximising the value of our combined resources. Like-for-like vehicle miles operated were 2.7% lower than in the previous year. The vehicle miles we operate on a commercial basis were reduced by 1.7% with greater reductions in the mileage tendered by local authorities and operated under contract. Reflecting the management actions taken, like-for-like revenue per vehicle mile grew 2.7% and like-for-like revenue per journey also increased 2.7%.

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

	2018 £m	2017 £m	Change
Commercial on and off bus revenue			
– megabus.com	24.1	22.0	9.5%
– other	612.0	602.1	1.6%
Concessionary revenue	242.5	247.9	(2.2)%
Commercial & concessionary revenue	878.6	872.0	0.8%
Tendered and school revenue	97.9	100.4	(2.5)%
Contract and other revenue	35.8	41.4	(13.5)%
Like-for-like revenue	1,012.3	1,013.8	(0.1)%

The growth in commercial revenue reflects the actions we have taken to improve yield per journey, partly offset by the impact of more severe weather in the second half of the year which restricted our ability to run some services and suppressed demand. In particular, the reported like-for-like revenue growth for our four-week reporting period ended 3 March 2018 was suppressed by the widespread snowstorms throughout the UK. During that period, the Division's like-for-like revenue declined by 2.5% from the equivalent prior year period, illustrating the scale of the impact of these extreme weather conditions. We estimate the operating profit would have been c.£2m higher but for the adverse weather conditions relative to last year. Our strategy for growth and customer satisfaction is centred on low-fares, operational excellence and continued investment.

Our megabus.com business in the UK performed well in the second half of the year, following weakness in the inter-city coach market in the first half of the year. We are encouraged by the impact of the measures we have taken to improve yield management and modify the network. In addition, we have refreshed our marketing to maximise the value of the brand.

The decline in concessionary revenue includes the effects of the adverse weather and the continuing effects of government changes in the age of eligibility for free bus travel by older people, as we have previously reported. We have also seen a reduction in the concessionary reimbursement rate paid to bus operators in several regions, including Manchester, and lower financial support in Wales for bus travel by young people.

We continue to work with local authorities to maximise the value for local communities from the financial support councils can provide for socially desirable transport services. The decline in tender revenue mainly reflects further reductions by local authorities for tendered bus services and we anticipate some further cuts over the next year.

The reduction in contract and other revenue include the effects of lower rail replacement contract revenues, in addition to year-on-year changes in the amount and timing of one-off contract and events work.

The movement in operating margin was built up as follows:

Operating margin – 2016/17 (restated)	11.5%
Change in:	
Insurance and claims costs	0.8%
Staff costs	(0.8)%
Fuel costs	0.7%
Depreciation and amortisation	(0.4)%
Gain on disposal of land and buildings	(0.3)%
Other	(0.3)%
Operating margin – 2017/18	11.2%

* see definitions in note 22 to the condensed financial statements

The main changes in the operating margin shown above are:

- We have seen positive progress on claims costs with the costs for the year being below last year and less than we expected.
- Staff costs, as expected, have continued to rise, and not all headcount varies with vehicle miles. Staff costs include provisions for additional holiday pay costs and the full year impact of the new Apprenticeship Levy applied by the UK Government from April 2017 to fund new apprenticeships. However, wage awards in the year are in line with our forecast assumptions, staff retention rates remain stable and staff costs remain under control.
- Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.
- Gains on the disposal of land and buildings reduced year-on-year.
- Other costs have increased, including higher depreciation and amortisation as a result of our continued investment.

Enhanced products and customer experience

We are continuing to invest in our fleet, technology and customer service to attract people to the benefits of bus travel. Following several years of substantial capital investment in our regional bus operations, our expenditure on new vehicles has moderated to reflect the changes we have made in a number of our local bus networks. We have placed orders for around 170 new buses for 2018/19, representing an investment of around £40m.

We are now well advanced with our roll-out of contactless ticketing across our bus and coach operations in the UK as part of our multi-million pound digital strategy. The technology is now available at many of our regional bus operations in Scotland and England, as well as at our Scottish Citylink inter-city coach joint venture, with contactless payments expected to be in place on all vehicles by the end of 2018. Stagecoach Group won the award for Best Smart Ticketing Project at the 2018 Transport Ticketing Global Awards for the contactless project, which is one of Visa's fastest growing transit schemes in Europe and is also compatible with Apple Pay and Android Pay.

In July 2017, we launched a blueprint to help ensure bus services can effectively serve new housing developments being planned across the country. Failure to integrate public transport to new developments results in a greater cost to the economy in lost productivity, poorer air quality, longer working days because of extra commuting time and a less safe living environment with more cars on the road.

Providing value travel is a central element of our growth strategy. In our annual national travel mode comparison, our research found that people who use the bus to commute are on average £1,200 per year better off than those travelling to work by car who pay for fuel and parking.

Satisfaction with Stagecoach bus services has risen to 90%, according to independent research published by consumer watchdog, Transport Focus, in March 2018.

Stagecoach achieved the biggest improvement in overall passenger satisfaction of any major UK operator. Customers once again rated Stagecoach as the best value of the major UK bus operators, for the fifth year in a row.

Commercial growth initiatives

With declining propensity to travel in the UK presenting challenges, our UK Bus commercial team is progressing a package of initiatives to respond to changing demand for travel driven by evolving work and social patterns, as well as capitalising on opportunities for growth through technology, more effective marketing and product development. Specific actions underway, to support this and our continued focus on safety, punctuality and reliability include:

- Revised Stagecoach brand strategy to leverage its strength as a trusted travel provider.
- Improved online presence for our main megabus.com and Oxford Tube inter-city travel products and further development of inter-urban/express coach services.
- Simpler pricing and ticketing.
- Enhanced functionality of the Stagecoach bus app and better delivery of real time journey information.
- Evaluation of opportunities for more demand responsive services in a number of locations, as well as the UK's first pilot of autonomous vehicle technology on a standard bus.
- Driving a more agile and entrepreneurial culture at local operating companies, supported by a complementary recruitment strategy.
- Fostering joint working to maximise the opportunities from closer integration of bus and rail.
- Using improved understanding of the segmentation of our existing and potential customer base to identify the profile and triggers to travel for non-users.
- Implementing a new customer relationship management ("CRM") system to engage and improve customer loyalty and yield.
- Increasing the volume of work we undertake to support events, festivals and other businesses, where new technology can support an increased capability to grow revenue in these areas.

Stakeholder engagement

Along with other bus industry groups and other industry stakeholders, we are continuing to make the case for the role of the bus in tackling congestion and air quality. We are pleased that a number of local authorities have started to recognise the important role of Euro VI buses in their draft plans to tackle pollution in their areas, with many exempting retrofit buses from charging Clean Air Zones ("CAZs"). The UK Government's new £48m Ultra-Low Emission Bus Scheme, available for local authorities and operators in England and Wales to support the next generation ultra-low emission bus technologies, is also welcome. However, we believe further action is needed by local authorities to prioritise meaningful action to tackle the biggest polluter, the diesel car, which a 2017 Greener Journeys report notes is currently responsible for 41% of all nitrogen oxides emissions compared to just 6% for buses. In addition, we have called for clearer Government guidance for

councils on CAZs to encourage a shift towards buses and other cleaner modes of transport with 38 of England's 43 air quality zones currently breaching EU legal limits for nitrogen oxides emissions. We are also engaging with the Scottish Government and authorities in Glasgow, Edinburgh, Aberdeen and Dundee over planned low emission zones in those cities.

Outlook

Consistent with 2017/18, we have implemented further vehicle mileage reductions for 2018/19 and applied some price increases where appropriate. We continue to expect modest revenue growth from our local bus services in the short-term. Our costs remain well controlled, with higher pay and pension costs for staff being partially mitigated by expected lower fuel costs.

We have not significantly changed our expectation of the Division's operating profit for the year ending 27 April 2019 since our last update on trading.

Recent years have seen a reduction in people's propensity to travel in the UK. There are factors outside of the control of bus operators that are influencing travel choices including the growth in online services and home delivery, changes in working patterns, road congestion and changes in car costs from improved vehicle efficiency and changes in fuel prices. While there are undoubtedly challenges to growing bus patronage in the longer term, we still see cause for optimism. Forecast further population growth, particularly in urban areas presents opportunities for growing bus patronage. Mass transit, including buses, can help mitigate the risk of population growth in urban areas contributing to worsening road congestion and air quality challenges. Indeed, we would welcome more proactive policy interventions to encourage mass transit use and reduce car use to address these increasing problems. Technological advances may support new entrants to the transport space but they also allow greater personalisation of bus travel, improved customer relationship management and further operating cost efficiencies, thus making services more attractive to customers. Younger people are learning to drive later, are buying cars later and are more comfortable in the "sharing economy", in which buses have a role. In some areas, younger people are also benefiting from policy initiatives that make bus travel more attractive. Against that background, we continue to adjust our regional UK Bus networks to provide additional capacity where demand is growing and reduce capacity to remain cost competitive in areas of reducing demand. We continue to invest in technology and to pilot new ways of working. We see an exciting future for our regional UK Bus operations as we navigate the challenges and build on the opportunities we already see.

UK Bus (London)

Summary

- Positive tender results
- Maintaining sustainable contract pricing
- New depot facility added in South East London

Financial performance

The financial performance of the UK Bus (London) Division for the year ended 28 April 2018 is summarised below:

	2018 £m	2017 £m	Change
Revenue and like-for-like revenue	251.8	263.4	(4.4)%
Operating profit	13.3	18.4	(27.7)%
Operating margin	5.3%	7.0%	(170)bp

During the year, we have won several new contracts from other operators which we will run on behalf of Transport for London. We have made a net gain of four routes with a peak vehicle requirement of 50 buses and a total contract value of close to £13m. That should benefit our revenue in the next financial year, 2018/19. The revenue impact of contracts lost in the prior year is reflected in this year's financial performance and related revenue decline of 4.4%.

The movement in operating margin was built up as follows:

Operating margin – 2016/17	7.0%
Change in:	
Staff costs	(0.6)%
Operating lease costs	(0.6)%
Impairment of vehicles	(0.6)%
Fuel costs	0.5%
Other	(0.4)%
Operating margin – 2017/18	5.3%

Consistent with the UK Bus (regional operations), the new Apprenticeship Levy has added to the UK Bus (London) Division's staff costs in the year. The current year staff costs also reflect pay awards and the implementation of previously disclosed plans to increase starting rates of pay for bus drivers.

Operating lease costs have moved as a percentage of revenue, principally due to year-on-year changes in end of lease vehicle return costs.

The increased impairment expense arises from the impairment of the carrying value of older, owned vehicles that became surplus to requirements during the year.

Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.

We see significant differences in the level of bus depot capacity versus the demand from Transport for London for bus services across the different areas of London. We are exploring the extent to which that presents us with opportunities for growth and/or possible re-deployment of capital. In March 2018, we opened a new depot at Lower Sydenham in South East London. This additional facility will increase our bid capability by providing extra capacity and a modest geographical extension.

We are continuing to innovate and recently launched a new low-cost sightseeing product in London, megasightseeing.com. Leveraging the profile of our megabus.com brand, the service offers a pre-booked two-hour non-stop double-decker bus tour of 50 famous tourist sights with GPS commentary. Around 19 million tourists visit London every year and we believe our significantly lower fares will provide an opportunity to gain a profitable share of the current market as well as to expand it.

Outlook

We currently expect our UK Bus (London) operating margin to remain below our long-term aspiration of 7% in the year ending 27 April 2019. Staff cost inflation in excess of what was assumed in previous successful bids for contracts is affecting profit but our revised expectation of staff and other costs is reflected in our bids for new contracts. We continue to monitor Transport for London's plans to reduce contracted bus mileage in London, and will seek to maintain our contract pricing at a sustainable level where service quality can be maintained and the financial returns reflect the capital invested.

North America

Summary

- Profit and revenue in line with our expectations
- Continued focus on new contract wins
- New megabus.com website performing well

Financial performance

The financial performance of the North America Division for the year ended 28 April 2018 is summarised below:

	2018 US\$m	2017 (restated) US\$m	Change
Revenue	630.0	632.3	(0.4)%
Like-for-like revenue	628.7	630.6	(0.3)%
Operating profit	28.1	23.5	19.6%
Operating margin	4.5%	3.7%	80bp

Like-for like revenue for the year is broadly in line with our expectations. Revenue trends in the second half of the year were lower than growth seen in the first half, reflecting the timing of contract work during the year and more severe weather than our forecasts anticipated over the winter months.

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

	2018 US\$m	2017 US\$m	Change
megabus.com	185.8	192.4	(3.4)%
Scheduled service			
– Commercial revenue	156.2	157.7	(1.0)%
– Support from local authorities	20.2	20.5	(1.5)%
Charter	111.2	118.5	(6.2)%
Contract services	134.7	117.8	14.3%
Sightseeing and tour	20.6	23.7	(13.1)%
Like-for-like revenue	628.7	630.6	(0.3)%

The like-for-like revenue decline of 0.3% for the Division includes a 3.4% decline for megabus.com North America, reflecting previously implemented mileage changes in the network to better match our services to customer demand. megabus.com revenue per mile for the year was up 1.0%. The other businesses in North America reported like-for-like revenue growth of 1.1% for the year.

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

Operating margin – 2016/17 (restated)	3.7%
Change in:	
Fuel costs	1.2%
Staff costs	(0.5)%
Other	0.1%
Operating margin – 2017/18	4.5%

The main changes in the operating margin shown above are:

- Fuel costs have reduced reflecting market fuel prices and our fuel hedging programme.
- Staff costs have continued to rise as a proportion of our revenue base. That includes increased overtime levels at some locations, where we are working to recruit new drivers to reduce the need for overtime working. In addition, the improved financial performance of the Division is reflected in higher staff incentive costs.

Business development

We continue to be encouraged by further additional revenue generated from our focus on contract opportunities. In the first half of the year, we benefitted from rail replacement contracts linked to train disruptions on New Jersey Transit and Long Island Rail Road as a result of track repair work at Pennsylvania Station in New York. This contributed to a reduction in charter revenue as we deployed some vehicles on the rail contract work that would otherwise have been available for charter. We have since benefitted from further smaller rail replacement projects in New York and Maryland. Given the pressure on rail infrastructure, we are hopeful of more opportunities in the short-term. A contract with Bechtel secured in early 2017, moved from start up to full operation in the 2017/18 financial year.

We have launched Virginia Breeze, created with part financial support from the state's transportation department, with tickets sold on megabus.com and linking into its wider network. It connects Virginia with Washington DC and has several stops including Dulles International Airport.

We are delighted with the successful start of our Airport Express service offering fast, convenient transfers between Stewart International Airport and New York City. 40% of all of the Norwegian airline's passengers flying into the airport are taking our bus service.

As previously reported, we took steps last year to consolidate the megabus.com network to reflect demand in an environment of low fuel prices. We are encouraged by the impact of these management actions and also our ability to retain market share in the highly competitive Northeast corridor. However, we are continuing to develop our product offer and marketing to promote the benefits of low-cost inter-city coach travel.

The investment we have made in our new megabus.com website has improved our customers' experience and is supporting our growth. The new website provides a much improved mobile experience and we have seen clear evidence of this translating through into seat sales. The website's new functionality has allowed us to improve our search engine rankings and we have developed online route and destination content to drive traffic to the website. During the year, we launched Megabus RIDE, our new smartphone and tablet app which allows customers to choose from dozens of movies and TV shows on their journey via our free on board Wi-Fi. We are also continuing to refine our yield management approach at megabus.com to maintain our reputation for good value for money while improving yield based on patterns of demand.

Elsewhere in our portfolio, weak sightseeing markets have impacted some of our services, and we have restructured our sightseeing operations as we seek to improve profitability.

Outlook

During 2018/19, we are looking to build on the benefits of the management actions taken during 2017/18 to match services with customer demand at our megabus.com inter-city coach business. Rising fuel prices should help support demand for our services.

We also continue to see growth opportunities from the Division in new contract wins but will remain disciplined in ensuring that we bid for contract opportunities at prices consistent with delivering appropriate rates of return.

UK Rail

Summary

- Good profits from East Midlands Trains and South West Trains
- Greater clarity on Virgin Trains East Coast – franchise terminated in June 2018
- East Midlands Trains franchise extended to March 2019, with plan for further Direct Award
- Bids for new franchises
- UK rail franchises moving to a more balanced risk profile

Financial performance

The financial performance of the UK Rail Division for the year ended 28 April 2018 is summarised below:

	2018	2017 (restated)	
	£m	£m	Change
Revenue	1,495.2	2,160.7	(30.8)%
Like-for-like revenue	1,183.7	1,142.6	3.6%
Operating profit	24.9	28.5	(12.6)%
Operating margin	1.7%	1.3%	40bp

Our UK Rail business continues to see growth in revenue, with like-for-like revenue up 3.6% year-on-year.

The South West Trains franchise expired in August 2017. Profitability during the year was strong and included the resolution of a number of contractual matters as part of the transition of the train operations to a new operator.

The UK Rail Division's reported profit reflects the utilisation of the onerous contract provision recorded at April 2017 in respect of the original contractual arrangements at Virgin Trains East Coast. As forecasted, Virgin Trains East Coast continued to incur trading losses under that contract, which have been applied against the onerous contract provision.

Virgin Trains East Coast

While we were surprised and disappointed by the decision announced by the Secretary of State for Transport on 16 May 2018 to transfer responsibility for operating the East Coast train services from Virgin Trains East Coast to a publically owned company, we welcome the clarity that decision brings. The transfer occurred on 24 June 2018. The subsidiary company, East Coast Main Line Company Limited, which traded as Virgin Trains East Coast, remains part of the Group and there are a number of matters to unwind over the coming months.

The decision is consistent with the Secretary of State for Transport's statement in the House of Commons on 5 February 2018, where he intimated that he was considering two options for the continued operation of the InterCity East Coast services. The financial consequences of that for Virgin Trains East Coast are 90% attributable to the equity holders of the Company and 10% attributable to Virgin's non-controlling interest in Virgin Trains East Coast. In our announcement that day, we indicated that the Secretary of State's position on Virgin Trains East Coast could result in Stagecoach Group plc funding up to a further £19m in cash (£21.0m being payable by the Company to the Department for Transport, with £2.1m of that being attributable to the non-controlling interest) and incurring a further consolidated expense of up to £94m, after taking account of tax and deducting the 10% Virgin non-controlling interest. We noted that could result in the Group's consolidated non-rail net debt being up to around £19m higher than previously forecast but that the other elements of any expense should not affect non-rail net debt. The net cash outflow of £19m is expected to occur in June 2018. The net exceptional expense after

tax for the year ended 28 April 2018 was £93.9m, of which £85.6m was attributable to the equity holders of Company and is within the previously reported range of up to £94m. The net expense is analysed below, with the effects of tax and the amounts attributable to the non-controlling interest separately shown:

	Exceptional income statement expense £m	Exceptional other recognised expense £m	Total recognised exceptional expenses £m
Liability re performance bond	(21.0)	-	(21.0)
Increase in onerous contract provision and adjustments to carrying value of assets and liabilities	(28.0)	-	(28.0)
Pensions actuarial loss	-	(32.9)	(32.9)
Loss before tax	(49.0)	(32.9)	(81.9)
Tax	(14.5)	2.5	(12.0)
Loss after tax	(63.5)	(30.4)	(93.9)
Non-controlling interest	5.6	2.7	8.3
Loss attributable to equity holders of the parent	(57.9)	(27.7)	(85.6)

We regret the losses the Group has experienced on the East Coast franchise, notwithstanding that these were significantly influenced by factors outside of our control. We have examined our bid for and operation of the franchise closely and have also looked more broadly at our rail bid governance. We involved external advisors in that and we have made changes to our processes to strengthen our approach to bidding and contract management in UK rail. The lessons learnt have been reflected in our subsequent bids.

East Midlands Trains

Like-for-like revenue at East Midlands Trains grew by 3.5% for the year. While growth in the first half of the year was adversely affected by the terrible terrorist events in London and Manchester, performance in the second half of the year has been stronger. The business continues to deliver good levels of profitability.

During the year, the Department for Transport exercised its pre-contracted option to extend the East Midlands Trains franchise to March 2019, with plans for a further Direct Award franchise beyond that time. The Department for Transport currently expects the Direct Award franchise to run from March 2019 to the anticipated start of the next competitively tendered franchise in August 2019. The current franchise is subject to a GDP risk sharing arrangement with the Department for Transport that reduces the train operator's exposure to significant changes in GDP. We are progressing work on our bid for the next competitively tendered East Midlands franchise.

East Midlands Trains has had the highest punctuality of any of the UK franchised long distance train operators for the last eight years.

We have worked in partnership with Network Rail to support work on the biggest upgrade of the Midland Main Line since it was completed in 1870, alongside the Government-sponsored £7bn Thameslink programme. A new timetable was introduced in May 2018, one of the biggest changes in recent railway history. It includes some changes to East Midlands Trains services to

accommodate extra peak-time seats, improved journey times and better connections on the Thameslink network. The Midland Main Line upgrade programme is due for completion in 2020. We have also been working in close partnership with Network Rail, CrossCountry and Transport Focus on operational planning and customer communications around the major Derby resignalling programme taking place from this summer. The £200m project will improve journeys to and through Derby railway station, and will also provide a new platform and new track. Most recent independent research shows that 87% of East Midlands Trains customers are satisfied with its services.

South West Trains

In August, we completed the operational delivery of our South Western rail franchise, working collaboratively with the new operator and industry partners to ensure a smooth transition. There remain a number of assets and liabilities of South West Trains as at 28 April 2018, where the amounts due will be confirmed and settled with the counterparties in the months ahead.

Sheffield Supertram

Passenger satisfaction with Sheffield Supertram has risen to the second highest level on record at 95%.

The first passenger service of the new vehicles to be used for the innovative Tram Train project took place at Sheffield Supertram in September. The project, which will improve journeys between Sheffield and Rotherham, is the first of its kind in the country. Testing of the trams with new infrastructure is being undertaken to allow driver training to begin this summer, with full services due to start towards the end of 2018. We have also made the first changes to the Supertram timetable in 15 years to improve reliability and peak capacity following a significant increase in road traffic.

Franchising update

We are working on new opportunities in the UK franchised rail market and are pleased at the steps taken by the Department for Transport to deliver an improved risk-reward balance in new franchise competitions. We are also encouraged to see signs of moderation in the level of capital put at risk on individual franchises, which we believe should be commensurate with the potential financial returns.

Earlier this year, we submitted our bid for the South Eastern franchise, which serves passengers in south-east London and parts of Kent and East Sussex. Stagecoach is one of three bidders shortlisted for the new South Eastern franchise. We were pleased to confirm in February our intention to form a relationship with Alstom Transport UK Limited (part of the Alstom SA Group) for that rail franchise, subject to Department for Transport consent. It is intended that Alstom will hold 20% of the share capital of the train operating company if our bid for the franchise is successful. Around a third of all rail journeys in the UK are made on Alstom trains, including the flagship Pendolinos that run on the West Coast route.

We are also bidding for the West Coast Partnership franchise jointly with SNCF and Virgin Group. The invitation to tender for the new West Coast Partnership was issued in March. Stagecoach has a 50% share in the bid vehicle, with SNCF holding 30% and Virgin 20%. Our objective is to work with stakeholders to create a new service that offers a world class customer experience whilst delivering value for local communities and supporting economic growth.

Stagecoach has also started work on its bid for the next competitively tendered East Midlands franchise, where it is one of three shortlisted bidders. The Department for Transport issued the invitation to tender in June and the new franchise is expected to begin in August 2019.

We have delivered good investor returns from UK rail over more than 20 years and some of the biggest returns for taxpayers. We are focused on ensuring that any bid for a new franchise is designed to achieve an acceptable balance of risk and expected reward and based on the emerging re-balancing of risk in UK rail franchises, we are optimistic that we can deliver satisfactory financial returns from UK rail.

Outlook

Our UK Rail operating profit for 2018/19 is expected to decline, with anticipated profit from the East Midlands Trains franchise being partly offset by the costs of bidding for new opportunities.

Revenue growth across the UK rail sector has strengthened in recent months, albeit remaining below levels typically seen since privatisation in the 1990s. In any event, our current major franchise at East Midlands Trains, has limited exposure to revenue risk because it has only around nine months to run and benefits from a GDP sharing arrangement with the Department for Transport. In our proposals for new franchises, we will assess revenue trends, revenue risk sharing arrangements and longer term revenue expectations to ensure we do not take unacceptable rail revenue risk.

We are positive on new franchise opportunities. We welcome the introduction of the "Forecast Revenue Mechanism" by the Department for Transport, where the Department for Transport shares in variances in revenue versus forecast, which should significantly reduce the likelihood of a future rail franchise experiencing the extent of the financial challenges that we encountered at Virgin Trains East Coast. The new FRM mechanism is an important factor in our decision to continue bidding for UK rail franchises. Taking account of that, the moderation of the levels of risk capital required for a franchise, the work we have undertaken to learn lessons from our experience at Virgin Trains East Coast, our expertise in rail bidding and operations, and the relatively few bidders in each recent franchise competition means we believe we can earn good financial returns from UK rail in the coming years as well as continue to deliver improvements for customers and value for taxpayers.

Joint Ventures

Virgin Rail Group

Summary

- Continuing good financial performance
- High customer satisfaction
- New Direct Award franchise

Financial performance

The financial performance of the Group's Virgin Rail Group joint venture for the year ended 28 April 2018 is summarised below:

	2018	2017
	£m	£m
49% share		
Revenue	574.0	556.8
Operating profit	30.0	31.5
Net finance income	0.4	0.5
Taxation	(4.5)	(7.2)
Profit after tax	25.9	24.8
Operating margin	5.2%	5.7%

Virgin Rail Group's West Coast rail franchise delivered like-for-like revenue growth of 3.1% for the year ended 28 April 2018 and a good profit margin. The lower effective tax rate in the year reflects an adjustment to prior years' tax following the tax authority closing its enquiry into a previous tax return.

In February 2018, Virgin Rail Group agreed a new Direct Award franchise on West Coast which runs through to at least 31 March 2019, with the option for up to a further one-year extension at the Department for Transport's discretion. The contract bridges the gap between the existing franchise, which ended in March 2018, and the new West Coast Partnership, due to start in September 2019. Under the new franchise, a revenue share arrangement with the Department for Transport applies whereby the Department for Transport bears 90% of the risk of any difference in excess of 1% between the forecast revenue reflected in the contract and actual revenue. This provides Virgin Rail Group with significant protection against movements in forecast rail revenue and enables the Department to share in revenue out-performance.

Under the Direct Award contract, Virgin Trains customers will see a significant improvement in on-board Wi-Fi on all 56 Pendolino trains and free Wi-Fi will be extended to all customers on these trains as part of a £7.5m investment. All station ticket machines are being upgraded to accept contactless payment as part of the new contract. More than £3m is being invested to improve station and on-train environments, including additional seating at stations and improved toilets, lighting and carpets on trains. Additional staff will be based at stations during busy times to improve accessibility, and better customer information will be available during disruption through an improved customer contact system. Virgin Trains is also creating new apprenticeship opportunities, including for train driver roles.

The new contract will allow Virgin Trains to build on 20 years of success on the West Coast route where it has almost tripled journey numbers from 14m a year to more than 38m and has consistently topped the long distance franchised sector for passenger satisfaction.

Outlook

Virgin Rail Group's operating profit in 2018/19 is anticipated to reduce, reflecting the full year effect of the contractual terms on the new Direct Award West Coast franchise.

Pre-exceptional EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items (pre-exceptional EBITDA) amounted to £334.4m (2017: £345.4m). Pre-exceptional EBITDA can be reconciled to the condensed financial statements as follows:

	2018 £m	2017 £m
Total operating profit	132.1	47.3
Exceptional items	47.8	128.7
Intangible asset amortisation	12.7	16.8
Depreciation	132.9	145.5
Impairment	4.5	-
Add back joint venture finance income & tax	4.4	7.1
Pre-exceptional EBITDA	334.4	345.4

Intangible asset amortisation reduced from £16.8m to £12.7m, reflecting the write-down in intangible assets at Virgin Trains East Coast in the previous year.

Depreciation reduced from the previous year reflecting the cessation of our South Western rail franchise.

Exceptional items

The following exceptional items were recognised in the year ended 28 April 2018:

- As explained in the UK Rail section, an exceptional pre-tax expense of £81.9m has been recorded in respect of the Virgin Trains East Coast franchise. Of the total expense, £49.0m has been recognised in the consolidated income statement, with the remaining £32.9m recognised in the consolidated statement of comprehensive income, as it represents the actuarial loss in relation to the remeasurement of the pension asset arising from the termination of the franchise.
- A pre-tax exceptional loss of £1.7m was recognised in respect of the closure of our Norfolk Green business within the UK Bus (regional operations) Division. Due to the non-recurring nature of business disposals, we present any such gains or losses as exceptional items to allow a proper understanding of the Group's financial performance.
- A pre-tax exceptional gain of £1.2m was recognised in respect of a reassessment of liabilities for North America legal claims.

The net effect of exceptional items was a pre-tax loss of £49.5m (2017: £124.0m).

Net finance costs

Net finance costs for the year ended 28 April 2018 were £35.1m (2017: £34.1m) and can be further analysed as follows:

	2018 £m	2017 £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	3.8	4.7
Hire purchase and finance lease interest payable	1.5	1.7
Interest payable and other finance charges on bonds	21.8	22.0
Unwinding of discount on provisions	3.5	3.5
Interest charge on defined benefit pension schemes	6.0	3.7
	36.6	35.6
Finance income		
Interest receivable on cash	(0.7)	(1.2)
Effect of interest rate swaps	(0.8)	(0.3)
	(1.5)	(1.5)
Net finance costs	35.1	34.1

The modest increase in net finance costs is principally due to higher interest expense on defined benefit pension schemes arising from changes in market-driven assumptions used to determine pension amounts.

Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax 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 28 April 2018, excluding exceptional items, was 15.2% (2017: 17.5%).

The tax charge can be analysed as follows:

	Pre-tax profit £m	Tax £m	Rate %
Excluding exceptional items	149.6	(22.7)	15.2%
Exceptional items	(49.5)	(13.6)	(27.5)%
With joint venture taxation gross	100.1	(36.3)	36.3%
Reclassify joint venture taxation for reporting purposes	(4.8)	4.8	
Reported in income statement	95.3	(31.5)	33.1%

The effective tax rate, excluding exceptional items, of 15.2% is lower than the 19.0% rate of UK corporation tax for the year. The difference is principally due to the utilisation of previously unrecognised tax losses and the release of liabilities for uncertain tax positions following the conclusion of a state tax audit in the US, the reclassification of the Group by Her Majesty's Revenue and Customs ("HMRC") to "low risk" and HMRC closing its enquiries into tax returns in respect of previous years. Assuming the composition of the Group remains broadly unchanged and that there are no significant changes to expected corporate tax rates or laws in the UK, the US and Canada, we expect the Group's future effective tax rate (excluding exceptional items) to be between 17% and 20%.

The cash tax paid in the year of £16.3m (2017: £21.6m) compares to the tax charge for Group companies of £31.5m (2017: credit of £0.2m) shown above. The largest difference relates to the £13.6m tax charge recognised on exceptional items that has yet to affect cash tax.

The areas where the Group sees uncertainty around the amount of tax that is payable relate to losses incurred by Virgin Trains East Coast, the financing of and transactions with overseas operations and losses incurred by overseas operations in the ordinary course of business.

Fuel costs

The Group's operations as at 28 April 2018 consume approximately 385m 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:	2019	2020	2021
Total Group	79%	69%	43%

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

Cash flows and net debt

Consolidated net debt (as analysed in note 17 to the condensed financial statements) has reduced in the year, notwithstanding operating cash outflows at Virgin Trains East Coast and the transfer of cash following the August 2017 expiry of the South West Trains franchise. Consolidated net debt at 28 April 2018 was £395.8m (2017: £409.4m) and non-rail net debt was £567.0m (2017: £628.8m). Although the consolidated net debt at 28 April 2018 is less than we expected, that largely reflects variations in the timing of UK rail cash flows. The balance at 28 April 2018 includes £84.5m of Virgin Trains East Coast cash, which we expect will reduce to nil in the year to 27 April 2019 and we also expect further net cash outflows in respect of South West Trains as we conclude open matters relating to the expired franchise. However, we do expect non-rail net debt to reduce in the year to 27 April 2019.

Net cash from operating activities before tax for the year ended 28 April 2018 was £208.8m (2017: £253.7m) and can be further analysed as follows:

	2018 £m	2017 £m
EBITDA of Group companies before exceptional items	302.9	312.1
Cash effect of exceptional items	-	(3.7)
Gain on disposal of property, plant and equipment	(3.2)	(4.3)
Equity-settled share based payment expense	1.2	1.9
Working capital movements	(93.0)	(53.7)
Net interest paid	(26.3)	(26.7)
Dividends from joint ventures	27.2	28.1
Net cash flows from operating activities before taxation	208.8	253.7

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

Year to 28 April 2018	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	41.0	261.9	302.9
Gain on disposal of property, plant and equipment	(1.0)	(2.2)	(3.2)
Equity-settled share based payment expense	0.5	0.7	1.2
Working capital movements	(129.2)	36.2	(93.0)
Net interest paid	(2.8)	(23.5)	(26.3)
Dividends from joint ventures	-	27.2	27.2
Net cash flows from operating activities before taxation	(91.5)	300.3	208.8
Inter-company movements	48.9	(48.9)	-
Tax paid	(7.8)	(8.5)	(16.3)
Investing activities	2.2	(118.2)	(116.0)
Financing activities	-	(69.6)	(69.6)
Foreign exchange/other	-	6.7	6.7
Movement in net debt	(48.2)	61.8	13.6
Opening net debt	219.4	(628.8)	(409.4)
Closing net debt	171.2	(567.0)	(395.8)

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 due to the expiry of the South West Trains franchise and the previously provided for cash losses at Virgin Trains East Coast.

The expiry of the South West Trains franchise has increased our net debt in the year by around £30m. We would anticipate a further net cash outflow in this respect as we conclude open matters. The closing balance of £171.2m for train operating companies shown in the table above excludes South West Trains.

The net impact of purchases and sales of property, plant and equipment for the year on net debt ("net capital expenditure") was £100.4m (2017: £157.3m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £111.7m (2017: £155.5m) and new hire purchase and finance lease debt of £27.2m (2017: £47.8m). In addition, £38.5m (2017: £46.0m) cash was received from disposals of property, plant and equipment.

Net capital expenditure, split by division, was:

	2018 £m	2017 £m
UK Bus (regional operations)	73.8	97.4
UK Bus (London)	2.1	1.6
North America	36.0	37.4
UK Rail	(11.5)	20.9
	100.4	157.3

In addition to the amounts shown in the table above, a further net £18.7m (2017: £17.8m) was invested in software and a technology business.

Financial position and liquidity

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

During the year ended 28 April 2018, we extended the duration of £50m 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 remains strong and is evidenced by:

- The ratio of net debt at 28 April 2018 to pre-exceptional EBITDA for the year ended 28 April 2018 was 1.2 times (2017: 1.2 times).
- Pre-exceptional EBITDA for the year ended 28 April 2018 was 9.6 times (2017: 10.3 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £433.4m at 28 April 2018 (2017: £333.8m) 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.

Proposed dividend

The Board has proposed a final dividend of 3.9p, which will result in a full year dividend of 7.7p per share for the year ended 28 April 2018. The Board has taken the decision to rebase the dividend to what it views as a sustainable level and which is covered by the normalised, annual free cash flows from the non-rail operations. The Group will look to at least maintain the rate of annual dividends at that rebased level of 7.7p per share.

Approach to dividend policy

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

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

As at 28 April 2018, the Company's distributable reserves totalled £211.5m (2017: £247.7m), which compares to dividends paid in cash in the year ended 28 April 2018 of £68.3m (2017: £67.1m). In addition, we consider that the Company's distributable reserves could be further increased through dividends from subsidiary companies and/or changes in the Group structure. The Group considers there to be a low risk that the level of distributable reserves will be a constraining factor on dividend payments for the foreseeable future.

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

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

Net assets

Net assets at 28 April 2018 were £181.7m (2017: £68.5m).

The increase in the net assets reflects the profit for the year, actuarial gains on defined benefit pension schemes and fair value gains on cash flow hedges, partly offset by dividends paid.

Retirement benefits

The reported net assets of £181.7m (2017: £68.5m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £142.2m (2017: £232.5m), and associated deferred tax assets of £24.9m (2017: £44.4m).

The Group recognised net pre-tax actuarial gains of £106.7m in the year ended 28 April 2018 (2017: £127.6m losses) on Group defined benefit pension schemes.

The Pensions Regulator takes an active interest in the main pension schemes in which we participate and the relevant trustees continue to discuss the appropriateness of scheme valuations and contribution rates with the Regulator.

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 10 to 14 of the Group's 2017 Annual Report set out specific risks and uncertainties in more detail. Further information and updates will be provided in the 2018 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. New legislation introduced and planned in the UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations.
- Management and Board succession – there is a risk that the Group does not recruit and retain sufficient directors and managers with the skills important to the operation of the business.
- Disease – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease.
- Information security – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- Information technology – there is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand.
- Competition – in certain of the markets we operate in, there is a risk of increased competitive pressures from existing competitors and new entrants.
- Treasury risks – the Group is affected by changes in fuel prices, interest rates and exchange rates.

Use of non-GAAP measures

Our reported preliminary financial information is extracted from the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our 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.

In our preliminary results announcement of 28 June 2017, we noted our intention to discuss with analysts and investors whether adjusting our definition of adjusted earnings per share to include software amortisation would provide them with a more useful measure of performance, reflecting the growth in these costs as we have invested in our digital programmes. We confirmed in our trading statement of 28 September 2017 that based on those discussions and consistent with emerging market practice, we will now report adjusted earnings per share inclusive of software amortisation. The adjusted earnings per share of 22.3p that we have reported for the year ended 28 April 2018 has been determined on that basis.

The effect on previously reported amounts of including these costs within adjusted earnings per share is set out below:

Year ended 29 April 2017	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 interest	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 28 April 2018.

Current trading and outlook

We have made a good start to the year ending 27 April 2019 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 three years and we remain investment grade rated.

Martin Griffiths
Chief Executive
28 June 2018

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 28 April 2018			Audited Year to 29 April 2017 (restated)		
		Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
		£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	3(a)	3,226.8	-	3,226.8	3,941.2	-	3,941.2
Operating costs and other operating income		(3,074.0)	(47.8)	(3,121.8)	(3,782.3)	(137.8)	(3,920.1)
Operating profit of Group companies	3(b)	152.8	(47.8)	105.0	158.9	(137.8)	21.1
Share of profit of joint ventures after finance costs, finance income and taxation	3(c)	27.1	-	27.1	26.2	-	26.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	3(b)	179.9	(47.8)	132.1	185.1	(137.8)	47.3
Non-operating exceptional items	4	-	(1.7)	(1.7)	-	4.7	4.7
Profit before interest and taxation		179.9	(49.5)	130.4	185.1	(133.1)	52.0
Finance costs		(36.6)	-	(36.6)	(35.6)	-	(35.6)
Finance income		1.5	-	1.5	1.5	-	1.5
Profit before taxation		144.8	(49.5)	95.3	151.0	(133.1)	17.9
Taxation		(17.9)	(13.6)	(31.5)	(19.3)	19.5	0.2
Profit from continuing operations and profit after taxation for the year		126.9	(63.1)	63.8	131.7	(113.6)	18.1
Attributable to:							
Equity holders of the parent		128.0	(57.5)	70.5	133.5	(101.7)	31.8
Non-controlling interest		(1.1)	(5.6)	(6.7)	(1.8)	(11.9)	(13.7)
		126.9	(63.1)	63.8	131.7	(113.6)	18.1
Earnings per share (all of which relates to continuing operations)							
- Adjusted/Basic	7	22.3p		12.3p	23.3p		5.5p
- Adjusted diluted/Diluted	7	22.2p		12.2p	23.2p		5.5p
Dividends per ordinary share							
- Interim paid	6			3.8p			3.8p
- Final proposed	6			3.9p			8.1p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Profit for the year	63.8	18.1
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Net fair value gains on cash flow hedges	50.3	17.6
- Reclassified and reported in profit for the year	(2.0)	21.0
- Share of other comprehensive income on joint ventures' cash flow hedges	0.2	3.3
- Tax effect of cash flow hedges	(9.2)	(7.3)
- Tax effect of share of other comprehensive income 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	(7.0)	13.5
- Tax effect of foreign exchange differences arising in the year	(0.3)	-
- Reclassified and reported in profit for the year	-	(4.6)
Total items that may be reclassified to profit or loss	32.0	42.9
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on Group defined benefit pension schemes	106.7	(127.6)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	(20.6)	22.7
Share of actuarial (losses)/gains on joint ventures' defined benefit schemes, net of tax	(0.6)	2.5
Total items that will not be reclassified to profit or loss	85.5	(102.4)
Other comprehensive income /(expense) for the year	117.5	(59.5)
Total comprehensive income /(expense) for the year	181.3	(41.4)
Attributable to:		
Equity holders of the parent	190.7	(29.9)
Non-controlling interest	(9.4)	(11.5)
	181.3	(41.4)

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

		Audited As at 28 April 2018	Audited As at 29 April 2017
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	8	142.1	148.2
Other intangible assets	9	44.4	45.0
Property, plant and equipment	10	1,137.1	1,190.3
Interests in joint ventures	11	25.2	25.7
Available for sale investments		2.7	-
Derivative instruments at fair value		30.0	7.0
Deferred tax asset		-	14.4
Retirement benefit asset	13	4.6	45.6
Other receivables		3.8	4.9
		1,389.9	1,481.1
Current assets			
Inventories		22.9	25.2
Trade and other receivables		235.3	449.0
Derivative instruments at fair value		11.4	7.3
Foreign tax recoverable		-	0.3
Cash and cash equivalents		238.2	313.3
		507.8	795.1
Total assets	3(d)	1,897.7	2,276.2
LIABILITIES			
Current liabilities			
Trade and other payables		614.6	848.0
Current tax liabilities		41.2	36.6
Foreign tax liabilities		0.6	-
Borrowings		36.9	40.5
Derivative instruments at fair value		0.4	16.6
Provisions		117.7	118.6
		811.4	1,060.3
Non-current liabilities			
Other payables		20.4	35.8
Borrowings		606.9	693.0
Derivative instruments at fair value		0.1	6.9
Deferred tax liabilities		25.2	-
Provisions		105.2	133.6
Retirement benefit obligations	13	146.8	278.1
		904.6	1,147.4
Total liabilities	3(d)	1,716.0	2,207.7
Net assets	3(d)	181.7	68.5
EQUITY			
Ordinary share capital	14	3.2	3.2
Share premium account		8.4	8.4
Retained earnings		(228.6)	(320.4)
Capital redemption reserve		422.8	422.8
Own shares		(38.0)	(37.0)
Translation reserve		2.9	10.2
Cash flow hedging reserve		30.1	(9.0)
Total equity attributable to the parent		200.8	78.2
Non-controlling interest		(19.1)	(9.7)
Total equity		181.7	68.5

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 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 (expense)/income net of tax	-	-	(101.9)	-	-	8.9	31.3	(61.7)	2.2	(59.5)
Total comprehensive (expense)/income	-	-	(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
Profit for the year	-	-	70.5	-	-	-	-	70.5	(6.7)	63.8
Other comprehensive income/(expense) net of tax	-	-	88.4	-	-	(7.3)	39.1	120.2	(2.7)	117.5
Total comprehensive income/(expense)	-	-	158.9	-	-	(7.3)	39.1	190.7	(9.4)	181.3
Own ordinary shares purchased	-	-	-	-	(1.0)	-	-	(1.0)	-	(1.0)
Credit in relation to equity-settled share based payments	-	-	1.2	-	-	-	-	1.2	-	1.2
Dividends paid on ordinary shares	-	-	(68.3)	-	-	-	-	(68.3)	-	(68.3)
Balance at 28 April 2018	3.2	8.4	(228.6)	422.8	(38.0)	2.9	30.1	200.8	(19.1)	181.7

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
	Notes		
Cash flows from operating activities			
Cash generated by operations	15	207.9	252.3
Interest paid		(30.8)	(26.9)
Interest received		4.5	0.2
Dividends received from joint ventures		27.2	28.1
Net cash flows from operating activities before tax		208.8	253.7
Tax paid		(16.3)	(21.6)
Net cash from operating activities after tax		192.5	232.1
Cash flows from investing activities			
Disposal of business		-	19.6
Purchase of property, plant and equipment		(111.7)	(155.5)
Disposal of property, plant and equipment		38.5	46.0
Purchase of intangible assets and other investments		(18.7)	(17.8)
Disposal of intangible assets		3.1	-
Disposal of investments in joint ventures		-	7.0
Net cash outflow from investing activities		(88.8)	(100.7)
Cash flows from financing activities			
Purchase of treasury shares		(1.0)	(2.7)
Repayments of hire purchase and lease finance debt		(26.0)	(58.1)
Drawdown of other borrowings		160.0	182.9
Repayment of other borrowings		(242.0)	(258.3)
Dividends paid on ordinary shares	6	(68.3)	(67.1)
Sale of tokens		0.1	0.1
Redemption of tokens		(0.4)	(0.5)
Net cash used in financing activities		(177.6)	(203.7)
Net decrease in cash and cash equivalents		(73.9)	(72.3)
Cash and cash equivalents at the beginning of the year		313.3	382.3
Exchange rate effects		(1.2)	3.3
Cash and cash equivalents at the end of the year		238.2	313.3

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

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the period from 30 April 2017 to 28 April 2018.

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. As explained in note 5, the definition of adjusted earnings has been changed to include software amortisation. The accounting policies and methods of computation applied in the condensed financial statements are otherwise the same as those of the consolidated financial statements for the year ended 29 April 2017.

New standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 30 April 2017, do not have any material effect on the consolidated financial statements of the Group.

The Board of Directors approved this announcement on 28 June 2018.

2 FOREIGN CURRENCIES

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

	Year to 28 April 2018	Year to 29 April 2017
US Dollar:		
Year end rate	1.3797	1.2937
Average rate	1.3380	1.2937
Canadian Dollar:		
Year end rate	1.7745	1.7689
Average rate	1.7072	1.7036

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 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 28 April 2018 £m	Audited Year to 29 April 2017 £m
Continuing operations		
UK Bus (regional operations)	1,012.5	1,015.7
megabus Europe	-	20.2
UK Bus (London)	251.8	263.4
North America	470.9	488.8
Total bus operations	1,735.2	1,788.1
UK Rail	1,495.2	2,160.7
Total Group revenue	3,230.4	3,948.8
Intra-Group revenue – UK Bus (regional operations)	(3.6)	(7.6)
Reported Group revenue	3,226.8	3,941.2

(b) Operating profit

Operating profit split by segment was as follows:

	Audited Year to 28 April 2018			Audited Year to 29 April 2017 (restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 4)	Results for the year
	£m	£m	£m	£m	£m	£m
Continuing operations						
UK Bus (regional operations)	112.9	-	112.9	117.0	3.9	120.9
megabus Europe	-	-	-	(4.3)	-	(4.3)
UK Bus (London)	13.3	-	13.3	18.4	-	18.4
North America	21.0	1.2	22.2	18.2	-	18.2
Total bus operations	147.2	1.2	148.4	149.3	3.9	153.2
UK Rail	24.9	(49.0)	(24.1)	28.5	(128.9)	(100.4)
	172.1	(47.8)	124.3	177.8	(125.0)	52.8
Group overheads	(15.3)	-	(15.3)	(14.1)	-	(14.1)
Intangible asset amortisation (exc software)	-	-	-	-	(9.1)	(9.1)
Restructuring costs	(4.0)	-	(4.0)	(4.8)	(3.7)	(8.5)
Total operating profit of continuing Group companies	152.8	(47.8)	105.0	158.9	(137.8)	21.1
Share of joint ventures' profit after finance costs, finance income and taxation	27.1	-	27.1	26.2	-	26.2
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	179.9	(47.8)	132.1	185.1	(137.8)	47.3

3 SEGMENTAL ANALYSIS (CONTINUED)

(c) Joint ventures

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

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Virgin Rail Group (UK Rail)		
Operating profit	30.0	31.5
Finance income (net)	0.4	0.5
Taxation	(4.5)	(7.2)
	25.9	24.8
Citylink (UK Bus regional operations)		
Operating profit	1.5	1.8
Taxation	(0.3)	(0.4)
	1.2	1.4
Share of profit of joint ventures after finance costs, finance income and taxation	27.1	26.2

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Audited As at 28 April 2018			Audited As at 29 April 2017		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
Continuing operations						
UK Bus (regional operations) and megabus						
Europe	945.2	(271.4)	673.8	959.6	(368.4)	591.2
UK Bus (London)	68.5	(117.3)	(48.8)	69.1	(176.7)	(107.6)
North America	404.9	(143.9)	261.0	429.5	(144.7)	284.8
UK Rail	192.8	(427.4)	(234.6)	426.2	(704.3)	(278.1)
	1,611.4	(960.0)	651.4	1,884.4	(1,394.1)	490.3
Central functions	22.9	(45.2)	(22.3)	38.1	(43.5)	(5.4)
Joint ventures	25.2	-	25.2	25.7	-	25.7
Borrowings and cash	238.2	(643.8)	(405.6)	313.3	(733.5)	(420.2)
Taxation	-	(67.0)	(67.0)	14.7	(36.6)	(21.9)
Total	1,897.7	(1,716.0)	181.7	2,276.2	(2,207.7)	68.5

4 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET AMORTISATION

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

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

	Audited Year to 28 April 2018			Audited Year to 29 April 2017 (restated)		
	Exceptional items £m	Intangible asset amortisation (exc software) £m	Intangibles (exc software) and exceptional items £m	Exceptional items £m	Intangible asset amortisation (exc software) £m	Intangibles (exc software) 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 costs	-	-	-	(3.7)	-	(3.7)
Reduction in liability for North America legal claims	1.2	-	1.2	-	-	-
Impairment of Virgin Trains East Coast intangible asset	-	-	-	(44.8)	-	(44.8)
Onerous contract provision and adjustments to asset/liability carrying values re Virgin Trains East Coast	(49.0)	-	(49.0)	(84.1)	-	(84.1)
Intangible asset amortisation (exc software)	-	-	-	-	(9.1)	(9.1)
	(47.8)	-	(47.8)	(128.7)	(9.1)	(137.8)
Non-operating exceptional items						
UK Bus (regional operations) business closure	(1.7)	-	(1.7)	-	-	-
Megabus Europe disposal	-	-	-	(6.9)	-	(6.9)
Twin America disposal	-	-	-	11.6	-	11.6
Non-operating exceptional items	(1.7)	-	(1.7)	4.7	-	4.7
Intangible asset amortisation (exc software) and exceptional items	(49.5)	-	(49.5)	(124.0)	(9.1)	(133.1)
Tax effect	(13.6)	-	(13.6)	18.8	0.7	19.5
Intangible asset amortisation (exc software) and exceptional items after taxation	(63.1)	-	(63.1)	(105.2)	(8.4)	(113.6)

The impairment of Virgin Trains East Coast intangible asset in the year ended 29 April 2017 is considered to be both an exceptional item and intangible asset amortisation. It is presented as an exceptional item in the table above.

5 RESTATEMENT OF ADJUSTED EARNINGS PER SHARE

As explained in the section headed “Updating definition of adjusted earnings per share” on page 17, adjusted earnings per share are now reported inclusive of software amortisation, and the effect on previously reported amounts of including these costs within adjusted earnings is set out below:

(a) Consolidated income statement – restatement of adjusted amounts

For the year ended 29 April 2017	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	2017 previously reported £m	Include software amortisation £m	2017 restated £m	2017 previously reported £m	Remove software amortisation £m	2017 restated £m
Revenue	3,941.2	-	3,941.2	-	-	-
Operating costs and other operating income	(3,774.6)	(7.7)	(3,782.3)	(145.5)	7.7	(137.8)
Operating profit of Group companies	166.6	(7.7)	158.9	(145.5)	7.7	(137.8)
Share of profit of joint ventures after finance income and taxation	26.2	-	26.2	-	-	-
Total operating profit: Group operating profit and share of joint ventures' profit after tax	192.8	(7.7)	185.1	(145.5)	7.7	(137.8)
Non-operating exceptional items	-	-	-	4.7	-	4.7
Profit before interest and taxation	192.8	(7.7)	185.1	(140.8)	7.7	(133.1)
Finance costs	(35.6)	-	(35.6)	-	-	-
Finance income	1.5	-	1.5	-	-	-
Profit before taxation	158.7	(7.7)	151.0	(140.8)	7.7	(133.1)
Taxation	(20.7)	1.4	(19.3)	20.9	(1.4)	19.5
Profit from continuing operations and profit after taxation for the year	138.0	(6.3)	131.7	(119.9)	6.3	(113.6)
Attributable to:						
Equity holders of the parent	139.7	(6.2)	133.5	(107.9)	6.2	(101.7)
Non-controlling interest	(1.7)	(0.1)	(1.8)	(12.0)	0.1	(11.9)
	138.0	(6.3)	131.7	(119.9)	6.3	(113.6)

(b) Segmental operating profit – restatement of adjusted amounts

For the year ended 29 April 2017	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	2017 previously reported £m	Include software amortisation £m	2017 restated £m	2017 previously reported £m	Remove software amortisation £m	2017 restated £m
UK Bus (regional operations)	121.1	(4.1)	117.0	3.9	-	3.9
megabus Europe	(4.3)	-	(4.3)	-	-	-
UK Bus (London)	18.4	-	18.4	-	-	-
North America	19.3	(1.1)	18.2	-	-	-
Total bus operations	154.5	(5.2)	149.3	3.9	-	3.9
UK Rail	31.0	(2.5)	28.5	(128.9)	-	(128.9)
	185.5	(7.7)	177.8	(125.0)	-	(125.0)
Group overheads	(14.1)	-	(14.1)	-	-	-
Intangible asset expenses	-	-	-	(16.8)	7.7	(9.1)
Restructuring costs	(4.8)	-	(4.8)	(3.7)	-	(3.7)
Total operating profit of Group companies	166.6	(7.7)	158.9	(145.5)	7.7	(137.8)
Share of profit of joint ventures after finance costs, finance income and taxation	26.2	-	26.2	-	-	-
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	192.8	(7.7)	185.1	(145.5)	7.7	(137.8)

6 DIVIDENDS

Dividends on ordinary shares are shown below.

	Audited Year to 28 April 2018 pence per share	Audited Year to 29 April 2017 pence per share	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Amounts recognised as distributions in the year				
Dividends on ordinary shares:				
Final dividend in respect of the previous year	8.1	7.9	46.5	45.3
Interim dividend in respect of the current year	3.8	3.8	21.8	21.8
Amounts recognised as distributions to equity holders in the year	11.9	11.7	68.3	67.1
Dividends declared or proposed but neither paid nor included as liabilities in the financial statements				
Dividends on ordinary shares:				
Final dividend in respect of the current year	3.9	8.1	22.4	46.5

The interim dividend of 3.8p per ordinary share was declared by the Board of Directors on 6 December 2017 and paid on 7 March 2018. The Board has proposed a final dividend of 3.9p per ordinary share payable on 3 October 2018 to shareholders on the register at 24 August 2018.

7 EARNINGS PER SHARE

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held in treasury 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 28 April 2018 No. of shares million	Audited Year to 29 April 2017 No. of shares million
Basic weighted average number of ordinary shares	573.4	573.6
Dilutive ordinary shares		
- Executive Participation Plan	2.7	2.3
Diluted weighted average number of ordinary shares	576.1	575.9

Adjusted EPS is calculated by adding back non-software 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 further understanding of the underlying performance. The reconciliation of net profit for the basic EPS calculation to net profit for the adjusted EPS calculation is shown below.

	Notes	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 (restated) £m
Net profit attributable to equity holders of the parent (for basic EPS calculation)		70.5	31.8
Intangible asset amortisation (exc software)	4	-	9.1
Exceptional items before tax	4	49.5	124.0
Tax effect of intangible asset amortisation (exc software) and exceptional items	4	13.6	(19.5)
Non-controlling interest in intangible asset amortisation (exc software)		-	(0.7)
Non-controlling interest in exceptional items		(5.6)	(11.2)
Profit for adjusted EPS calculation		128.0	133.5

8 GOODWILL

The movements in goodwill were as follows:

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Net book value at beginning of year	148.2	136.9
Foreign exchange movements	(6.1)	11.3
At end of year	142.1	148.2

9 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Cost at beginning of year	163.1	142.9
Additions	16.0	17.8
Disposals	(41.5)	(0.5)
Foreign exchange movements	(1.0)	2.9
Cost at end of year	136.6	163.1
Accumulated amortisation at beginning of year	(118.1)	(54.2)
Amortisation charged to income statement	(12.7)	(16.8)
Impairment charged to income statement	(0.8)	(44.8)
Disposals	38.4	0.5
Foreign exchange movements	1.0	(2.8)
Accumulated amortisation at end of year	(92.2)	(118.1)
Net book value at beginning of year	45.0	88.7
Net book value at end of year	44.4	45.0

10 PROPERTY, PLANT AND EQUIPMENT

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

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Cost at beginning of year	2,178.2	2,049.4
Additions	135.5	199.5
Disposals	(136.8)	(133.0)
Foreign exchange movements	(33.4)	62.3
Cost at end of year	2,143.5	2,178.2
Depreciation at beginning of year	(987.9)	(884.2)
Depreciation charged to income statement	(132.9)	(145.5)
Impairment charged to income statement	(3.7)	(3.2)
Disposals	101.3	73.5
Foreign exchange movements	16.8	(28.5)
Depreciation at end of year	(1,006.4)	(987.9)
Net book value at beginning of year	1,190.3	1,165.2
Net book value at end of year	1,137.1	1,190.3

11 INTERESTS IN JOINT VENTURES

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

	Audited Year to 29 April 2018 £m	Audited Year to 29 April 2017 £m
Net book value at beginning of year	25.7	22.4
Share of recognised profit	27.1	26.2
Share of actuarial (losses)/gains on defined benefit schemes, net of tax	(0.6)	2.5
Share of other comprehensive income on cash flow hedges, net of tax	0.2	2.7
Dividends received in cash	(27.2)	(28.1)
Net book value at end of year	25.2	25.7

A loan payable to Scottish Citylink Limited of £1.7m (2017: £1.7m) is included within current liabilities under the caption "Trade and other payables".

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

These condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the Group's consolidated financial statements for the year ended 28 April 2018. There have been no material changes in any of the Group's significant financial risk management policies since 29 April 2017.

Liquidity risk

The contractual undiscounted cash outflows for financial liabilities will be set out in the Group's 2018 Annual Report.

Fair value estimation

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

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

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

	Level 2 £m	Audited Level 3 £m	Total £m
Assets			
Derivatives used for hedging	41.4	-	41.4
Available for sale investments – equity securities	-	2.7	2.7
Total assets	41.4	2.7	44.1
Liabilities			
Derivatives used for hedging	(0.5)	-	(0.5)

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

There were no transfers between levels during the year ended 28 April 2018.

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
	28 April 2018 £m	28 April 2018 £m	29 April 2017 £m	29 April 2017 £m
Available for sale investments	2.7	2.7	-	-
Loans and receivables				
- Non-current assets - Other receivables	0.2	0.2	0.2	0.2
- Current assets - Accrued income	45.4	45.4	54.0	54.0
- Trade receivables, net of impairment	105.2	105.2	254.4	254.4
- Other receivables	12.0	12.0	39.4	39.4
- Cash and cash equivalents	238.2	238.2	313.3	313.3
Total financial assets	403.7	403.7	661.3	661.3
Financial liabilities measured at amortised cost				
- Non-current liabilities - Borrowings	(606.9)	(636.6)	(693.0)	(737.0)
- Current liabilities - Trade payables	(129.7)	(129.7)	(270.0)	(270.0)
- Accruals	(340.8)	(340.3)	(436.7)	(436.7)
- Loans from joint ventures	(1.7)	(1.7)	(1.7)	(1.7)
- Loan from non-controlling interest	(16.5)	-	(5.8)	(5.8)
- Borrowings	(36.9)	(36.9)	(40.5)	(40.5)
Total financial liabilities	(1,132.5)	(1,145.2)	(1,447.7)	(1,491.7)
Net financial liabilities	(728.8)	(741.5)	(786.4)	(830.4)

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 £2.7m (29 April 2017: £Nil) of an available for sale investment is measured at cost, which based on recent transactions is considered to be a reasonable approximation of fair value.
- 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, accruals and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- Contractual arrangements in place regarding the £16.5m loan from a non-controlling interest and related accrued interest of £0.5m mean that the Directors considered as at 28 April 2018 that it was very unlikely that the counterparty would be able to recover any portion of the loan or that the Group would be required to repay that loan. Since 28 April 2018, any loan amounts owed by the Group to the non-controlling interest have been waived by the non-controlling interest.
- 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.

12 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

13 RETIREMENT BENEFITS

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

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

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

In addition, the Group contributed £33.4m (2017: £21.2m) to a number of defined contribution schemes in the year ended 28 April 2018.

The movements for the year ended 28 April 2018 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	251.8	(45.1)	17.5	4.0	4.3	232.5
Current service cost	4.5	42.4	1.1	1.9	-	49.9
Administration costs	0.9	0.4	-	-	-	1.3
Net interest expense	6.6	7.2	0.1	0.3	0.1	14.3
Unwinding of franchise adjustment	-	(8.3)	-	-	-	(8.3)
Employers' contributions	(3.5)	(28.6)	(7.6)	(0.9)	(0.2)	(40.8)
Actuarial (gains)/losses	(134.7)	27.8	0.9	(0.5)	(0.2)	(106.7)
Liability/(asset) at end of year	125.6	(4.2)	12.0	4.8	4.0	142.2

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

	Audited As at 28 April 2018 £m	Audited As at 29 April 2017 £m
Retirement benefit asset	4.6	45.6
Retirement benefit obligations	(146.8)	(278.1)
Net retirement benefit liability	(142.2)	(232.5)

14 ORDINARY SHARE CAPITAL

At 28 April 2018, there were 576,099,960 ordinary shares in issue (2017: 576,099,960). This figure includes 2,756,662 (2017: 2,467,204) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

15 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED BY OPERATIONS

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

	Audited Year to 28 April 2018 £m	Audited Year to 29 April 2017 £m
Operating profit of Group companies	105.0	21.1
Intangible asset amortisation	12.7	16.8
Depreciation	132.9	145.5
Impairment of property, plant and equipment	3.7	-
Impairment of intangible assets	0.8	-
Exceptional items	47.8	128.7
EBITDA of Group companies before exceptional items	302.9	312.1
Cash effect of exceptional items	-	(3.7)
Gain on disposal of property, plant and equipment	(3.2)	(4.3)
Equity-settled share based payment expense	1.2	1.9
Operating cashflows before working capital movements	300.9	306.0
Decrease in inventories	4.5	2.7
Decrease/(increase) in receivables	203.2	(59.8)
(Decrease)/increase in payables	(226.4)	1.6
Decrease in provisions	(84.7)	(2.7)
Differences between employer contributions and pension expense in operating profit	10.4	4.5
Cash generated by operations	207.9	252.3

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 28 April 2018 £m	Audited Year to 29 April 2017 £m
Notes		
Decrease in cash and cash equivalents	(73.9)	(72.3)
Cash flow from movement in borrowings	108.0	133.5
	34.1	61.2
New hire purchase and finance leases	(27.2)	(47.8)
Foreign exchange movements	7.6	(22.7)
Other movements	(0.9)	(0.8)
Decrease/(increase) in net debt	13.6	(10.1)
Opening net debt	17 (409.4)	(399.3)
Closing net debt	17 (395.8)	(409.4)

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 £27.2m (2017: £56.6m). After taking account of deposits paid up front and other financing transactions, new hire purchase and finance lease liabilities of £27.2m (2017: £47.8m) 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	294.7	(73.8)	-	(1.2)	-	219.7
Cash collateral	18.6	(0.1)	-	-	-	18.5
Hire purchase and finance lease obligations	(72.0)	26.0	(27.2)	1.5	-	(71.7)
Bank loans and loan notes	(140.4)	82.0	-	-	-	(58.4)
Bonds and Notes	(510.3)	-	-	7.3	(0.9)	(503.9)
Net debt	(409.4)	34.1	(27.2)	7.6	(0.9)	(395.8)
Accrued interest on bonds	(9.5)	20.9	-	0.1	(21.0)	(9.5)
Effect of fair value hedges	(1.3)	-	-	-	1.0	(0.3)
Net borrowings (IFRS)	(420.2)	55.0	(27.2)	7.7	(20.9)	(405.6)

The cash collateral balance as at 28 April 2018 of £18.5m (2017: £18.6m) comprises balances held in trust in respect of loan notes of £18.1m (2017: £18.2m) and North America restricted cash balances of £0.4m (2017: £0.4m). In addition, cash includes train operating company cash of £171.2m (2017: £219.4m) of which £25.8m (2017: £28.3m) 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 28 April 2018 were £61.2m (2017: £115.2m).

(ii) Rail bonds

At 28 April 2018, the Group has provided performance bonds backed by bank facilities or insurance arrangements of £15.0m (2017: £75.3m) and season ticket bonds backed by bank facilities or insurance arrangements of £12.3m (2017: £72.1m) to the Department for Transport in relation to the Group's rail franchise operations. The Group has also recorded a liability of £21.0m (2017: £Nil) for the performance bond in relation to Virgin Trains East Coast. £Nil (2017: £82.5m) of an inter-company loan facility provided to a subsidiary train operating company was also backed by a bond issued under a bank facility.

(iii) Legal actions

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 28 April 2018, the accruals in the consolidated financial statements for such claims total £2.7m (2017: £0.6m).

19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the year ended 28 April 2018 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 28 April 2018, the Group earned fees of £60,000 (2017: £60,000) from Virgin Rail Group Holdings Limited in this regard. As at 28 April 2018, the Group had £60,000 (2017: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this.

(ii) *West Coast Trains Limited*

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see above). In the year ended 28 April 2018, East Midlands Trains Limited (a subsidiary of the Group) had purchases totalling £0.2m (2017: £0.2m) from West Coast Trains Limited, and sales to West Coast Trains Limited were immaterial (2017: immaterial). The outstanding amounts payable as at 28 April 2018 and 29 April 2017 were immaterial.

During the year ended 28 April 2018, Stagecoach South Western Trains Limited (a subsidiary of the Group) sold services of £0.1m (2017: £0.3m) to West Coast Trains Limited and as at 28 April 2018, had £Nil receivable in respect of this (2017: £Nil).

(iii) *Alexander Dennis Limited*

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (2017: 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% (2017: 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 28 April 2018, the Group purchased £63.5m (2017: £75.2m) of vehicles from Alexander Dennis Limited and £13.9m (2017: £9.4m) of spare parts and other services. As at 28 April 2018, the Group had £0.5m (2017: £0.5m) payable to Alexander Dennis Limited, along with outstanding orders of £28.9m (2017: £56.7m).

(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 (2017: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 28 April 2018. The Group earned £18.0m in the year ended 28 April 2018 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2017: £18.2m). The Group also collected revenue of £18.0m on behalf of Scottish Citylink Coaches Limited in the year ended 28 April 2018 (2017: £19.3m). As at 28 April 2018, the Group had a net £0.4m (2017: £1.6m) receivable from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) *Twin America LLC*

In the year ended 29 April 2017, the Group disposed of its interest in Twin America LLC. In the year ended 29 April 2017, Twin America LLC sold travel of £2.3m for tour services operated by the Group.

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 entered into various arm's length transactions with other Group companies. In the year ended 28 April 2018, other Group companies earned £20.1m from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services (2017: £19.2m). Other Group companies had a net receivable balance of £1.5m as at 28 April 2018 (2017: £4.5m payable).

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £165.0m as at 28 April 2018 in respect of loans to East Coast Main Line Company Limited (2017: £57.5m). The interest receivable for the year ended 28 April 2018 was £3.4m (2017: £1.8m) and the accrued interest outstanding as at 28 April 2018 was £4.9m (2017: £1.5m). Related to that, the Group had an outstanding payable for £16.5m as at 28 April 2018 in respect of loans from Virgin Holdings Limited (2017: £5.8m) and accrued interest outstanding of £0.5m (2017: £0.1m). As at 28 April 2018, the loan from Stagecoach Group plc to East Coast Main Line Company Limited, and the related accrued interest, was not expected to be recovered by Stagecoach Group plc and full provision has been made against the receivables in the separate financial statements of the parent company. Under the contractual arrangements between Stagecoach Group plc and Virgin Holdings Limited, the loan from Virgin Holdings Limited to Stagecoach Group plc, and the related accrued interest, was only repayable to the extent of 10% of any repayments of the loan (and accrued interest) from Stagecoach Group plc to East Coast Main Line Company Limited. Since 28 April 2018, the loan from Stagecoach Group plc to East Coast Mainline Company Limited and any loan amounts owed by the Group to Virgin Holdings Limited have been waived.

20 POST BALANCE SHEET EVENTS

On 16 May 2018, the Secretary of State for Transport announced his decision to transfer responsibility for operating the InterCity East Coast train services from Virgin Trains East Coast to a publically owned company. The transfer occurred on 24 June 2018. That decision has been taken account of in assessing the recoverability of assets as at 28 April 2018, and the carrying value of assets in the consolidated balance sheet have been adjusted accordingly. As at 28 April 2018, Virgin Trains East Coast was notified by the Department for Transport that it was already in default of its franchise agreement and liabilities have been recognised in the consolidated balance sheet for amounts that are expected to be payable as a result, including in respect of the applicable performance bond.

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

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 28 April 2018 within the meaning of section 434 of the Companies Act 2006 and has been extracted from the full financial statements for the years ended 28 April 2018 and 29 April 2017 respectively.

Statutory financial statements for the year ended 29 April 2017, 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 29 April 2017 and 28 April 2018 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 28 April 2018 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 2018.

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 28 April 2018 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 non-software intangible asset amortisation and exceptional items, by the basic weighted average number of shares in issue in the period.

For the year ended 28 April 2018 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 (exc software) and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 7 to the condensed financial statements.

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 28 April 2018 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 28 April 2018				
		Reported revenue	Exclude effect of business closed	Exclude expired rail franchise	Exclude effect of foreign exchange	Like-for-like revenue
UK Bus (regional operations)	£m	1,012.5	(0.2)	-	-	1,012.3
UK Bus (London)	£m	251.8	-	-	-	251.8
North America	US\$m	630.0	-	-	(1.3)	628.7
UK Rail	£m	1,495.2	-	(311.5)	-	1,183.7

		Audited				
		Year to 29 April 2017				
		Reported revenue	Exclude effect of business closed	Exclude expired rail franchise	Normalisation for number of days in year	Like-for-like revenue
UK Bus (regional operations)	£m	1,015.7	(1.9)	-	-	1,013.8
UK Bus (London)	£m	263.4	-	-	-	263.4
North America	US\$m	632.3	-	-	(1.7)	630.6
UK Rail	£m	2,160.7	-	(1,018.1)	-	1,142.6

22 DEFINITIONS (CONTINUED)

Operating profit

Operating profit for the Group as a whole is profit before non-operating exceptional items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group's share of joint ventures' profit/loss after taxation. Both total operating profit and operating profit from Group companies are shown on the face of the consolidated income statement.

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

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 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 amortisation and exceptional items.

A reconciliation of pre-exceptional EBITDA for the year ended 28 April 2018, and the comparative prior year period, to the financial statements is shown on page 13 of this document.

EBITDA from Group companies before exceptional items

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

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

Net finance charges

Net finance charges are finance costs less finance income, each as shown on the face of the consolidated income statement.

Gross debt

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

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

Net debt

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

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

Net capital expenditure

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

22 DEFINITIONS (CONTINUED)

(b) Other definition

The following other definition is also used in this document:

Exceptional items

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