Stagecoach

8 December 2021

Stagecoach Group plc – Interim results for the half-year ended 30 October 2021

Financial summary

	"Adjusted" results Results excluding separately disclosed items*		**"Statutory" results**	
	H1 2022	H1 2021	**H1 2022**	H1 2021
Revenue (£m)	**579.4**	454.6	**579.4**	454.6
Total operating profit (£m)	**32.9**	16.1	**45.2**	23.6
Net finance costs (£m)	**(14.5)**	(15.7)	**(14.1)**	(18.2)
Profit before taxation (£m)	**18.4**	0.4	**31.1**	5.4
Earnings per share (pence)	**2.7p**	0.1p	**1.9p**	0.8p

*See definitions in note 20 to the condensed financial statements

Financial highlights

- Profit growth reflecting recovering passenger volumes and payments from governments to ensure continuation of public transport services
- Further positive cash generation and reduction in net debt from £312.6m to £267.5m
- Net debt plus net train operating company liabilities down £85.8m from £401.0m to £315.2m

Strategic and operational highlights

- Positive trajectory over the period in UK regional bus
    - Passenger journeys and commercial sales at over 70% and over 80% respectively of equivalent 2019 levels for the most of November, but some recent softening with Storm Arwen and changing COVID-19 guidance
    - Government COVID-19 support schemes in place through to spring 2022
- Good progress in reaching employee pay agreements, while addressing the effects of sector-wide staff shortages and higher than usual levels of lost mileage
- Further revenue growth and stable profitability in London bus
- Strong partnership working to deliver and improve critical public transport
    - Good progress in developing Bus Service Improvement Plans under National Bus Strategy for England to deliver better services and grow bus use
- Good progress in diversifying business through new commercial initiatives in the UK and bids for overseas contracts
    - Stagecoach selected by Birmingham 2022 Commonwealth Games to provide transport for spectators, officials and police
    - Bids submitted for two bus contracts in Dubai
- Delivery of new sustainability strategy underway
    - New sustainability strategy and targets launched in summer 2021
    - Further investment in zero-emissions vehicles
- Constructive discussions are continuing with National Express Group plc on a potential combination of both groups that would deliver strong value creation for both sets of shareholders
- Positive outlook as a standalone business or as part of a combined group
    - Supportive government policy and investment in public transport, which is key to decarbonisation, levelling up and economic recovery

Martin Griffiths, Stagecoach Group Chief Executive, said:

"We are pleased at the positive progress of the business as confidence in public transport returns and more customers use our bus, coach and tram services.

"This has been achieved as a result of the fantastic commitment of our frontline employees and management teams, combined with our strong partnerships with national and local government, and supportive public policy and investment.

"While the pace of recovery may vary, we are well-placed to deliver on the extensive opportunities beyond the pandemic and on the back of the COP26 climate change conference to attract people out of cars to more sustainable public transport.

"In the first half of the financial year, we have delivered positive new contract wins, including key transport contracts for the Birmingham 2022 Commonwealth Games. We are also progressing several investments to enhance our customer offer, as well as new ticketing initiatives to respond to post-pandemic lifestyles.

"The Group maintains a solid financial position with investment grade credit ratings, substantial available liquidity and appropriate headroom under its debt facilities. We are also continuing to manage effectively the short-term operational challenges in the transport and logistics sector, to protect the future of our transport networks.

"We continue to see a positive outlook for our bus, coach and tram services, whether as a standalone business or as part of a combined future group. Greener and smarter public transport is central to delivering government ambitions around decarbonisation, levelling up of communities, driving economic recovery, and securing better health outcomes for citizens."

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A pre-recorded presentation in relation to the interim results announcement will be available from 7.30am on 8 December 2021 at:

https://www.investis-live.com/stagecoach/6193d0321bc06e0d006afc1d/cfgb

Notes to editors

Stagecoach Group

- Stagecoach is one of Britain's leading public transport businesses, helping connect communities for over 40 years.
- Stagecoach is Britain's biggest bus and coach operator and it runs the Supertram light rail network in Sheffield.
- Our team of around 24,000 people and our c.7,900 buses, coaches and trams are part of the fabric of daily life in England, Scotland and Wales.
- We connect people with jobs, skills and training. We bring customers to our high streets, link tourists with visitor attractions, and draw families, friends and communities together.
- Our impact is about far more than transport – we support the economy, help cut congestion on our roads, protect our environment and air quality, boost safety on our roads, and contribute to a healthier nation.

Interim management report

The Directors of Stagecoach Group plc are pleased to present their report on the Company for the half-year ended 30 October 2021.

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, we refer to Stagecoach Group plc as "the Company" and we refer to the group headed by it as "Stagecoach" or "the Group".

Overview

We have delivered increased profit before tax and made further progress on delivering our key objectives in the first half of the 2021/22 financial year as the country plans for a post-pandemic future. Our continuing focus remains on providing safe, sustainable, high-quality and good value connections for our customers.

Looking ahead following the recent UK-hosted COP26 climate change summit, we remain confident that there is a strong and positive future for more sustainable public transport, which is integral to the country meeting its economic, social and environmental objectives.

This summer, we published our new sustainability strategy, which sets out our roadmap to becoming a carbon neutral business by 2050 and helping create a greener, smarter, safer, healthier and fairer country. We are progressing a package of linked initiatives and investments in our people, fleets and technology to grow our business sustainably.

We are continuing to work collaboratively with national and local government to deliver vital bus networks and we are grateful for the huge commitment and professionalism of our people who are delivering services safely in our communities every day. We are pleased to have worked in partnership with local transport authorities to help shape Bus Service Improvement Plans recently submitted to the Department for Transport as part of the National Bus Strategy for England. We are excited by the transformative potential of many of the proposed initiatives to deliver better services and grow bus use.

As part of our business strategy, we are continuing to seek new opportunities to diversify and grow our business both in the UK and overseas. We are proud to have won contracts linked to major events and retained existing rail replacement contracts.

We are pleased with the financial performance of our London bus business, where we have seen further growth in revenue and stable profit.

<u>Corporate activity</u>

As previously announced, the Group is in discussions with National Express Group plc in relation to a possible all-share combination of both groups. In the meantime, it is business as usual for our business and our people. Regardless of the outcome of those discussions, we see a positive future for our business, and we are focused on delivering high quality, good value public transport services in our communities.

<u>Financial results</u>

In the half-year to 30 October 2021, revenue grew to £579.4m (H1 2021: £454.6m) and adjusted total operating profit grew to £32.9m (H1 2021: £16.1m). Revenue excludes COVID-19 grant income from government, which is reported as other operating income. The growth in revenue reflects recovering passenger demand across our regional bus and tram services as COVID-related restrictions have eased. The growth in operating profit reflects that revenue growth and payments from governments for continuing public transport services. Unadjusted operating profit was £45.2m (H1 2021: £23.6m). Adjusted earnings per share were 2.7p (H1 2021: 0.1p). Basic, unadjusted earnings per share were 1.9p (H1 2021: 0.8p), with the increase principally reflecting the higher adjusted operating profit partly offset by changes in separately disclosed items, including a charge for the change in deferred tax balances arising from the increase in the UK Corporation tax rate.

<u>Dividend</u>

We are pleased at the positive progress of the business as the country recovers from COVID-19, though recognise the continuing uncertainties caused by the impact of the pandemic. While we are not planning an interim dividend in respect of the half-year ended 30 October 2021, we continue to recognise the importance of dividends to many shareholders. In line with previous guidance and dependent on progress on the National Express transaction, it is our ambition to resume dividend payments in due course when supported by appropriate profit and cash flow generation, relative to our net debt and pension liabilities.

Outlook

We remain positive on the long-term outlook for Stagecoach and its people, whether our future is as a standalone business or as part of a larger, combined group. Public transport delivers the sustainable connectivity people need to access work, education, healthcare, shopping, leisure, and meeting family and friends. As we transition towards a post-pandemic world, we are focused on rebuilding profitability and further adapting our services to meet new and emerging travel patterns. Our services are central to delivering government ambitions around decarbonisation, levelling up of communities, driving economic recovery, and securing better health outcomes for citizens.

While there remains some uncertainty around the pace of recovery and the changing COVID-19 situation, our outlook for the year ending 30 April 2022 is unchanged from our full year results in June 2021. Strong partnership working between bus operators, national government and local transport authorities is critical if we are to maximise the opportunities ahead and we are pleased that this is reflected in the direction of public policy across the country.

Summary of financial results

Revenue, split by segment, is summarised below:

REVENUE	**H1 2022** **£m**	H1 2021 £m	Growth %
UK Bus (regional operations)	**438.4**	325.5	34.7%
UK Bus (London)	**135.6**	126.5	7.2%
UK Rail	**5.4**	2.8	92.9%
Intra-Group revenue	**-**	(0.2)	
Group revenue	**579.4**	454.6	

Operating profit, split by segment, is summarised below:

OPERATING PROFIT	**H1 2022**		H1 2021	
	£m	% margin	£m	% margin
UK Bus (regional operations)	**30.3**	**6.9%**	9.1	2.8%
UK Bus (London)	**8.3**	**6.1%**	9.2	7.3%
UK Rail	**(2.1)**		2.6	
Group overheads	**(5.2)**		(4.6)	
Restructuring costs	**(0.1)**		(0.1)	
Operating profit before joint ventures and separately disclosed items	**31.2**		16.2	
Joint ventures – share of profit/(loss) after tax				
WCT Group (formerly Virgin Rail Group)	**1.6**		0.1	
Citylink	**0.1**		(0.2)	
Total operating profit before separately disclosed items	**32.9**		16.1	
Separately disclosed items	**12.3**		7.5	
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	**45.2**		23.6	

Strategic and operating review

Strategic priorities

Our strategy remains focused on three objectives:

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

Sustainability

In June 2021, we finalised our 2021 Annual Report that included disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). And in August 2021, we launched our new long-term sustainability strategy - *Driving Net Zero: Better Places to Live and Work*. It aims to leverage the power of public transport to address climate change, support post-COVID economic recovery plans and boost prosperity for employees and communities.

The plan envisages investment in new zero-emissions vehicles and other green technologies over the next 15 years, as well as initiatives to cut waste, boost recycling and conserve water. We are aiming to decarbonise our business by around 70% by 2035 (based on scope 1 and 2 emissions versus a baseline of 2018/19, excluding expired rail franchises and the disposed North America Division) as well as targeting having a zero-emissions UK bus fleet by that date. In addition, we have signed up to the global Race to Zero campaign and are working towards setting science-based targets for ratification by the Science Based Targets initiative, consistent with the 2015 Paris Agreement to limit global warming to 1.5°C by 2050.

This month, we will complete a £21m investment in partnership with the Scottish Government in 46 new fully electric buses in Aberdeen, Kilmarnock and Perth. In the summer, we also introduced the UK's first fleet of six fully electric buses serving rural communities, connecting towns and villages in the west of Scotland. We have also just completed a partnership project in the Highlands of Scotland to trial a hydrogen bus on routes across Inverness and surrounding locations.

The new sustainability strategy also includes a package of investment in our employees and communities. This includes helping transform diversity in the transport sector by targeting that women make up at least 40% of the company's leaders and 25% of the wider workforce are from ethnic minorities by 2026. We have also pledged to give back to our communities by allocating 0.5% of profit before tax to charity and other good causes. Initiatives are also being progressed to promote health and wellbeing; support young people, skills and employment; address loneliness and social isolation; and increase accessibility and opportunity.

Maximise our core business' potential in a changing market

In the first half of the year, we have seen growth in regional passenger journeys and sales. This has reflected a pick-up in activity and travel across the UK, including the return of schools and universities, and growing confidence to get back on board public transport. Journey numbers were in excess of 70% of equivalent 2019 levels for most of November, while full fare-paying journeys have recovered more than concessionary trips. Storm Arwen and changing COVID-19 guidance has contributed to some very recent softening in passenger journey numbers.

Governments across the UK continue to make payments to ensure the continuity of bus services as we recover from the COVID-19 pandemic. As anticipated, the COVID-19 Bus Services Support Grant Restart ("CBSSG") for local bus services in England, excluding London, came to an end on 31 August 2021. The Department for Transport has put in place a £226.5m Bus Recovery Grant ("BRG") funding package to cover the period from 1 September 2021 to 15 March 2022, whereby funding is allocated to operators with reference to revenues and mileage operated. In Scotland, the COVID-19 Support Grant Restart ("CSG") payments for continuing bus services have now been extended to cover through until 31 March 2022.

Similarly, our Sheffield Supertram business is receiving government payments for continuing the essential tram services it provides. The Light Rail Revenue Restart Grant ("LRRRG") scheme was for the period to 19 July 2021, and has been replaced by a £56m funding package to light rail operators in respect of the period from 20 July 2021 to April 2022.

There is a substantial opportunity for UK regional bus operators to build on governments' commitments to reduce car use and increase active travel and public transport use. Governments have allocated significant funding to support the achievement of their objectives. That will also see an evolution of regional bus operators' relationship with governments, which will bring both opportunities and risks. For example, the plans of Greater Manchester Combined Authority ("GMCA") to introduce bus franchising creates uncertainties around our share of the Manchester bus market from 2024 and the profit margins from any franchised bus services there. We believe that GMCA's consultation process failed to meet the standards on proper process, evidence and analysis required by law. We submitted an application for a judicial review on that basis which was considered by the court in May 2021, and we await the court's decision. Pre-COVID, Manchester contributed around £128m of the Group's consolidated annual revenue and a higher than average operating profit margin. While we believe that a partnership approach to bus services is more appropriate, we will work collaboratively with local authorities on delivering long-term, high quality, sustainable bus services under whichever model applies. With that in mind, we are pleased that our applications for passports to bid for any Manchester bus franchises that are tendered were successful. We are well placed to at least maintain our market share under any Manchester bus franchising scheme and we already successfully operate franchised bus services in London.

We have worked closely with local transport authorities to help shape Bus Service Improvement Plans ("BSIPs") submitted to the Department for Transport in October as part of the National Bus Strategy for England. The BSIPs include initiatives to deliver better services and grow bus use, including through infrastructure and other measures to give greater priority to bus passengers. These measures are an important part of delivering more reliable journeys and better value fares to attract more customers to bus travel.

Changes in the UK economy have put pressure on labour supply in some sectors. We are not immune to the short-term driver shortages affecting the wider transport and logistics sector. While we have experienced higher than usual levels of lost mileage, we are continuing to operate the vast majority of our services and we have a strong pipeline of newly-trained drivers entering service around the country. We are also pleased to have made good progress in concluding satisfactory pay agreements at the majority of our bus depots, and are working towards completing negotiations at the small number of remaining locations.

Manage change through our people and technology to make it simpler and better

We are continuing to adapt our customer offer to meet the changes in how people work, live and travel. While travel may reduce for some markets, such as commuting, we see opportunities for growth in leisure travel and for other purposes.

This month we are launching contactless pay as you go capped fares in the Leicester area in partnership with Leicester City Council. Customers will benefit from a daily price cap on the journeys they make, ensuring they always receive the best value travel. We are also working with other bus operators in the area to develop multi-operator contactless fare capping for launch in 2022. In addition, we are introducing fares simplification initiatives in a number of areas around the UK.

Earlier this year, we announced plans to create 80 jobs at a new customer contact centre in Perth, Scotland. The new one-stop phone and digital contact point for customers is planned to open in spring 2022. The new multi-skilled team will operate an improved seven-day a week service. Investment is being made in a new customer relationship management system to help provide tailored support, better understand customers' end-to-end journeys, and quickly address any emerging common issues.

We are continuing to drive forward our internal change programme to deliver a more agile and efficient business. This includes technology investments to improve our people processes and initiatives to enhance training and development at all levels of the organisation.

Grow by diversifying to balance the portfolio and open up new markets

We are continuing to seek new opportunities to diversify and grow the business both in the UK and overseas. We have a successful track record in running contracts linked to major events, and we are delighted to have been selected to provide transport for spectators, the "games family" and the police at the Commonwealth Games in Birmingham in 2022. We are also pleased to have delivered electric bus transport for world leaders at the recent COP26 climate change conference in Glasgow in November, as well as a transport contract on behalf of Police Scotland. In addition, we have successfully retained the rail replacement contract for London North Eastern Railway following a competitive tender, and continue to actively pursue other UK rail replacement opportunities.

We were disappointed that, in November 2021, the new government in Norway cancelled the competition that we were part of for a new rail contract in Oslo. We invested significant time and money in the process and had already submitted our bid. In Dubai, we have submitted our bids for two bus contracts. We expect mobilisation would start in February 2022, with operations beginning in October 2022.

Financial Review

UK Bus (regional operations)

Summary
• Growth in revenue reflecting recovering customer demand • Increased profit reflecting higher revenue from customers as well as payments from governments for continuing bus services • Submission of Bus Service Improvement Plans as part of the National Bus Strategy for England to maximise the potential of bus services

Financial performance

The financial performance of UK Bus (regional operations) for the half-year ended 30 October 2021 is summarised below:

	H1 2022 £m	H1 2021 £m	Change
Revenue and like-for-like revenue	**438.4**	325.5	34.7%
Operating profit	**30.3**	9.1	233.0%
Operating margin	**6.9%**	2.8%	410bp

Our UK Bus (regional operations) business continues to be affected by the fall in passenger demand for public transport in response to the COVID-19 pandemic but we have been encouraged by the recovery in demand we are now seeing. Although still below our historic levels of profitability, the business reported an increased operating profit for the half-year ended 30 October 2021.

The increased operating profit reflects:

- Positive operating profit in the period from May to August 2021, because the payments from governments for the period to 31 August 2021, which cover the majority of our regional bus operations, include amounts in respect of an allocation of finance costs and overheads. The positive regional bus operating profit should therefore be considered in conjunction with Group overheads and net finance costs, which are separately included in the consolidated income statement.
- £6.4m of bus support income recognised in the six months ended 30 October 2021, which relates to the prior year, where we now have greater certainty over recognising this income following progress on the schemes' reconciliation processes.

- Good profit in September and October 2021 reflecting the combination of recovering passenger revenue and the new Bus Recovery Grant scheme. These were seasonally strong months pre-COVID. The Bus Recovery Grant scheme applies from 1 September 2021 to 15 March 2022 for regional bus operators in England. That scheme permits bus operators to earn a profit from relevant bus services. Taking account of seasonality, the phasing of the income under the scheme appears to favour September and October more than later periods, albeit that will partly depend on passenger revenue trends.

We have sought to maintain control of operating costs, in spite of industry-wide driver shortages.

The recovery in like-for-like revenue has fluctuated over the course of the period, with passenger demand following the changing pattern of COVID-19 restrictions across the UK. There was a noticeable uplift in passenger demand with the return of schools and universities across the country. We continue to see journeys by fare-paying passengers currently recovering faster than concessionary journeys. Commercial sales as a percentage of the 2019 levels are higher than fare paying journey numbers, which is partly attributable to travel patterns during this COVID-19 recovery period, whereby single tickets represent a higher proportion of sales than in 2019, while weekly and monthly tickets represent a lower proportion. We continue to progress a number of ticketing initiatives to reflect the changes we are seeing in travel patterns.

Like-for-like vehicle miles operated in the half-year were 23.7% higher than the equivalent prior year period, with most service levels restored as COVID-19 restrictions eased. Like-for-like revenue per vehicle mile increased 8.9% and like-for-like revenue per journey reduced 23.4%. The increase in revenue per mile reflects that the COVID-related increase in year-on-year revenue exceeds the year-on-year increase in vehicle mileage. The reduction in revenue per journey is largely attributable to the rise in concessionary journey numbers not being matched by an equivalent increase in concessionary revenue, recognising that prior year concessionary revenue payments were maintained at close to pre-COVID revenue rates despite the substantially lower concessionary journey numbers in the prior year.

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

	H1 2022 £m	H1 2021 £m	Change %
Commercial on and off bus revenue			
- Megabus	**5.6**	2.2	154.5%
- other	**227.5**	130.0	75.0%
Concessionary revenue	**127.3**	125.6	1.4%
Commercial & concessionary revenue	**360.4**	257.8	39.8%
Tendered and school revenue	**54.9**	51.3	7.0%
Contract and other revenue	**23.1**	16.4	40.9%
Like-for-like revenue	**438.4**	325.5	34.7%

Commercial revenue has varied in line with passenger demand over the course of the period. At the start of the year, commercial sales across our companies were at around 57% of prior year levels. As restrictions were relaxed over the course of the summer, we have seen an increase in demand.

The substantial increase year-on-year in Megabus revenue largely reflects our decision to suspend Megabus services in England and Wales for much of the prior year period, due to inter-city coach operations being excluded from the Department for Transport COVID-related payments for bus services.

Due to public authorities generally maintaining concessionary revenue payments at closer to pre-COVID levels throughout the pandemic, despite the increase in concessionary patronage, as expected there has been little year-on-year movement in concessionary revenue.

The increase in tendered and school revenue reflects a continuation of the effects of a wider trend of smaller operators exiting the market.

Similarly to the commercial revenue trends, the easing of COVID-19 restrictions has contributed to an increase in contract and other revenue, compared to the equivalent period in the prior year.

Outlook

The half-year growth in passenger journeys and sales reflects a recovery in activity and travel across the UK, and growing confidence to return to public transport. While there remains some uncertainty around the trajectory of the recovery and the changing COVID-19 situation, our outlook for the year ending 30 April 2022 is unchanged from when we announced our full year results in June 2021. Taking account of the £6.4m of bus support income in the first half that related to the prior year, our earlier comments on the phasing of the Bus Recovery Grant income in England, and the absence of confirmed follow on schemes beyond March 2022 in Scotland and England, we expect the full year regional bus operating profit to be more weighted to the first half of the year. We anticipate that it will take some time for demand for our regional bus services to return to pre-COVID levels, with the timing of easing of government restrictions impacting on the speed of that recovery. We are therefore planning for a number of scenarios, and are continuing to review our cost base across a range of scenarios. With the various government support arrangements in place, we expect to continue to generate positive operating profit.

We continue to see good long-term prospects for the business, and are pleased to have worked in partnership with local transport authorities to help shape Bus Service Improvement Plans recently submitted to the Department for Transport as part of the National Bus Strategy for England. We are excited by the transformative potential of many of the proposed initiatives to deliver better services and grow bus use. Strong partnership working between bus operators, national government and local transport authorities is fundamental to transforming the country's bus networks, making services faster and more affordable, and reducing unnecessary car journeys.

UK Bus (London)

Summary
• Growth in revenue reflecting return to full service levels • Operating profit broadly in line with prior year

Financial performance

The financial performance of UK Bus (London) for the half-year ended 30 October 2021 is summarised below:

	H1 2022 £m	H1 2021 £m	Change
Revenue and like-for-like revenue	**135.6**	126.5	7.2%
Operating profit	**8.3**	9.2	(9.8)%
Operating margin	**6.1%**	7.3%	(120)bp

We are pleased with the financial performance of our London business, and the revenue growth in the period.

The increase in revenue principally reflects the full service run in the period, whereas the prior year had reductions in vehicle mileage we agreed with Transport for London in response to the COVID-19 situation at the start of the year. We agreed with Transport for London that the contract payments we receive from it would be reduced by the amount of savings in variable costs achieved because of operating less mileage.

Operating profit is slightly lower than the prior year, which is largely due to the timing of contract price indexation adjustments and commencement of new contracts.

The movement in operating margin was built up as follows:

Operating margin – H1 2021	7.3%
Change in:	
Other operating income	(1.2)%
Fuel costs	0.3%
Insurance and claims costs	0.2%
Quality Incentive Contract income	0.1%
Materials and consumables	(0.6)%
Staff costs	(0.1)%
Other	0.1%
Operating margin – H1 2022	6.1%

The main changes in the operating margin shown above are:

- Other operating income has reduced as expected, principally due to the prior year having significantly higher grant income recognised under the Coronavirus Job Retention Scheme for employees furloughed, as we reduced contract mileage at the request of Transport for London and to protect the wellbeing of more vulnerable employees. The overall fall in other operating income has been partially mitigated by increased advertising revenue and grant income from Transport for London to support enhanced cleaning on the increased level of services.
- Fuel costs have decreased as a proportion of revenue due to lower hedged prices, partially offset by lower fuel efficiency, largely arising from increased traffic levels on our routes compared to the equivalent period last year.
- Quality Incentive Contract income has increased £0.4m year-on-year reflecting latest contract price adjustments.
- Materials and consumables costs have increased due to higher parts costs, including battery costs, and the enhanced cleaning regime on the full service operated during the period, albeit this is largely offset by the additional grant income received from Transport for London that is noted above.
- Staff costs have increased slightly as a proportion of revenue, reflecting higher wage awards and staff absences.
- Other costs have reduced as a proportion of revenue, principally due to the relatively fixed nature of depreciation and leasing costs related to operating our fleet.

Outlook

We anticipate further revenue growth in the second half of the year when we start operating several new contracts. We will continue to maintain our discipline in bidding for new contracts as well as our focus on strong operational delivery. We see good prospects for profit growth in 2021/22.

UK Rail

Summary
• Recovering customer demand at Sheffield Supertram • Ongoing commercial and business development activity delivering further progress in unwinding the affairs of the former train operating companies and in seeking new business opportunities

Financial performance

The financial performance of UK Rail for the half-year ended 30 October 2021 is summarised below:

	H1 2022 £m	H1 2021 £m	Change
Revenue	**5.4**	2.8	92.9%
Like-for-like revenue	**5.1**	2.7	88.9%
Operating (loss)/ profit	**(2.1)**	2.6	(180.8)%

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

The small operating loss for the year reflects the costs of our commercial and business development team, the majority of whose work is focused on unwinding our former rail franchises, and evaluating and bidding for future contract opportunities. These costs have been partially mitigated by the further positive progress in concluding matters in relation to those former rail franchises.

Outlook

Our Sheffield Supertram business is receiving government payments for continuing the essential tram services it provides. The Light Rail Revenue Restart Grant ("LRRRG") scheme covered the period to 19 July 2021, and has been replaced by a £56m funding package to light rail operators that covers from 20 July 2021 to April 2022. We continue to hold an onerous contract provision, albeit at a reduced amount, for the estimated net costs of fulfilling our contractual obligations at Sheffield Supertram.

Having recently submitted bids on bus contracts in Dubai, our commercial and business development team continues to explore, and bid for, new opportunities. We will continue to balance the costs of those business development activities with our assessment of the prospective risk-reward of the available opportunities.

WCT Group (formerly Virgin Rail Group)

Summary
• Further progress in settling residual contractual positions, assets and liabilities at West Coast Trains

Financial performance

The financial performance of the Group's WCT Group joint venture for the half-year ended 30 October 2021 is summarised below:

49% share:	**H1 2022 £m**	H1 2021 £m
Operating profit	**1.9**	0.2
Taxation	**(0.3)**	(0.1)
Profit after tax	**1.6**	0.1

WCT Group's West Coast rail franchise ran until 8 December 2019. Our joint venture partner, Virgin, and we remain focused on concluding contractual matters associated with that franchise. The profit recognised during the period reflects the continued positive progress in that regard.

Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items ("adjusted EBITDA") amounted to £86.4m (H1 2021: £74.2m). Adjusted EBITDA can be reconciled to the financial statements as follows:

	H1 2022 £m	H1 2021 £m	Year to 30 Oct 2021 (restated – see note 1(a) to condensed financial statements) £m
Total operating profit	**45.2**	23.6	49.8
Separately disclosed items	**(12.3)**	(7.5)	15.1
Software amortisation	**0.7**	2.0	1.6
Depreciation	**52.5**	54.1	106.1
Non-separately disclosed impairment losses	**-**	2.0	4.8
Add back joint venture tax	**0.3**	-	1.5
Adjusted EBITDA	**86.4**	74.2	178.9

The year-on-year increase in adjusted EBITDA principally reflects the recovery in passenger demand for public transport in response to the easing of COVID-19 restrictions.

Depreciation and software amortisation of £53.2m is lower than the £56.1m for the equivalent prior year period, and principally reflects our constrained capital expenditure since early in the COVID-19 pandemic.

Separately disclosed items

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

Reassessment of onerous contract provision

As at 1 May 2021, an onerous contract provision of £13.3m was held in respect of the Sheffield Supertram concession. Since 1 May 2021, the Department for Transport and South Yorkshire Mayoral Combined Authority confirmed their intention to make further COVID-related payments to our Sheffield Supertram business to allow us to continue running essential services. We have recalculated the onerous contract provision, reflecting the benefit of these payments in a revised forecast for the business, and recorded a separately disclosed profit for Sheffield Supertram of £3.9m (H1 2021: £3.6m) in the half-year ended 30 October 2021.

Expired rail franchises

As part of concluding matters in relation to our former involvement in the UK train operating market, we have recorded a gain of £4.9m in the half-year ended 30 October 2021. We have separately disclosed the gain for consistency, as it relates to costs that were previously recorded as separately disclosed items.

Transaction costs

We have recorded expenses of £1.2m, predominantly professional fees, in relation to a possible all-share combination with National Express Group plc.

Pensions settlement

On 16 March 2021, the Group ceased to participate in the Tyne & Wear Local Government Pension scheme. The Group recognised an estimated settlement receivable of £3.5m as at 1 May 2021, based on the most recent actuarial valuations and estimates by an independent professionally qualified actuary.

The final settlement received by the Group in the half-year ended 30 October 2021 was £8.2m, an increase of £4.7m above the £3.5m receivable previously recognised at 1 May 2021. The increase in the exit settlement of £4.7m arose due to final actuarial assumptions on settlement differing from previous estimates. Due to the size and nature of this change in estimate, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the increased settlement received by the Group.

<u>Changes in the fair value of Deferred Payment Instrument</u>

We received a Deferred Payment Instrument as deferred consideration for the sale of the North American business. The instrument, which is accounted for at fair value through profit or loss, has a maturity date of October 2024 and due to the credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind the secured lenders. The carrying value of the instrument was £1.9m as at 1 May 2021. We estimated the carrying value of the instrument to be £2.3m as at 30 October 2021, resulting in a gain of £0.4m (H1 2021: loss of £2.5m) recognised in finance income (H1 2021: finance costs) in the half-year ended 30 October 2021.

<u>Tax</u>

The separately disclosed taxation charge of £17.0m (H1 2021: £0.9m) comprises £16.1m (H1 2021: £Nil) in relation to the effect of the change in the UK corporation tax rate described below and £0.9m (H1 2021: £0.9m) in relation to the taxation effect of the pre-tax separately disclosed items.

Under legislation substantively enacted on 24 May 2021, the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. The effect of that change being substantively enacted on the results for the half-year ended 30 October 2021 is an increase in the deferred tax liability of £0.3m, a charge to the consolidated income statement of £16.1m and a credit to the consolidated statement of comprehensive income of £15.8m, with the £15.8m being the change in the deferred tax balance in relation to net retirement benefit obligations. The £16.1m charge to the consolidated income statement has been presented as a separately disclosed item in the half-year ended 30 October 2021 because the Directors consider that the amount needs to be separately disclosed by virtue of its size and nature in order to allow a proper understanding of the underlying financial performance of the Group.

Net finance costs

Net finance costs, excluding separately disclosed items, for the half-year ended 30 October 2021 were £14.5m (H1 2021: £15.7m) and are further analysed below. The decrease in net finance costs is principally due to the lower pensions finance charges arising from the lower pension deficit.

	H1 2022 £m	H1 2021 £m
Finance costs		
Interest payable and facility costs on bank loans, overdrafts and trade finance	**0.7**	1.4
Lease interest payable	**1.4**	1.3
Interest payable and other finance costs on bonds	**8.5**	8.4
Interest payable on Covid Corporate Financing Facility commercial paper	**0.9**	0.8
Effect of interest rate swaps	**0.1**	-
Unwinding of discount on provisions	**0.5**	0.8
Interest expense on defined benefit pension schemes	**2.6**	3.4
	14.7	16.1
Finance income		
Interest receivable on cash and cash equivalents	**(0.2)**	(0.4)
Net finance costs, excluding separately disclosed items ("adjusted net finance costs")	**14.5**	15.7

Taxation

The effective tax rate for the half-year ended 30 October 2021, excluding separately disclosed items, was 18.5% (H1 2021: 25.0%). The effective tax rate in H1 2021 was impacted by the low pre-tax profit due to the COVID-19 pandemic. The tax charge on profit from continuing operations can be analysed as follows:

Half-year to 30 October 2021	Pre-tax profit £m	Tax £m	Rate %
Excluding separately disclosed items	18.4	(3.4)	18.5%
Separately disclosed items	12.7	(17.0)	
Reported in income statement	**31.1**	**(20.4)**	

Cash flows and net debt

Since early in the COVID-19 pandemic, we have taken steps to manage cash flow and liquidity. We have delivered positive cash flow during the pandemic and maintained strong available liquidity throughout. That continued during the half-year ended 30 October 2021, where net debt was reduced by £45.1m from £312.6m to £267.5m and net debt plus net train operating company liabilities was reduced by £85.8m from £401.0m to £315.2m. We recognise that the positive cash flow partly reflects that dividend payments have been paused and capital expenditure constrained. We anticipate increasing capital expenditure in 2022, partly reflecting further investment in the transition to zero-emissions vehicles, and expect to resume dividend payments when appropriate.

Net cash from operating activities before tax for the half-year ended 30 October 2021 was £71.2m (H1 2021: restated £80.6m) and can be further analysed as follows:

	H1 2022 £m	H1 2021 (restated – see note 1(a) to condensed financial statements) £m
EBITDA of Group companies before separately disclosed items	**84.4**	74.3
Cash effect of current period separately disclosed items	**4.7**	(1.9)
Loss on disposal of property, plant and equipment	**0.7**	0.6
Capital grant amortisation	**(0.6)**	(0.4)
Share based payment movements	**1.7**	0.5
Working capital movements	**(1.6)**	26.0
Net interest paid	**(18.1)**	(18.5)
Net cash flows from operating activities before taxation	**71.2**	80.6

Net debt (as analysed in note 15 to the condensed financial statements) decreased from £312.6m at 1 May 2021 to £267.5m at 30 October 2021. The movement in net debt was:

Half-year to 30 October 2021	£m
Net cash flows from operating activities before taxation	71.2
Tax paid	(2.5)
Investing activities	(22.2)
Other	(1.4)
Movement in net debt in the half-year	45.1
Opening net debt	(312.6)
Closing net debt	(267.5)

Net cash flows from operating activities were lower than the equivalent prior year period due to working capital inflows in the prior year period. The £1.6m working capital outflow in the half-year ended 31 October 2021 includes outflows of approximately £41m in relation to a reduction in net train operating company liabilities (see below), inflows of approximately £31m in relation to COVID-19 related payments from governments and inflows of approximately £5m in relation to a decrease in the receivables from Transport for London. We are currently forecasting that round £17m of those first half inflows, in relation to COVID-19 payments and Transport for London receivables, will reverse in the second half of the year ending 30 April 2022. We have continued to moderate our levels of capital expenditure and suspend our dividend payments. Together with active management of working capital, these decisions have assisted us in maintaining strong available liquidity and reducing net debt over the half-year to 30 October 2021.

By the half-year end date of 30 October 2021, all of the major rail franchises previously operated by Group subsidiaries had ended. However, the settlement of the train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 30 October 2021, the consolidated net liabilities included net liabilities (excluding cash) of £47.7m (1 May 2021: £88.4m) in respect of such items. Accordingly, if all items were settled at their 30 October 2021 carrying values, consolidated net debt would increase by that amount. Consolidated net debt plus outstanding train operating company net liabilities as at 30 October 2021 was £315.2m (1 May 2021: £401.0m).

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

	H1 2022 £m	H1 2021 (restated – see note 1(a) to condensed financial statements) £m
UK Bus (regional operations)	**9.9**	28.8
UK Bus (London)	**9.7**	9.7
Net capital expenditure	**19.6**	38.5

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

	H1 2022 £m	H1 2021 (restated – see note 1(a) to condensed financial statements) £m
Cash flow from:		
- Purchase of property, plant and equipment	**10.4**	31.7
- Disposal of property, plant and equipment	**(0.7)**	-
- Capital grants received	**(1.2)**	(0.7)
Increase in net debt from new leases in period	**11.1**	7.5
Net capital expenditure	**19.6**	38.5

In addition to the amounts shown in the table above, the impact of purchases of intangible assets was £2.6m (H1 2021: £0.9m).

Financial position and liquidity

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

The Group remains well positioned to navigate this period of increased uncertainty, as evidenced by:

- We have available liquidity of over £790m, even after the expiry of £140m of committed bank facilities in October 2021.
- We secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our core £325m bank facilities. Those waivers cover the years ending 31 October 2020, 1 May 2021, 30 October 2021 and 30 April 2022. As things stand, the next testing of those covenants will be in respect of the year ending 29 October 2022. As an alternative to the covenant tests, the Group has agreed with the banks to maintain a minimum level of available liquidity.
- Notwithstanding the covenant waivers, we would nevertheless have comfortably complied with the covenants for the year to 30 October 2021.
- The ratio of net debt at 30 October 2021 to adjusted EBTIDA for the year ended 30 October 2021 was 1.5 times (year ended 31 October 2020: 1.8 times).
- Adjusted EBITDA for the half-year ended 30 October 2021 was 6.0 times (H1 2021: 4.7 times) adjusted net finance charges.
- Two major credit rating agencies – S&P and Moody's – continue to assign investment grade credit ratings to the Group. During the half-year ended 30 October 2021, S&P revised the Group's outlook from negative to stable and affirmed the BBB- rating, while Moody's confirmed its rating of the Group remained unchanged at Baa3 with negative outlook.

Financial position of the Group

Net assets

Net assets at 30 October 2021 were £126.4m (1 May 2021: £61.0m). The increase in the net assets reflects the actuarial gains on defined benefit pension schemes, gains on cash flow hedges and the profit for the half-year ended 30 October 2021.

Retirement benefits

The reported net assets of £126.4m (1 May 2021: £61.0m), that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £247.2m (1 May 2021: £263.8m), and associated deferred tax assets of £61.8m (1 May 2021: £50.1m).

The Group recognised pre-tax actuarial gains of £16.5m in the half-year ended 30 October 2021 (H1 2021: £6.3m) on Group defined benefit schemes.

The discount rate used to determine pension scheme liabilities as at 30 October 2021 was 1.9%, compared to 2.0% as at 1 May 2021.

Given the scale of the Stagecoach Pension Scheme, its significance relative to the scale of the Group, and its approach to investment and funding, the Scheme Trustees have engagement with The Pensions Regulator from time to time. The Scheme follows a bespoke approach to investment and funding that does not necessarily conform to "standard" or "benchmark" approaches considered by the Regulator. The Scheme's latest formal valuation was as at April 2020 and showed a funding deficit of £96m. The Trustees are, as expected, discussing that valuation with the Regulator. Although a preliminary scheme funding update as at 30 September 2021 indicates that the scheme would be in balance if using a discount rate of 3.2%, there are no expectations that the committed deficit contributions of £6.0m for the current year (rising to £7.7m per annum from May 2022) would be reduced. Over the longer term, there remains an ongoing risk that changes might be required to the level of cash contributions or security provided to the Scheme due to market movements or regulatory requirements.

On 15 November 2021, the Group ceased to have any employees who were active members of the Teesside Local Government Pension Scheme. As a result, the Group's participation in the Scheme ended and the Group currently anticipates that it will receive a refund from the Scheme in connection with its exit from the Scheme. The amount of any such refund will be determined by the Scheme Actuary and the relevant authority, and it might be more or less than the amount of the net retirement benefit asset recognised in relation to the Scheme in the Group's consolidated balance sheet as at 30 October 2021. Further information is provided in note 19 to the condensed financial statements.

Related parties

Note 18 to the condensed financial statements provides details of significant transactions between the Group and related parties.

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 15 of the Group's 2021 Annual Report set out specific risks and uncertainties in more detail.

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.

- Major event such as a serious accident – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's services. The ongoing effects of the COVID-19 situation and the 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. A weaker economy may also increase the risk of the Group's contingent liabilities, particularly those in relation to its former North American business, crystallising.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Changing customer habits – There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. It is likely that COVID-19 will accelerate trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram, there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.
- Pension scheme funding – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as regulatory approach, regulator intervention, investment performance, discount rates and life expectancies. Given the continuing uncertainty resulting from COVID-19, there remains a risk of further significant market movements that could result in significant changes in the amount of our net retirement benefit liabilities reported in the financial statements.
- 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.
- Climate change – we see public transport as a critical part of the battle against climate change. At the same time, we recognise that climate change presents a number of risks to the Group.
- Regulatory changes and availability of public funding – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. The UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations. The extent to which COVID-related payments from government continue will affect the Group's future profitability and cash flow.
- People and culture – There is a risk that the Group is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision making.

- Disease – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. This was identified by the Board as a principal risk some years ago but the COVID-19 situation is a clear and substantial crystallisation of the risk.
- Information security – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- Information technology – there is a risk that technology failures or interruptions could adversely affect the Group, including 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.

Auditors' review

For UK companies, there is no statutory or regulatory requirement for auditors to report on interim financial information. A review of interim financial information by the auditors is substantially less in scope than an audit and does not provide the level of assurance of an audit. We consulted with major shareholders on whether to engage the auditors to perform a review of the interim financial report for the half-year ended 31 October 2020. We and shareholders recognise the importance of reporting the interim financial information on a timely basis. To help ensure that we published the interim financial information at a similar time to previous years, and recognising that an interim review does not provide the level of assurance of an audit in any event, we decided not to engage the auditors to perform a review of the interim financial report for either of the half-years ended 30 October 2021 and 31 October 2020. The financial statements for the year ending 30 April 2022 will be subject to audit as usual.

Use of non-GAAP measures

Our reported interim financial information is prepared in accordance with UK-adopted International Accounting Standard 34, *Interim Financial Reporting*. In measuring our financial performance and position, the financial measures that we use include those that we have derived from our reported results in order to eliminate factors that distort period-on-period comparisons and/or provide useful information to stakeholders. These are non-GAAP financial measures, and include measures such as like-for-like revenue, adjusted EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance and position. Note 20 to the condensed financial statements provides further information on these non-GAAP financial measures.

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the half-year ended 30 October 2021. Although the COVID-19 situation has increased the level of uncertainty facing the Group, we have not identified a material uncertainty regarding the Group's ability to continue as a going concern for a period of not less than 12 months. Further detail of our going concern assessment is explained in note 1(c) to the condensed financial statements.

Outlook

While there remains some uncertainty around the pace of recovery and the changing COVID-19 situation, our outlook for the year ending 30 April 2022 is unchanged from our full year results in June 2021. Strong partnership working between bus operators, national government and local transport authorities is critical if we are to maximise the opportunities ahead and we are pleased that this is reflected in the direction of public policy across the country. We are mindful that there are risks relating to our future relationship with government, short to medium-term labour market challenges and higher inflation, and we will continue to proactively manage and respond to those.

We remain positive on the long-term outlook for the Group, whether our future is as a standalone business or as part of a larger, combined group. Public transport delivers the sustainable connectivity people need to access work, education, healthcare, shopping, leisure, and meeting family and friends. As we plan for a post-pandemic world, we are focused on further rebuilding profitability and adapting our services to meet new and emerging travel patterns. Our services are central to delivering government ambitions around decarbonisation, levelling up of communities, driving economic recovery, and securing better health outcomes for citizens.

Martin Griffiths
Chief Executive
8 December 2021

Responsibility Statement

We confirm that to the best of our knowledge:

(a) the condensed consolidated interim financial information contained in this document has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted in the UK;

(b) the interim management report contained in this document includes a fair review of the information required by the Financial Conduct Authority's Disclosure and Transparency Rules ("DTR") 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) this document includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of and on behalf of the Board

Martin Griffiths
Chief Executive
8 December 2021

Ross Paterson
Finance Director
8 December 2021

Cautionary statement

The preceding interim 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 interim management report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic, regulatory policy and business circumstances occurring from time to time in the 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 interim 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

		Unaudited			Unaudited		
		Half-year to 30 October 2021			Half-year to 31 October 2020		
		Performance excluding separately disclosed items	Separately disclosed items (note 4)	Results for the period	Performance excluding separately disclosed items	Separately disclosed items (note 4)	Results for the period
	Notes	£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS							
Revenue	3(a)	**579.4**	**-**	**579.4**	454.6	-	454.6
Operating costs and other operating income		**(548.2)**	**12.3**	**(535.9)**	(438.4)	7.5	(430.9)
Operating profit of Group companies	3(b)	**31.2**	**12.3**	**43.5**	16.2	7.5	23.7
Share of profit/(loss) of joint ventures after taxation	3(c)	**1.7**	**-**	**1.7**	(0.1)	-	(0.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	3(b)	**32.9**	**12.3**	**45.2**	16.1	7.5	23.6
Finance costs		**(14.7)**	**-**	**(14.7)**	(16.1)	(2.5)	(18.6)
Finance income		**0.2**	**0.4**	**0.6**	0.4	-	0.4
Profit before taxation		**18.4**	**12.7**	**31.1**	0.4	5.0	5.4
Taxation		**(3.4)**	**(17.0)**	**(20.4)**	(0.1)	(0.9)	(1.0)
Profit for the period, all attributable to equity holders of the parent		**15.0**	**(4.3)**	**10.7**	0.3	4.1	4.4
Earnings per share (all of which relates to continuing operations)							
- Adjusted basic/Basic	6	**2.7p**		**1.9p**	0.1p		0.8p
- Adjusted diluted/Diluted	6	**2.7p**		**1.9p**	0.1p		0.8p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m
Profit for the period	**10.7**	4.4
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Net fair value gains/(losses) on cash flow hedges	**30.0**	(2.9)
- Reclassified and reported in profit for the period	**0.5**	6.6
- Tax effect of cash flow hedges	**(5.8)**	(0.7)
Total items that may be reclassified to profit or loss	**24.7**	3.0
Items that will not be reclassified to profit or loss		
Actuarial gains on Group defined benefit pension schemes	**16.5**	6.3
Tax effect of actuarial gains on Group defined benefit pension schemes	**(4.0)**	(1.2)
Effect of change in the UK corporation tax rate on Group defined benefit pension schemes	**15.8**	-
Total items that will not be reclassified to profit or loss	**28.3**	5.1
Other comprehensive income for the period	**53.0**	8.1
Total comprehensive income for the period, all attributable to equity holders of the parent	**63.7**	12.5

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

	Notes	**Unaudited** **As at** **30 October 2021** **£m**	Audited As at 1 May 2021 £m
ASSETS			
Non-current assets			
Goodwill		**51.9**	51.9
Other intangible assets	7	**14.2**	12.3
Property, plant and equipment:	8		
- Owned assets		**728.3**	760.4
- Right-of-use assets		**89.3**	90.6
Interests in joint ventures	9	**8.4**	6.7
Derivative instruments at fair value		**18.9**	4.1
Retirement benefit assets	11	**11.9**	1.1
Other receivables		**16.7**	18.1
		939.6	945.2
Current assets			
Inventories		**9.4**	9.5
Trade and other receivables		**112.3**	117.3
Derivative instruments at fair value		**6.6**	0.8
Cash and cash equivalents		**530.5**	602.3
Assets classed as held for sale	8(c)	**-**	0.8
		658.8	730.7
Total assets	3(d)	**1,598.4**	1,675.9
LIABILITIES			
Current liabilities			
Trade and other payables		**262.6**	271.5
Current tax liabilities		**8.7**	1.1
Borrowings:			
- Lease liabilities		**24.2**	22.7
- Other borrowings		**319.2**	434.9
Derivative instruments at fair value		**0.9**	7.8
Provisions	16	**38.5**	41.0
		654.1	779.0
Non-current liabilities			
Other payables		**15.5**	15.5
Borrowings:			
- Lease liabilities		**56.2**	59.4
- Other borrowings		**397.4**	406.6
Derivative instruments at fair value		**1.6**	4.3
Deferred tax liabilities		**5.1**	0.8
Provisions	16	**83.0**	84.4
Retirement benefit obligations	11	**259.1**	264.9
		817.9	835.9
Total liabilities	3(d)	**1,472.0**	1,614.9
Net assets	3(d)	**126.4**	61.0
EQUITY			
Ordinary share capital	12	**3.2**	3.2
Share premium account		**8.4**	8.4
Retained earnings		**(258.3)**	(299.0)
Capital redemption reserve		**422.8**	422.8
Own shares		**(69.6)**	(69.6)
Cash flow hedging reserve		**19.9**	(4.8)
Total equity, all attributable to the parent		**126.4**	61.0

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Cash flow hedging reserve £m	Total equity £m
Balance at 1 May 2021	3.2	8.4	(299.0)	422.8	(69.6)	(4.8)	**61.0**
Profit for the period	-	-	10.7	-	-	-	**10.7**
Other comprehensive income, net of tax	-	-	28.3	-	-	24.7	**53.0**
Total comprehensive income	-	-	**39.0**	-	-	**24.7**	**63.7**
Credit in relation to equity-settled share based payments	-	-	1.7	-	-	-	**1.7**
Balance at 30 October 2021	**3.2**	**8.4**	**(258.3)**	**422.8**	**(69.6)**	**19.9**	**126.4**
Balance at 2 May 2020	**3.2**	**8.4**	**(460.1)**	**422.8**	**(69.6)**	**(34.9)**	**(130.2)**
Profit for the period	-	-	4.4	-	-	-	4.4
Other comprehensive income, net of tax	-	-	5.1	-	-	3.0	8.1
Total comprehensive expense	-	-	9.5	-	-	3.0	12.5
Credit in relation to equity-settled share based payments	-	-	0.5	-	-	-	0.5
Balance at 31 October 2020	**3.2**	**8.4**	**(450.1)**	**422.8**	**(69.6)**	**(31.9)**	**(117.2)**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Unaudited Half-year to 30 October 2021 £m**	Unaudited Half-year to 31 October 2020 (restated – see note 1(a)) £m
Cash flows from operating activities			
Cash generated by operations	13	**89.3**	99.1
Interest paid		**(18.3)**	(18.9)
Interest received		**0.2**	0.4
Net cash flows from operating activities before tax		**71.2**	80.6
Tax (paid)/received		**(2.5)**	2.1
Net cash from operating activities after tax		**68.7**	82.7
Cash flows from investing activities			
Cash outflow associated with disposals of subsidiaries in prior years		**-**	(0.8)
Purchase of property, plant and equipment		**(10.4)**	(31.7)
Disposal of property, plant and equipment		**0.7**	-
Receipt of capital grants		**1.2**	0.7
Purchase of intangible assets		**(2.6)**	(0.9)
Net cash outflow from investing activities		**(11.1)**	(32.7)
Cash flows from financing activities			
Payments of principal portion of lease liabilities		**(12.8)**	(14.4)
Drawdown of other borrowings		**-**	298.5
Repayment of other borrowings		**-**	(200.0)
Net cash flow from financing activities		**(12.8)**	84.1
Net increase in cash and cash equivalents		**44.8**	134.1
Cash and cash equivalents at beginning of period		**483.2**	348.3
Cash and cash equivalents at end of period		**528.0**	482.4

Cash and cash equivalents shown in the above consolidated statement of cash flows include the cash and cash equivalents of £530.5m (1 May 2021: £602.3m) shown on the consolidated balance sheet, less bank overdrafts of £2.5m (1 May 2021: £119.1m) included in other borrowings within current liabilities in the consolidated balance sheet.

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

NOTES

1 BASIS OF PREPARATION

(a) Basis of preparation

As a result of the UK's withdrawal from the European Union on 31 December 2020, the financial statements of the Group for the year ending 30 April 2022 will be prepared in accordance with the UK-adopted International Accounting Standards. Accordingly, the condensed consolidated interim financial information for the half-year ended 30 October 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and UK-adopted International Accounting Standard 34, *Interim Financial Reporting*. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 1 May 2021, which have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and applied by the Group at the time. Except to the extent described below, the accounting policies and methods of computation applied in the consolidated interim financial information are the same as those of the annual financial statements for the year ended 1 May 2021, as described on pages 105 to 117 of the Group's 2021 Annual Report which can be found on the Stagecoach Group website at http://www.stagecoachgroup.com/investors/financial-analysis/reports/.

The figures for this half-year include the results for all segments for the 26 weeks to 30 October 2021. The comparative figures for the half-year ended 31 October 2020 include the results for all segments for the 26 weeks ended 31 October 2020.

This condensed consolidated interim financial information for the half-year ended 30 October 2021 has not been audited or reviewed by the auditors. The comparative financial information presented in this announcement for the year ended 1 May 2021 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and does not reflect all of the information contained in the Company's annual financial statements. The annual financial statements for the year ended 1 May 2021 were approved by the Board of Directors on 30 June 2021. They received an unqualified audit report from the auditors, did not contain an emphasis of matter paragraph, did not contain a statement under section 498 of the Companies Act 2006 and have been filed with the Registrar of Companies.

The Board of Directors approved this announcement, including the condensed consolidated interim financial information, on 8 December 2021. This announcement will be available on the Group's website at http://www.stagecoachgroup.com/investors/financial-analysis/reports/.

Restatement of comparative amounts for the half-year ended 31 October 2020

As disclosed in the consolidated financial statements for the year ended 1 May 2021, the Group revised its presentation of cash from the receipt of capital grants to show these amounts as investing cash flows to reflect the increasing importance of such grants in the Group's investment decision making. This revision has no effect on the total cash flows reported by the Group.

The effect of that voluntary change in accounting policy on the affected lines in the consolidated statement of cash flows for the half-year to 31 October 2020 is summarised in the table below:

	As previously reported £m	Effect of voluntary change in treatment of capital grants £m	Restated £m
Capital grant amortisation	-	(0.4)	(0.4)
Operating cashflows before working capital movements	73.5	(0.4)	73.1
Increase in payables	33.2	(0.3)	32.9
Other working capital movements	(6.9)	-	(6.9)
Cash generated by operations	99.8	(0.7)	99.1
Net cash flows from operating activities before tax	81.3	(0.7)	80.6
Receipt of capital grants	-	0.7	0.7
Net cash outflow from investing activities	(33.4)	0.7	(32.7)
Net increase in cash and cash equivalents	134.1	-	134.1

1 BASIS OF PREPARATION (CONTINUED)

(a) Basis of preparation (continued)

Restatement of comparative amounts for the year ended 1 May 2021: Tyne & Wear Local Government Pension scheme settlement

During the second half of the year ended 1 May 2021, the Group's last remaining active members in the Tyne & Wear Local Government Pension scheme ("LGPS") left that scheme and transferred to the Stagecoach Group Pension Scheme. As a result of the Group having no remaining active members in the Tyne & Wear scheme, the Group's participation in that scheme automatically ceased. The exit from the scheme was accounted for as a settlement in the year ended 1 May 2021.

The Group's consolidated financial statements included an asset ceiling in respect of the scheme. During the year ended 1 May 2021, the asset ceiling was re-measured such that the net retirement benefit asset in relation to scheme (after deducting the applicable asset ceiling) equalled the estimated amount receivable by the Group in relation to its exit from the scheme. The re-measurement of the asset ceiling was reflected in the consolidated statement of comprehensive income. On the trigger of the Group's exit from the scheme, the retirement benefit gross assets, gross liabilities and asset ceiling were de-recognised and the estimated amount receivable from the scheme was recognised in the consolidated balance sheet within other receivables. The amount of the asset ceiling de-recognised was £30.2m.

Paragraph 101A of International Accounting Standard 19 ("IAS 19"), *Employee Benefits,* requires that where a plan settlement has taken place, any asset ceiling hitherto applied in limiting the value of any surplus or deficit recognised in a scheme is disregarded and any underlying surplus is written off to the income statement down to its recoverable amount. Any asset ceiling provision is written back through the statement of other comprehensive income as a re-measurement adjustment. The treatment adopted at 1 May 2021 did not disregard the asset ceiling in measuring the gain or loss on settlement.

On a further review of the detailed requirements of IAS 19 since finalising the Group's consolidated financial statements for the year ended 1 May 2021, the Directors concluded that it would have been more appropriate to:

- Compare (a) the estimated amount receivable from the scheme of £3.5m with (b) the net retirement asset, ignoring the asset ceiling, of £33.7m, and recognise the resulting loss of £30.2m (and the associated tax credit of £5.7m) in the consolidated income statement; and
- Recognise the £30.2m re-measurement of the asset ceiling (and the associated tax cost of £5.7m) in the consolidated statement of comprehensive income.

This restatement has no impact on adjusted earnings per share for the year ended 1 May 2021 because the charge to the income statement is presented as a separately disclosed item. The restatement also has no impact on the consolidated balance sheet as at 1 May 2021 or the consolidated statement of cash flows for the year ended 1 May 2021.

The effect of the prior year restatement for the year ended 1 May 2021 is as follows:

	As previously reported	Effect of prior year restatement	Restated
	£m	£m	£m
Profit/(loss) before taxation	24.7	(30.2)	(5.5)
Taxation	8.8	5.7	14.5
Profit for the year	33.5	(24.5)	9.0
Items that may be reclassified to profit or loss			
Total items that may be reclassified to profit or loss	30.1	-	30.1
Items that will not be reclassified to profit or loss			
Actuarial gains on Group defined benefit pension schemes	154.9	30.2	185.1
Tax effect on actuarial gains on Group defined benefit pension schemes	(28.8)	(5.7)	(34.5)
Total items that will not be reclassified to profit or loss	126.1	24.5	150.6
Other comprehensive income for the year	156.2	24.5	180.7
Total comprehensive income for the year	189.7	-	189.7
	pence	pence	pence
Basic earnings per share	6.1	(4.5)	1.6
Diluted earnings per share	6.0	(4.4)	1.6
Adjusted earnings per share	2.7	-	2.7

This restatement has no impact on previously reported amounts for the half-year ended 31 October 2020, because the settlement occurred in the second half of the year ended 1 May 2021.

1 BASIS OF PREPARATION (CONTINUED)

(b) New accounting standards adopted during the period

From 2 May 2021, the following standards and amendments are effective in the Group's consolidated financial statements:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 17, IFRS 14 and IFRS 16; and
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

The application of these amendments has not had any material impact on the disclosures or net assets of the Group.

(c) Going concern

(i) Going concern assessment
The COVID-19 pandemic has had a significant impact on the business of the Group. Nevertheless, a combination of our decisive management actions and supportive relationships with our government and local authority partners has contributed to positive pre-tax profit for the 2020/21 year and for the first half of the 2021/22 financial year, and we are seeing a recovery in revenue from customers. Details of the management actions we have taken to mitigate the financial impact of the COVID-19 pandemic on the Group are set out in the Overview section of the Group's 2021 Annual Report.

The Board considered the liquidity position in the Group's financial forecasts which cover the period of 12 months from the date of this announcement ("the going concern period"), recognising the challenges around reliably estimating and forecasting the effects of COVID-19 on our regional bus business. The key areas of forecasting uncertainty include:

- The extent and duration of COVID-19 restrictions in the UK;
- The duration and scale of government support measures to the bus sector, including the Bus Recovery Grant for eligible local bus services in England;
- The extent and timing of a continued recovery in passenger demand; and
- The size of the network (mileage) to support that level of passenger demand.

References below to pre-COVID levels refer to the forecast amounts for the relevant periods just prior to the COVID-19 situation emerging in the UK in early 2020.

Our base case forecast assumes that regional bus vehicle mileage is 95% of pre-COVID levels throughout the going concern period. It also assumes that regional bus commercial revenue is at 80% of pre-COVID levels for the six months ending 30 April 2022, increasing to 93% of pre-COVID levels for the remainder of the going concern period, reflecting the assumed return in patronage as the country emerges from the pandemic. Concessionary revenue for the six months ending 30 April 2022, and for the remainder of the going concern period, is forecast at 98% of pre-COVID levels. During the pandemic, governments have confirmed additional COVID-related measures to support the continuity of regional bus services, and accordingly we continue to assume that any regional bus operating profit is modest. Our base case forecast assumes that regional bus support measures end on the following dates:

- Bus Recovery Grant scheme to support local bus services in England, excluding London, runs from 1 September 2021 to 15 March 2022;
- COVID-19 Support Grant Restart payments to support services in Scotland continue through until 31 March 2022; and
- Bus Emergency Scheme 2 payments to support services in Wales continue through until 31 July 2022.

We do see potential for government to extend support beyond that to support the continuity of bus services and/or fund the delivery of commitments in the National Bus Strategy.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue and vehicle mileage over the forecast period. The range of downside scenarios considered cover:
- commercial revenue at between 75% and 78% of pre-COVID levels in the six months ending 30 April 2022;
- commercial revenue at between 82% and 88% of pre-COVID levels for the remainder of the going concern period;
- concessionary revenue at 95% of pre-COVID levels in the six months ending 30 April 2022;
- concessionary revenue at between 88% and 93% of pre-COVID levels for the remainder of the going concern period;
- vehicle mileage at around 95% of pre-COVID levels in the six months ending 30 April 2022 and between 92% and 95% for the remainder of the going concern period;
- certain contingent liabilities, including in respect of our former North America business, crystallising as actual liabilities.

(ii) Mitigating actions
As explained in the "Financial position and liquidity" section of this report, we have secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our £325m of committed bank facilities entered into in March 2020. The waivers cover the years ending 30 October 2021 and 30 April 2022. Notwithstanding the covenant waivers, we would nevertheless have comfortably complied with the covenants for the year to 30 October 2021. As things stand, the next testing of those covenants will be in respect of the year ending 29 October 2022. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity. The minimum liquidity thresholds are now £150m plus the amount of any commercial paper outstanding under the Covid Corporate Financing Facility.

1 BASIS OF PREPARATION (CONTINUED)

(c) Going concern (continued)

(ii) Mitigating actions (continued)
In addition to the severe downside scenarios, the Board has also reviewed reverse stress tests, in which the Group has constructed scenarios that would be necessary for the Group to breach the covenant tests underpinning its banking facilities. To the extent any of these downside scenarios materialised, we consider that the Group would have sufficient controllable, mitigating actions to avoid a breach of the liquidity thresholds and to avoid a breach of the covenants in respect of the year ending 29 October 2022.

The key mitigation available would be to further reduce the Group's cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings.

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment: further extensions to the period of time covered by the Bus Recovery Grant and/or other COVID-19 support grants; issuing new share capital for cash; asset sale and leasebacks; and obtaining further covenant waivers.

(iii) Liquidity and covenant headroom
Under all of the modelled scenarios, positive liquidity headroom exists throughout the going concern period and the Group remains in compliance with the minimum liquidity thresholds it has agreed with banks. It also has forecast headroom under its financial covenant tests applying for the year ending 29 October 2022. In the most severe of the downside scenarios modelled (the reverse stress test scenario), liquidity and covenant headroom exists, and the minimum liquidity thresholds are achieved throughout the going concern period after taking account of controllable, mitigating actions.

Liquidity headroom in the modelled scenarios excludes the £300m of commercial paper issued under the Bank of England's Covid Corporate Financing Facility (as it is assumed this will be repaid in February and March 2022). The available liquidity comprises the Group's undrawn committed facilities having a maturity date of 2025, and cash balances.

(iv) Public policy context
During the COVID-19 pandemic to date, the governments in England, Scotland and Wales have demonstrated a concern to ensure the continuity of bus services. Neither we nor the respective governments want to see cuts in bus services that hinder people connecting with work, shops, education, healthcare or leisure. As we continue to recover from the pandemic, the governments want to get bus usage back to what it was pre-pandemic and then increase patronage and grow buses' mode share. Public transport is key to various components of the current public policy agenda in the UK: post-COVID economic recovery, building back better, decarbonisation, levelling up. In light of all of that, we are confident that governments will continue to take action, including providing financial support, to avoid significant cuts in regional bus services. While that does not guarantee significant profits for regional bus operators, it means that significant losses appear unlikely during the going concern period. Against that context, if the regional bus business is assumed to operate at break-even operating profit, combined with continuing London bus profitability, and substantial available liquidity, we have confidence in the Group's ability to continue as a going concern for the duration of the going concern period.

(v) Going concern conclusion
Accordingly, the condensed consolidated interim financial information for the half-year ended 30 October 2021 has been prepared on a going concern basis. In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated interim financial information, with no material uncertainties identified. The Directors have a reasonable expectation that the Group will continue to operate as a going concern for a period of 12 months from the date of this announcement.

2 SEASONALITY

The trajectory of the recovery from the COVID-19 situation, and the arrangements with government, could affect the phasing of the Group's revenue and profit for the year ending 30 April 2022.

3 SEGMENTAL ANALYSIS

The Group is managed, and reports internally, on a basis consistent with its three continuing operating segments, being UK Bus (regional operations), UK Bus (London), and UK Rail. 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 those three operating segments as follows:

Segment name	*Service operated*	*Countries of operation*
UK Bus (regional operations)	Coach and bus operations	United Kingdom
UK Bus (London)	Bus operations	United Kingdom
UK Rail	Rail operations and business development	United Kingdom

The basis of segmentation and the basis on which segment profit is measured are consistent with the Group's last annual financial statements for the year ended 1 May 2021.

The Group has interests in three joint ventures: WCT Group (formerly Virgin Rail Group) that operates in UK Rail, Citylink that operates in UK Bus (regional operations) and Crown Sightseeing Limited that operates in UK Bus (London). The results of these joint ventures are shown separately in note 3(c).

(a) Revenue

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

Almost all of the revenue of the UK Bus (London) segment is receivable from Transport for London. As at 30 October 2021, the Group had receivables from Transport for London of £5.3m (1 May 2021: £10.2m). Notwithstanding reports of Transport for London's financial pressures, the Group does not consider those receivables impaired.

Revenue split by class and segment, was as follows:

	Unaudited				
	Half-year to 30 October 2021				
	Commercial passenger revenue	Concessionary revenue	Tendered & school revenue	Contract & other revenue	Total
	£m	£m	£m	£m	£m
UK Bus (regional operations)	**233.1**	**127.3**	**54.9**	**23.1**	**438.4**
UK Bus (London)	**0.5**	**-**	**-**	**135.1**	**135.6**
Total bus operations	**233.6**	**127.3**	**54.9**	**158.2**	**574.0**
UK Rail	**4.8**	**-**	**-**	**0.6**	**5.4**
Reported Group revenue	**238.4**	**127.3**	**54.9**	**158.8**	**579.4**

	Unaudited				
	Half-year to 31 October 2020				
	Commercial passenger revenue	Concessionary revenue	Tendered & school revenue	Contract & other revenue	Total
	£m	£m	£m	£m	£m
UK Bus (regional operations)	132.2	125.6	51.3	16.4	325.5
UK Bus (London)	-	-	-	126.5	126.5
Total bus operations	132.2	125.6	51.3	142.9	452.0
UK Rail	2.5	-	-	0.3	2.8
Total Group revenue	134.7	125.6	51.3	143.2	454.8
Intra-Group revenue – UK Bus (regional operations)	-	-	-	(0.2)	(0.2)
Reported Group revenue	134.7	125.6	51.3	143.0	454.6

3 SEGMENTAL ANALYSIS (CONTINUED)

(b) Operating profit

Operating profit split by segment, was as follows:

	Unaudited Half-year to 30 October 2021			Unaudited Half-year to 31 October 2020		
	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the period £m	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the period £m
UK Bus (regional operations)	**30.3**	**4.7**	**35.0**	9.1	4.2	13.3
UK Bus (London)	**8.3**	**-**	**8.3**	9.2	-	9.2
Total bus operations	**38.6**	**4.7**	**43.3**	18.3	4.2	22.5
UK Rail	**(2.1)**	**8.8**	**6.7**	2.6	3.6	6.2
	36.5	**13.5**	**50.0**	20.9	7.8	28.7
Group overheads	**(5.2)**	**(1.2)**	**(6.4)**	(4.6)	(0.3)	(4.9)
Restructuring costs	**(0.1)**	**-**	**(0.1)**	(0.1)	-	(0.1)
Total operating profit of Group companies	**31.2**	**12.3**	**43.5**	16.2	7.5	23.7
Share of joint ventures' profit/(loss) after taxation	**1.7**	**-**	**1.7**	(0.1)	-	(0.1)
Total operating profit: Group operating profit and share of joint ventures' profit/(loss) after taxation	**32.9**	**12.3**	**45.2**	16.1	7.5	23.6

(c) Joint ventures

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

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m
WCT Group (formerly Virgin Rail Group) (UK Rail)		
Operating profit	**1.9**	0.2
Taxation	**(0.3)**	(0.1)
	1.6	0.1
Citylink (UK Bus, regional operations)		
Operating profit/(loss)	**0.1**	(0.3)
Taxation	**-**	0.1
	0.1	(0.2)
Share of profit/(loss) of joint ventures after taxation	**1.7**	(0.1)

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Unaudited As at 30 October 2021			Audited As at 1 May 2021		
	Gross assets £m	**Gross liabilities £m**	**Net assets/ (liabilities) £m**	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**913.3**	**(362.2)**	**551.1**	908.3	(334.2)	574.1
UK Bus (London)	**129.3**	**(204.7)**	**(75.4)**	127.1	(199.9)	(72.8)
UK Rail	**2.0**	**(67.4)**	**(65.4)**	1.7	(111.9)	(110.2)
	1,044.6	**(634.3)**	**410.3**	1,037.1	(646.0)	391.1
Central functions	**14.9**	**(26.9)**	**(12.0)**	29.8	(43.4)	(13.6)
Joint ventures	**8.4**	**-**	**8.4**	6.7	-	6.7
Borrowings, cash and cash equivalents	**530.5**	**(797.0)**	**(266.5)**	602.3	(923.6)	(321.3)
Taxation	**-**	**(13.8)**	**(13.8)**	-	(1.9)	(1.9)
Total	**1,598.4**	**(1,472.0)**	**126.4**	1,675.9	(1,614.9)	61.0

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

4 SEPARATELY DISCLOSED ITEMS

(a) Summary of separately disclosed items

The Group highlights amounts before certain "separately disclosed items" as defined in note 20.

The items shown in the columns headed "separately disclosed items" on the face of the consolidated income statement can be further analysed as follows:

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m
Operating costs and other operating income		
Re-organisation costs	**-**	(2.8)
Release from onerous contract provision	**3.9**	3.6
Discontinuation of fuel hedge accounting	**-**	6.7
Expired rail franchises	**4.9**	-
Transaction costs	**(1.2)**	-
Re-measurement of pensions settlement	**4.7**	-
	12.3	7.5
Finance income/(costs)		
Change in fair value of Deferred Payment Instrument	**0.4**	(2.5)
Separately disclosed items before taxation	**12.7**	5.0
Taxation effect	**(17.0)**	(0.9)
Separately disclosed items after taxation	**(4.3)**	4.1

(b) Re-organisation costs

In light of the COVID-19 situation, the Group took a number of actions to reduce its ongoing costs. Those actions were designed to ensure that the Group remained appropriately efficient and well placed to manage through, and recover from, the effects of the COVID-19 situation on its operations and financial performance. The Group incurred re-organisation costs, net of related grant income, of £2.8m in the half-year ended 31 October 2020 as a result of the actions taken to reduce its ongoing costs.

(c) Release from onerous contract provision

In the second half of the year ended 2 May 2020 and taking account of the effects of the COVID–19 situation, the Group assessed its assets for impairment and reviewed for onerous contracts.

As part of that, an onerous contract provision of £14.1m was recorded as at 2 May 2020 in respect of the Group's Sheffield Supertram concession. The amount of that onerous contract provision is re-assessed, and adjusted if appropriate, at each balance sheet date. As at 1 May 2021, the provision was £13.3m and represented the majority of the total onerous contract provisions of £13.6m. In estimating that onerous contract provision as at 1 May 2021, COVID-related payments to the Group's Sheffield Supertram business from the Department for Transport and South Yorkshire Passenger Transport Executive were only taken account of to the extent they were confirmed on or prior to 1 May 2021. Since 1 May 2021, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to Sheffield Supertram. We have re-assessed the amount of the onerous contract provision as at 30 October 2021, taking account of the further COVID-related payments and other developments that affect the estimated net cost of fulfilling the contractual obligations. That re-assessment resulted in a £3.5m (half-year ended 31 October 2020: £3.6m) reduction in the level of the provision, with the reduction, as well as the £0.4m of Sheffield Supertram's other operating profit in the half-year, credited to the consolidated income statement for the half-year ended 30 October 2021 and presented as a separately disclosed item.

The estimate of the Supertram onerous contract provision as at 30 October 2021 includes anticipated Light Rail Recovery Funding income in respect of the period through to 5 April 2022. Light Rail Recovery Funding or similar funding beyond 5 April 2022 would reduce the required provision.

The estimate of the Supertram onerous contract provision involves estimation uncertainty, particularly in relation to forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts used to estimate the provision as at 30 October 2021 assume that underlying passenger revenue from 30 October 2021, until the end of the Supertram concession in March 2024, is around 85% of the pre-COVID forecasts for that period. Underlying passenger revenue has been normalised to take account of changes in the timing of infrastructure work on the tram system. If total forecast revenue from 30 October 2021 was increased by 10%, the onerous contract provision as at 30 October 2021 would be £3.2m lower and if it was decreased by 10%, the provision would be £3.2m higher.

4 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(c) Release from onerous contract provision (continued)

No specific assumptions have been made regarding climate change in estimating the Supertram onerous contract provision. Taking account of the remaining term of the Supertram concession being less than three years and that the trams are electrically (rather than diesel) powered, we do not consider that climate change considerations materially affect the estimate of the provision as at 30 October 2021.

(d) Discontinuation of fuel hedge accounting

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

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

In the half-year ended 31 October 2020, the fair value of those discontinued hedges (net of related offsetting derivatives) moved in favour of the bank counterparties and accordingly, a charge of £0.2m was reported in the consolidated income statement for the half-year ended 31 October 2020 and presented as a separately disclosed item. As the discontinued hedges covered periods up until April 2021, there are no amounts to be reported as separately disclosed items in respect of those hedges in the half-year ended 31 October 2021.

Grant income recognised in the six months ended 31 October 2020 included amounts intended to compensate the Group for cash payments by the Group pursuant to fuel derivatives. To the extent that grant income related to the fuel derivatives for which hedge accounting was discontinued and for which the related expenses on those derivatives is reported within separately disclosed items (either in the year ended 2 May 2020 or in the half-year ended 31 October 2020), the related grant income of £6.9m in the half-year ended 31 October 2020 was also reported within separately disclosed items.

(e) Expired rail franchises

As part of concluding matters in relation to our former involvement in the UK train operating market, we have recorded a gain of £4.9m in the half-year ended 30 October 2021. We have separately disclosed the gain for consistency, as it relates to costs that were previously recorded as separately disclosed items.

(f) Transaction costs

We have recorded expenses of £1.2m, predominantly professional fees, in relation to a possible all-share combination with National Express Group plc. Due to the non-recurring nature of the expenses, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the expenses incurred in respect of the possible transaction.

(g) Pensions settlement

On 16 March 2021, the Group ceased to participate in the Tyne & Wear Local Government Pension scheme. The Group recognised an estimated settlement receivable of £3.5m as at 1 May 2021, based on the most recent actuarial valuations and estimates by an independent professionally qualified actuary.

The final settlement received by the Group in the half-year ended 30 October 2021 was £8.2m, an increase of £4.7m above the £3.5m receivable previously recognised at 1 May 2021. The increase in the exit settlement of £4.7m arose due to final actuarial assumptions on settlement as determined by the relevant authority, differing from previous estimates. Due to the size and nature of this change in estimate, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the increased settlement received by the Group.

4 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(h) Change in fair value of Deferred Payment Instrument

The Group received a Deferred Payment Instrument as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. The carrying value of the instrument was £1.9m as at 1 May 2021. At 30 October 2021, the carrying value of the instrument was estimated to be £2.3m, resulting in a gain of £0.4m (half-year ended 31 October 2020: loss of £2.5m) being recognised as finance income (half-year ended 31 October 2021: finance costs) in the half-year ended 30 October 2021.

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

(i) Taxation effect

The separately disclosed taxation charge of £17.0m (half-year ended 31 October 2020: £0.9m) comprises £16.1m (half-year ended 31 October 2020: £Nil) in relation to the effect of the change in the UK corporation tax rate described below and £0.9m (half-year ended 31 October 2020: £0.9m) in relation to the taxation effect of the pre-tax separately disclosed items.

Under legislation substantively enacted on 24 May 2021, the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. The effect of that change being substantively enacted on the results for the half-year ended 30 October 2021 is an increase in the deferred tax liability of £0.3m, a charge to the consolidated income statement of £16.1m and a credit to the consolidated statement of comprehensive income of £15.8m, with the £15.8m being the change in the deferred tax balance in relation to net retirement benefit obligations.

The £16.1m charge to the consolidated income statement has been presented as a separately disclosed item in the half-year ended 30 October 2021. The Group's definition of separately disclosed items (see note 20) includes "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". Given the significance of the £16.1m charge in the context of the Group's profit for the half-year ended 30 October 2021 and that the Group does not regularly see tax rate changes that have a profit impact of that extent, the Directors consider that the amount needs to be separately disclosed by virtue of its size and nature in order to allow a proper understanding of the underlying financial performance of the Group. Whilst the effect of prior tax rate changes on profit have not necessarily been presented as separately disclosed items, that is because they have been smaller in size (e.g. a £5.7m charge in the year ended 2 May 2020 in the context of adjusted profit after tax for the year of £74.9m versus £16.1m in the half-year ended 30 October 2021 in the context of reported adjusted profit after tax for the half-year of £15.4m).

5 DIVIDENDS

No dividends have paid during, or declared in respect of, the half-year ended 30 October 2021, the half-year ended 31 October 2020 or the year ended 1 May 2021.

6 EARNINGS PER SHARE

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

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

	Unaudited Half-year to 30 October 2021 No. of shares Million	Unaudited Half-year to 31 October 2020 No. of shares Million
Basic weighted average number of ordinary shares, excluding treasury shares	**550.9**	550.4
Dilutive ordinary shares		
- Restricted Share Plan	**0.8**	0.1
- Executive Participation Plan	**2.8**	2.8
Diluted weighted average number of ordinary shares	**554.5**	553.3

Adjusted EPS is calculated by adding back separately disclosed items (after taking account of taxation) 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.

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m
Profit attributable to equity holders of the parent for basic EPS calculation	**10.7**	4.4
Separately disclosed items before tax (note 4)	**(12.7)**	(5.0)
Tax effect of separately disclosed items (note 4)	**17.0**	0.9
Profit for adjusted EPS calculation	**15.0**	0.3

7 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m	Audited Year to 1 May 2021 £m
Cost at beginning of period	**39.8**	33.8	33.8
Additions	**2.6**	0.9	6.0
Cost at end of period	**42.4**	34.7	39.8
Accumulated amortisation at beginning of period	**(27.5)**	(24.3)	(24.3)
Amortisation charged to income statement	**(0.7)**	(2.0)	(3.2)
Accumulated amortisation at end of period	**(28.2)**	(26.3)	(27.5)
Net book value at beginning of period	**12.3**	9.5	9.5
Net book value at end of period	**14.2**	8.4	12.3

8 PROPERTY, PLANT AND EQUIPMENT

(a) Owned assets

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

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m	Audited Year to 1 May 2021 £m
Cost at beginning of period	**1,560.8**	1,564.2	1,564.2
Additions	**8.6**	16.0	36.6
Disposals	**(15.3)**	(10.4)	(38.1)
Transferred to assets held for sale	**-**	(1.9)	(1.9)
Cost at end of period	**1,554.1**	1,567.9	1,560.8
Depreciation at beginning of period	**(800.4)**	(744.9)	(744.9)
Depreciation charged to income statement	**(40.1)**	(40.9)	(81.8)
Impairment charged to income statement	**-**	(2.0)	(5.9)
Disposals	**14.7**	9.8	31.7
Transferred to assets held for sale	**-**	0.5	0.5
Depreciation at end of period	**(825.8)**	(777.5)	(800.4)
Net book value at beginning of period	**760.4**	819.3	819.3
Net book value at end of period	**728.3**	790.4	760.4

(b) Movements in right-of-use assets

The movements in right-of-use assets were as follows:

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m	Audited Year to 1 May 2021 £m
Cost at beginning of period	**140.1**	124.1	124.1
Additions	**11.1**	7.5	22.0
Disposals	**(8.2)**	-	(6.0)
Cost at end of period	**143.0**	131.6	140.1
Depreciation at beginning of period	**(49.5)**	(28.5)	(28.5)
Depreciation charged to income statement	**(12.4)**	(13.2)	(25.9)
Impairment	**-**	-	(0.9)
Disposals	**8.2**	-	5.8
Depreciation at end of period	**(53.7)**	(41.7)	(49.5)
Net book value at beginning of period	**90.6**	95.6	95.6
Net book value at end of period	**89.3**	89.9	90.6

(c) Assets classed as held for sale and properties held at fair value

During the half-year ended 31 October 2020, the Group identified three of its sites that each met the conditions for an asset to be classified as held for sale. Those assets were accordingly reclassified from property, plant and equipment and presented as assets held for sale within current assets in the consolidated balance sheet as at 31 October 2020. Immediately prior to reclassifying the assets, impairment was measured and an impairment loss of £0.6m was recognised in respect of one of the sites. Two of these sites were sold in the six months to 1 May 2021 for combined proceeds of £0.7m after the direct costs related to the disposal of the properties, resulting in a net gain of £0.1m. The third site was sold in the six months to 30 October 2021 for £0.5m at a loss of £0.3m.

In addition, an impairment loss of £1.4m was recognised in the half-year ended 31 October 2020 in respect of another site that continues to be classified within property, plant and equipment. The Group did not proceed with a planned use for the site following the outbreak of COVID-19 in the UK. The Group is now considering the sale of the site as one possible option. However, that site did not meet all of the conditions for an asset to be classified as held for sale as at either 30 October 2021 or 31 October 2020. The carrying value of the asset has been written down to its estimated fair value less costs to sell, which was greater than its estimated value in use.

The fair value of the property was determined by an independent valuer. This is a level 3 measurement as per the fair value hierarchy used by the Group for non-financial assets and liabilities.

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Assets classed as held for sale and properties held at fair value (continued)

The best evidence of fair value for properties are current prices in an active market for similar properties. Where such information is not available, the Directors consider information from a variety of sources including:

- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows; and
- capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

9 INTERESTS IN JOINT VENTURES

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

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 £m	Audited Year to 1 May 2021 £m
Net book value at beginning of period	**6.7**	16.3	16.3
Share of recognised profit/(loss)	**1.7**	(0.1)	3.8
Dividends received in specie	**-**	-	(11.0)
Dividends received in cash	**-**	-	(2.4)
Net book value at end of period	**8.4**	16.2	6.7

A loan payable to joint venture, Scottish Citylink Coaches Limited, of £1.7m (1 May 2021: £1.7m) is included within current liabilities under the caption "Trade and other payables". A loan receivable from Crown Sightseeing of £0.2m (1 May 2021: £0.2m) and a provision against that receivable of £0.2m (1 May 2021: £0.2m) are included within current assets under the caption "Trade and other receivables".

10 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 1 May 2021. There have been no material changes in any of the Group's significant financial risk management policies since 1 May 2021.

Liquidity risk

In May 2020, the Group issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. £300m was contractually payable by the Group during February and March 2021. This was repaid in February 2021 and March 2021 and the Group issued a further £300m under the facility for a duration of one year. This is contractually payable by the Group during February and March 2022.

Fair value estimation

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

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

10 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimation (continued)

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 October 2021.

	Unaudited		
	Level 2 £m	**Level 3 £m**	**Total £m**
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	**2.3**	**2.3**
Financial derivatives	**25.5**	**-**	**25.5**
Total assets	**25.5**	**2.3**	**27.8**
Liabilities			
Financial derivatives	**(2.5)**	**-**	**(2.5)**

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 1 May 2021.

	Audited		
	Level 2 £m	Level 3 £m	Total £m
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	1.9	1.9
Financial derivatives	4.9	-	4.9
Total assets	4.9	1.9	6.8
Liabilities			
Financial derivatives	(12.1)	-	(12.1)

There were no transfers between levels during the half-year ended 30 October 2021.

The Level 2 assets shown in the above tables comprise financial derivatives. The fair value of each financial derivative is determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments.

The Group applies relevant hedge accounting to all financial derivatives outstanding as at 30 October 2021 and 1 May 2021. All designated hedge relationships were effective under International Financial Reporting Standard 9 ("IFRS 9"), *Financial Instruments*.

The consideration for the sale of the North American business in April 2019 included a Deferred Payment Instrument of US$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 October 2024 or (b) in part, after distributions of US$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. As a result, the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £2.3m as at 30 October 2021 (1 May 2021: £1.9m).

The North America business continues to operate a variety of different types of transportation services over a wide area of North America. The Group has no control or significant influence over the North America business following its disposal on 16 April 2019.

The financial performance of the North America business is influenced by various different factors, many of which are specific to the individual markets and locations in which it operates. Factors that can affect financial performance include the extent and duration of COVID-related restrictions; the extent and timing of how demand recovers from the COVID-19 situation; changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions; cost pressures including the availability of sufficient staff; and regulatory change. The performance of the North America business has a direct impact on the purchaser's ability to settle the instrument. The initial contractual value of the instrument was for US$65m and the range of values that the Group could recover over the 66 months of its term varies from US$Nil up to US$65m plus interest.

10 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimation (continued)

No specific assumptions have been made regarding climate change in valuing the Deferred Payment Instrument. While climate change does present both opportunities and risks to the North America business, we do not consider that climate change considerations materially affect the fair value of the instrument as at 30 October 2021, taking account of the approximate remaining three-year term of the instrument.

The Group has no other financial instruments recorded at fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy.

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

	Carrying value		Fair value	
	30 October 2021 Unaudited £m	1 May 2021 Audited £m	**30 October 2021 Unaudited £m**	1 May 2021 Audited £m
Financial assets				
Financial assets measured at fair value through profit or loss				
– Non-current assets				
– Deferred Payment Instrument	**2.3**	1.9	**2.3**	1.9
Financial assets measured at amortised cost				
– Non-current assets				
– Insurance claim receivables	**14.1**	16.0	**14.1**	16.0
– Other receivables	**0.3**	0.2	**0.3**	0.2
– Current assets				
– Accrued income	**28.8**	22.6	**28.8**	22.6
– Trade receivables, net of impairment	**28.5**	22.9	**28.5**	22.9
– Other receivables	**1.0**	1.1	**1.0**	1.1
– Cash and cash equivalents	**530.5**	602.3	**530.5**	602.3
Total financial assets	**605.5**	667.0	**605.5**	667.0
Financial liabilities				
Financial liabilities measured at amortised cost				
– Non-current liabilities				
– Borrowings	**(453.6)**	(466.0)	**(485.3)**	(461.7)
– Current liabilities				
– Trade payables	**(25.4)**	(28.3)	**(25.4)**	(28.3)
– Payables for purchase of property, plant and equipment	**(1.5)**	(3.4)	**(1.5)**	(3.4)
– Interest payable	**(0.3)**	(0.3)	**(0.3)**	(0.3)
– Accruals	**(142.0)**	(180.4)	**(142.0)**	(180.4)
– Loan from joint venture	**(1.7)**	(1.7)	**(1.7)**	(1.7)
– Borrowings	**(343.4)**	(457.6)	**(343.4)**	(457.6)
Total financial liabilities	**(967.9)**	(1,137.7)	**(999.6)**	(1,133.4)
Net financial liabilities	**(362.4)**	(470.7)	**(394.1)**	(466.4)

Financial derivatives with bank counterparties 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 determination of the fair value of the Deferred Payment Instrument is described earlier in this note 10.
- The carrying value of cash and cash equivalents, accrued income, trade receivables, insurance claim receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, payables for purchase of property, plant and equipment, interest payable, accruals and loans to/from joint ventures is considered a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the “bid” price at the balance sheet date.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 (“IFRS 7*”), Financial Instruments: Disclosure*, does not require the disclosure of fair values for leases.
- The fair value of commercial paper that is issued under the Covid Corporate Financing Facility is not considered to be materially different from the carrying value, given the maximum duration of one year.
- The fair value of other borrowings on which interest is payable at floating rates, is not considered materially different from the carrying value.

11 RETIREMENT BENEFITS

(a) Overview

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

- The Stagecoach Group Pension Scheme ("SPS"); and
- A number of UK Local Government Pension Schemes ("LGPS").

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

(b) Presentation in consolidated balance sheet

Where a scheme has a net asset (i.e. gross assets exceeds gross liabilities and any asset ceiling) at the balance sheet date, the net asset is shown within retirement benefit assets on the consolidated balance sheet. Where a scheme has a net liability, that is shown within retirement benefit obligations on the consolidated balance sheet. The amounts presented are:

	Unaudited	Audited
	As at 30 October 2021 £m	As at 1 May 2021 £m
Retirement benefit assets	**11.9**	1.1
Retirement benefit obligations	**(259.1)**	(264.9)
	(247.2)	(263.8)

(c) Gross pension scheme assets and obligations

The gross pension scheme assets and the present value of obligations as at 30 October 2021 were as follows:

	Unaudited				
	Funded schemes				
	SPS £m	**LGPS £m**	**Other £m**	**Unfunded plans £m**	**Total £m**
Fair value of scheme assets	1,497.4	282.1	24.3	-	1,803.8
Present value of obligations	(1,751.6)	(233.0)	(24.1)	(4.5)	(2,013.2)
	(254.2)	49.1	0.2	(4.5)	(209.4)
Asset ceiling	-	(37.2)	(0.6)	-	(37.8)
Pension (liability)/asset before tax	(254.2)	11.9	(0.4)	(4.5)	(247.2)

(d) Movements in net pre-tax retirement benefit liabilities

The movements for the half-year ended 30 October 2021 in the net pre-tax retirement benefit liabilities recognised in the balance sheet were as follows:

Unaudited	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded plans £m**	**Total £m**
(Liability)/asset at beginning of period	(258.9)	(0.7)	0.3	(4.5)	(263.8)
Current service cost	(2.4)	(0.3)	(0.6)	-	(3.3)
Administration costs	(0.4)	-	-	-	(0.4)
Net interest expense	(2.5)	-	-	(0.1)	(2.6)
Employers' contributions	5.3	0.6	0.4	0.1	6.4
Recognised in the consolidated statement of comprehensive income	4.7	12.3	(0.5)	-	16.5
(Liability)/asset at end of period	(254.2)	11.9	(0.4)	(4.5)	(247.2)

(e) Scheme valuations

The latest actuarial valuations of the then two sections of SPS were completed as at 30 April 2020. The combined deficit across the two sections on the Trustees' technical provisions basis was £95.3m, comprising scheme assets of £1,280.7m less benefit obligations of £1,376.0m. The weighted average discount rate applied in determining the value of those benefit obligations was 4.0%. The discount rate reflects the asset allocation of SPS and its strong track record of investment returns.

11 RETIREMENT BENEFITS

(e) Scheme valuations (continued)

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2019. The combined deficit across those schemes on the funding basis agreed by each of the Administering Authorities was £1.5m, comprising scheme assets of £360.8m less benefit obligations of £362.3m. The weighted average discount rate applied in determining the value of those benefit obligations was 2.0%. Between the date of those valuations and 30 October 2021, the Group exited one of the LGPS schemes.

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

12 ORDINARY SHARE CAPITAL

At 30 October 2021, there were 576,099,960 ordinary shares in issue (1 May 2021: 576,099,960). This figure includes 25,221,213 (1 May 2021: 25,221,213) 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.

13 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED BY OPERATIONS

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

	Unaudited Half-year to 30 October 2021 £m	Unaudited Half-year to 31 October 2020 (restated – see note 1(a)) £m
Operating profit of Group companies	**43.5**	23.7
Separately disclosed items	**(12.3)**	(7.5)
Depreciation	**52.5**	54.1
Software amortisation	**0.7**	2.0
Impairment of property, plant and equipment	**-**	2.0
EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA from Group companies")	**84.4**	74.3
Cash effect of current period separately disclosed items	**4.7**	(1.9)
Loss on disposal of property, plant and equipment	**0.7**	0.6
Capital grant amortisation	**(0.6)**	(0.4)
Share based payment movements	**1.7**	0.5
Operating cashflows before working capital movements	**90.9**	73.1
Decrease in inventories	**0.1**	0.2
Decrease in receivables	**6.7**	0.4
(Decrease)/Increase in payables	**(5.2)**	32.9
Decrease in provisions	**(0.5)**	(2.2)
Differences between employer contributions and pension expense in operating profit	**(2.7)**	(5.3)
Cash generated by operations	**89.3**	99.1

14 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

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

	Notes	**Unaudited Half-year to 30 October 2021 £m**	Unaudited Half-year to 31 October 2020 £m
Increase in cash and cash equivalents		**44.8**	134.1
Cash flow from movement in borrowings		**12.8**	(84.1)
		57.6	50.0
New leases in period		**(11.1)**	(7.5)
Other movements		**(1.4)**	(1.2)
Decrease in net debt		**45.1**	41.3
Net debt at beginning of period	15	**(312.6)**	(352.1)
Net debt at end of period	15	**(267.5)**	(310.8)

15 NET DEBT AND CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in net debt (as defined in note 20) are summarised below:

	Unaudited Half-year to 30 October 2021				
	Opening £m	**Cashflows £m**	**New leases £m**	**Charged to income statement £m**	**Closing £m**
Cash and cash equivalents – pledged as collateral	17.4	-	-	-	17.4
Cash and cash equivalents – other	465.8	44.8	-	-	510.6
Total cash and cash equivalents	483.2	44.8	-	-	528.0
Gross debt – see split in table below	(795.8)	12.8	(11.1)	(1.4)	(795.5)
Net debt	(312.6)	57.6	(11.1)	(1.4)	(267.5)

Liabilities arising from financing activities include all liabilities that give rise to cash flows that are classified as financing activities in the consolidated statement of cash flows. They include borrowings (excluding bank overdrafts) and loans from joint ventures. They also include certain interest rate derivatives that are hedging instruments of liabilities that give rise to financing cash flows.

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

	Unaudited	Audited
	As at 30 October 2021 £m	As at 1 May 2021 £m
Current liabilities: borrowings	(343.4)	(457.6)
- Less bank overdrafts shown in cash and cash equivalents in this note 15	2.5	119.1
Non-current liabilities: borrowings	(453.6)	(466.0)
Current liabilities: interest rate derivatives included in financial derivatives	(0.9)	(0.3)
Non-current liabilities: interest rate derivatives included in financial derivatives	(1.6)	(0.6)
Current liabilities: loan from joint venture	(1.7)	(1.7)
Total liabilities arising from financing activities	(798.7)	(807.1)

Changes in liabilities from financing activities are presented in the table below.

	Unaudited Half-year to 30 October 2021					
	Opening £m	**Cashflows £m**	**New leases £m**	**Fair value movements on hedge £m**	**Charged to income statement £m**	**Closing £m**
Lease liabilities	(82.1)	12.8	(11.1)	-	-	(80.4)
Loan notes	(17.4)	-	-	-	-	(17.4)
Covid Corporate Financing Facility	(298.4)	-	-	-	(0.9)	(299.3)
Bonds						
- Principal	(400.0)	-	-	-	-	(400.0)
- Unamortised costs & discounts on issue	2.1	-	-	-	(0.5)	1.6
Gross debt	(795.8)	12.8	(11.1)	-	(1.4)	(795.5)
Loan from joint venture	(1.7)	-	-	-	-	(1.7)
Accrued interest on bonds	(9.5)	16.0	-	-	(8.0)	(1.5)
Effect of fair value hedges on carrying value of borrowings	0.8	-	-	1.7	-	2.5
Interest rate derivatives that hedge liabilities from financing activities	(0.9)	0.2	-	(1.7)	(0.1)	(2.5)
Total liabilities arising from financial activities	(807.1)	29.0	(11.1)	-	(9.5)	(798.7)

16 PROVISIONS

The Group's provisions at each of 1 May 2021 and 30 October 2021 principally relate to claims provisions for estimated liabilities on incurred incidents up to the balance sheet date.

The total claims provisions of £106.5m (1 May 2021: £106.7m) have decreased during the half-year, reflecting the latest assessment of the required provision for claims on major incidents. These provisions contain £14.1m (1 May 2021: £16.0m) which is recoverable from insurance companies and is included within other receivables. The Group engages with third party actuarial professionals to assist in the calculation of these provisions.

17 COMMITMENTS AND CONTINGENCIES

(i) *Capital commitments*

Capital commitments contracted for the purchase of property, plant and equipment but not provided for at 30 October 2021 were £20.5m (1 May 2021: £27.8m).

(ii) *Legal actions*

As explained in note 30(ii) to the Group's consolidated financial statements for the year ended 1 May 2021, class action proceedings were filed in February 2019 with the UK Competition Appeal Tribunal ("CAT") against Stagecoach South Western Trains Limited ("SSWT"), a subsidiary of the Company that formerly operated train services under franchise. Since 1 May 2021:

- In October 2021, the CAT granted the collective proceedings order ("CPO") sought by the proposed class representative.
- In November 2021, SSWT sought permission to appeal against the CAT's decision to grant the CPO. Permission was refused and SSWT will now be applying to the Court of Appeal for permission to bring the appeal. Should the Court of Appeal agree to hear the appeal, early 2023 is the most likely timing for it to give judgement, with a possible range of timings from late 2022 to spring 2023.

Notwithstanding those developments and for the reasons explained in the Group's consolidated financial statements for the year ended 1 May 2021, no provision is held as at as at 30 October 2021 (1 May 2021: £Nil) for any damages or settlement payable in respect of this matter.

The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 30 October 2021, the liabilities in the consolidated financial statements for such matters total £0.8m (1 May 2021: £0.9m) in addition to those covered by the claims provisions.

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

As explained in note 30(iv) to the Group's consolidated financial statements for the year ended 1 May 2021, the Group has certain contingent liabilities in respect of claims from third parties against its former North American business. The estimated amount of those contingent liabilities has reduced from £44.5m as at 1 May 2021 to £36.7m as at 30 October 2021.

18 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the half-year ended 30 October 2021 are provided below, except for those relating to the remuneration of the Directors and management.

(i) *WCT Group Holdings Limited (formerly Virgin Rail Group Holdings Limited)*

Two of the Group's directors are non-executive directors of the Group's joint venture, WCT Group Holdings Limited (formerly Virgin Rail Group Holdings Limited). During the half-year ended 30 October 2021, the Group earned fees of £0.1m (half-year ended 31 October 2020: £0.1m) from WCT Group Holdings Limited in this regard. The Group as at 30 October 2021 had a £0.1m (1 May 2021: £Nil) receivable in this respect. In addition, the Group sold £0.6m in the half-year ended 30 October 2021 (half-year ended 31 October 2020: £0.5m) to the group headed by WCT Group Holdings Limited and as at 30 October 2021 had a £0.1m (1 May 2021: £Nil) receivable in this respect.

(ii) *Pension Schemes*

Details of contributions made to pension schemes are contained in note 11.

18 RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) *Scottish Citylink Coaches Limited*

A non-interest bearing loan of £1.7m (1 May 2021: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 30 October 2021. The Group earned £10.7m in the half-year ended 30 October 2021 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (half-year ended 31 October 2020: £6.5m). The Group also collected revenue of £7.1m on behalf of Scottish Citylink Coaches Limited in the half-year ended 30 October 2021 (half-year ended 31 October 2020: £2.4m). As at 30 October 2021, the Group had a net £1.3m receivable (1 May 2021: £1.9m) from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(iv) *East Coast Main Line Company Limited*

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

In the half-year ended 30 October 2021, other Group companies earned £0.1m from East Coast Main Line Company Limited in respect of the provision of certain services (half-year ended 31 October 2020: £0.1m). Other Group companies had a net receivable balance of £0.1m from East Coast Main Line Company Limited as at 30 October 2021 (1 May 2021: £Nil).

In addition, East Coast Main Line Company Limited advanced the Company a loan of £30.0m in the year to 2 May 2020, of which £30.0m (half-year ended 31 October 2020: £Nil) was repaid in the half-year ended 30 October 2021. As at 30 October 2021 £Nil (1 May 2021: £30.0m) was outstanding.

(v) *Crown Sightseeing*

The Group owns 33% of the ordinary shares of Crown Sightseeing Limited, a joint venture formed in the year ended 1 May 2021. As at 30 October 2021, an interest bearing loan of £0.2m (1 May 2021: £0.2m) advanced by the Group to Crown Sightseeing Limited was outstanding. The loan accrues interest at the Bank of England base rate plus 3%. In addition, the Group earned £0.4m in the half-year ended 31 October 2021 (half-year ended 31 October 2020: £Nil) in respect of the operation of bus services subcontracted by Crown Sightseeing. As at 30 October 2021, the Group had a £0.1m (1 May 2021: £Nil) receivable in this respect.

19 POST BALANCE SHEET EVENT

Exit from Teesside Local Government Pension Scheme

On 15 November 2021, the Group ceased to have any employees who were active members of the Teesside Local Government Pension Scheme. As a result, the Group's participation in the Scheme ended. The Group currently anticipates that it will receive a refund from the Scheme in connection with its exit from the Scheme. The amount of any such refund will be determined by the Scheme Actuary and the relevant authority, and it might be more or less than the amount of the net retirement benefit asset recognised in relation to the Scheme in the Group's consolidated balance sheet as at 30 October 2021. The Group anticipates that in the six months ending 30 April 2022, it will recognise a loss in the consolidated income statement equal to the amount by which the actual or estimated receivable falls short of the value of the gross assets less the gross liabilities estimated at the exit trigger date.

20 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 half-year ended 30 October 2021 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 separately disclosed items, by the basic weighted average number of shares in issue in the period.

For the half-year ended 30 October 2021 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 excluding separately disclosed items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 6 to the condensed financial statements.

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

Like-for-like revenue growth for the half-year ended 30 October 2021 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. Where applicable, the reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

		Unaudited		
		Half-year to 30 October 2021		
		Reported revenue	Exclude expired rail franchises	Like-for-like revenue
UK Rail	£m	5.4	(0.3)	5.1

		Unaudited		
		Half-year to 31 October 2020		
		Reported revenue	Exclude expired rail franchises	Like-for-like revenue
UK Rail	£m	2.8	(0.1)	2.7

Liquidity
References to liquidity mean the aggregate amount of cash and cash equivalents (net of bank overdrafts in bank offset arrangements), money market deposits and undrawn committed headroom under bank facilities, adjusted to exclude: (i) foreign currency bank and cash balances, (ii) petty cash balances, (iii) cash in transit and (iv) cash pledged as collateral in respect of liabilities for loan notes.

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

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

Adjusted operating profit
Adjusted operating profit for the Group as a whole is operating profit before all separately disclosed items as shown on the face of the consolidated income statement.

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

20 DEFINITIONS (CONTINUED)

(a) Alternative performance measures (continued)

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

A reconciliation of adjusted EBITDA for the half-year ended 30 October 2021, and the comparative prior year period, to the condensed financial statements is shown on page 10 of this document.

Adjusted EBITDA is also presented for the year to 30 October 2021. That, and the constituent elements of the reconciliation for that year, are determined by adding the amounts for the half-year ended 30 October 2021 to the amounts for the year ended 1 May 2021 (as restated – see note 1(a)), and deducting the amounts for the half-year ended 31 October 2020.

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

Adjusted EBITDA from Group companies is directly identifiable from the condensed financial statements – see note 13 to the condensed financial statements.

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

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

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

The components of gross debt are shown in note 15 to the condensed financial statements.

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

The components of net debt are shown in note 15 to the condensed financial statements.

Net capital expenditure
Net capital expenditure is the impact of purchases, new leases and sales of property, plant and equipment on net debt. Its reconciliation to the condensed financial statements is explained on page 12 of this document.

(b) Other definition

The following other definition is also used in this document:

Separately disclosed items
Separately disclosed items means:

- Non-software intangible asset amortisation;
- Items which individually or, if of a similar type, in aggregate need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group; and
- Changes in the fair value of the Deferred Payment Instrument received in relation to the sale of the North America Division in April 2019 (see note 4(h)).

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