

Stagecoach Group plc – Interim results for the half-year ended 28 October 2017

Earnings per share in line with our expectation

- Earnings per share 13.6 pence (H1 2017: 12.7 pence)
- Adjusted earnings per share* 13.6 pence (H1 2017 restated**: 13.9 pence)
- Interim dividend maintained at 3.8 pence per share
- Profit before tax £96.7m (H1 2017: £89.5m)

Positive progress in all divisions

- Management action on regional UK bus pricing, services operated and commercial initiatives – delivering in line with our expectations
 - Revenue per vehicle mile up 2.7%
 - Journeys per vehicle mile up 0.3%
- Positive London Bus tender outcomes: 4.5% net increase in vehicle miles
- Improved revenue trends in North America
- Progress and opportunities in UK rail market
 - Progressing negotiations with Department for Transport on new Virgin Trains East Coast contract
 - Extension of East Midlands Trains franchise to March 2019 confirmed, with plan for further Direct Award franchise beyond that
 - Good progress towards new Virgin Trains West Coast Direct Award franchise from April 2018
 - Shortlisted for new South Eastern franchise
 - UK rail franchises moving to a more balanced risk profile
- No change to our expectation of 2017/18 earnings per share

Financial summary

	“Adjusted” results (Results excluding intangible asset amortisation (exc. software) and exceptional items*)		“Statutory” results	
	H1 2018	H1 2017 (Restated**)	H1 2018	H1 2017
Revenue (£m)	1,800.4	2,002.1	1,800.4	2,002.1
Total operating profit (£m)	114.8	113.8	114.8	108.9
Non-operating exceptional items (£m)	-	-	-	(2.8)
Net finance charges (£m)	(18.1)	(16.6)	(18.1)	(16.6)
Profit before taxation (£m)	96.7	97.2	96.7	89.5
Earnings per share (pence)	13.6p	13.9p	13.6p	12.7p
Interim dividend per share (pence)	3.8p	3.8p	3.8p	3.8p

* see definitions in note 23 to the condensed financial statements

** see note 5 for details of the restatement for the revised definition of adjusted earnings per share

Chief Executive, Martin Griffiths, said:

"I am pleased to report half-year financial results in line with our expectation and an interim dividend maintained at 3.8 pence per share.

"We have made positive progress across our businesses. In UK rail, we are working with the Department for Transport towards new contracts at Virgin Trains East Coast and Virgin Trains West Coast. Our East Midlands Trains franchise has been extended through to March 2019, with the prospect of us agreeing a further direct award franchise from March 2019, and we are part of shortlisted bids for new South Eastern and West Coast Partnership franchises.

"In bus, the actions we have taken on pricing, services operated and commercial initiatives across our regional UK bus operations are delivering the results we expected, while our London bus business has had success in winning new contracts. In North America, we have seen improved revenue trends, new contract wins and growth in profit.

"We are focussed on making further progress in the second half of the year and have maintained our expectation of full year adjusted earnings per share."

Copies of this announcement are available on the Stagecoach Group website at <http://www.stagecoach.com/investors/financial-analysis/reports/2017.aspx>

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Notes to Editors

Stagecoach Group

- Stagecoach is an international public transport group, with operations in the UK, the United States and Canada. The Group employs around 34,000 people, and operates around 11,000 buses, coaches, trains and trams.
- Stagecoach is one of the UK's biggest bus and coach operators with over 8,000 buses and coaches on a network stretching from south-west England to the Highlands and Islands of Scotland. Low-cost coach service, megabus.com, operates a network of inter-city services across the UK.
- Stagecoach is a major UK rail operator, running the East Midlands Trains network. It also has a 49% shareholding in Virgin Rail Group, which operates the West Coast rail franchise, and a 90% shareholding in Virgin Trains East Coast, which operates the East Coast rail franchise.
- Stagecoach operates the Supertram light rail network in Sheffield.
- In North America, Stagecoach operates around 2,200 buses and coaches in the United States and Canada. megabus.com operates a network of inter-city coach services in North America. Stagecoach is also involved in operating commuter, transit, contracted, charter, airport shuttle and sightseeing services.

Interim management report

The Directors of Stagecoach Group plc are pleased to present their report on the Group for the half-year ended 28 October 2017.

Description of the business

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

The Group is a leading international public transport group, with operations in the UK, the United States and Canada. A description of each of the Group’s operating divisions is given on pages 5 to 8 of its 2017 Annual Report.

Overview

Our strategy is designed to protect and grow our existing, core businesses where we have deep knowledge and expertise. We aim to provide a safe, value-for-money experience for customers. Our focus on operational excellence underpins that with an emphasis on providing reliable, good quality transport services. We have an ongoing investment programme which includes investing in our vehicle fleet but also in deploying new technology that enhances the customers’ experience and improves the efficiency of our operations. We bid for selected rail franchises and bus contracts to secure new business where the trade-off between risk and return is acceptable. We are also investing in the future of transport as we continue to take a longer term perspective on the business opportunities.

We have met our expectation of earnings per share for the half-year ended 28 October 2017. Revenue for the period was £1,800.4m (H1 2017: £2,002.1m), with the reduction principally due to the expiry of our South West Trains franchise in August. Notwithstanding that, total operating profit, before non-software intangible asset amortisation and exceptional items increased to £114.8m (H1 2017 restated: £113.8m). Unadjusted total operating profit rose to £114.8m (H1 2017: £108.9m). Earnings per share before non-software intangible amortisation and exceptional items were 13.6p (H1 2017 restated: 13.9p). Basic, unadjusted earnings per share increased 0.9p to 13.6p (H1 2017: 12.7p).

We have maintained the interim dividend at 3.8p per share. We continue to believe that the business is able to support the current rate of dividend, taking account of the outlook for profitability and cash flows. As usual, we will consider the final dividend for the year in June and, while we currently have no plans to reduce the rate of dividend, we anticipate that any dividend growth at that time will be modest. The 3.8p dividend is payable to shareholders on the register at 26 January 2018 and will be paid on 7 March 2018. Shareholders who wish to participate in the dividend re-investment plan for this dividend should elect to do so by sending their requests to the Company’s registrars to arrive by 14 February 2018.

In the regional UK bus market, where independent research confirms that we continue to offer lower than average fares, the actions we have taken on pricing, services operated and commercial initiatives have had the intended impact on bus revenue and passenger volumes. While there are regional variations in bus performance, we are seeing growth in a number of parts of the country, including those with more robust regional economies. We are taking steps to address weak performance in the inter-city coach market and have started to see revenue trends improve. In the competitive London bus market, we are pleased that through contract wins during the first half of our financial year, we have achieved a net increase in contracted annual bus mileage.

Revenue trends in North America have improved. Contract revenue has benefitted from tender wins, including rail replacement work. Reflecting the changes we made to our network to match our services to customer demand, revenue per vehicle mile at our megabus.com business in North America increased 3.2%.

We have made positive progress within our UK Rail business and we welcome the new direction for the UK rail network announced recently by the Secretary of State for Transport as part of plans to deliver improved integration between train and track. Our franchise term has been extended at East Midlands Trains to March 2019 and Virgin Rail Group is progressing towards agreeing a new Direct Award franchise at Virgin Trains West Coast. In addition, we are making good progress in discussions with the Department for Transport on the terms of our Virgin Trains East Coast contract. Work on our shortlisted bid for the new South Eastern franchise is progressing and we are encouraged by indications of an improved risk-reward balance in new franchises. We are also working with SNCF and Virgin on our joint bid for the new West Coast Partnership franchise.

Our expectation of the level of adjusted earnings per share for the full year to 28 April 2018 is unchanged. We remain clear that safe, high-quality and good value public transport has a positive future, particularly as concerns grow about increasing road congestion and poor air quality linked to cars. Public transport will continue to be an enabler of regional economies and communities, helping connect people with employment, education, health and leisure opportunities. Urbanisation, population growth, and demand for improved mobility all point to a strong future for public transport and we remain confident that we can continue to deliver long-term value to our customers and shareholders.

Earlier this year, we carried out our biggest ever survey of employees as part of our drive to foster an environment where everyone has access to opportunities and resources to help them contribute to the success of our business. Engagement levels were good with a 61% response rate and we are acting on the survey results to make further improvements in our businesses. The Board extends its thanks to everyone across the Group for their contribution to making every customer journey better.

Summary of financial results

Revenue by division is summarised below:

REVENUE	H1 2018 £m	H1 2017 £m	Functional currency	H1 2018 Functional currency (m)	H1 2017 Functional currency (m)	Growth %
Continuing Group operations						
UK Bus (regional operations)	512.4	513.9	£	512.4	513.9	(0.3)%
megabus Europe	-	14.9	£	-	14.9	(100.0)%
UK Bus (London)	128.4	131.5	£	128.4	131.5	(2.4)%
North America	256.3	252.0	US\$	333.9	338.4	(1.3)%
UK Rail	905.6	1,092.3	£	905.6	1,092.3	(17.1)%
Intra-Group revenue	(2.3)	(2.5)	£	(2.3)	(2.5)	
Group revenue	1,800.4	2,002.1				

Operating profit by division is summarised below:

OPERATING PROFIT	H1 2018 £m	% margin	H1 2017 (Restated) £m	% margin	Functional currency	H1 2018 Functional currency (m)	H1 2017 (Restated) Functional currency (m)
Continuing Group operations							
UK Bus (regional operations)	61.6	12.0%	64.9	12.6%	£	61.6	64.9
megabus Europe	-	-	(4.6)	(30.9)%	£	-	(4.6)
UK Bus (London)	6.5	5.1%	9.1	6.9%	£	6.5	9.1
North America	21.2	8.3%	17.0	6.7%	US\$	27.6	22.8
UK Rail	21.7	2.4%	19.5	1.8%	£	21.7	19.5
Group overheads	(7.9)		(6.3)				
Restructuring costs	(1.2)		(0.8)				
	101.9		98.8				
Joint ventures – share of profit after tax							
Virgin Rail Group	12.1		13.9				
Citylink	0.8		1.1				
Total operating profit before intangible asset expenses	114.8		113.8				
Non-software intangible asset amortisation	-		(4.9)				
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	114.8		108.9				

UK Bus (regional operations)

Summary	
•	Revenue per vehicle mile up 2.7%
•	Journeys per vehicle mile up 0.3%
•	Investment in enhancing customer experience
•	Fastest growing contactless transit scheme in Europe
•	No change to expected full year profit

Financial performance

The financial performance of the UK Bus (regional operations) Division for the half-year ended 28 October 2017 is summarised below, with operating profit slightly below last year:

	H1 2018 £m	H1 2017 (Restated) £m	Change
Revenue	512.4	513.9	(0.3)%
Like-for-like* revenue	512.3	512.9	(0.1)%
Operating profit*	61.6	64.9	(5.1)%
Operating margin*	12.0%	12.6%	(60)bp

Early in 2017, we took action to adjust our pricing and services to respond to changes in customer demand and protect the profitability of the business. We continue to focus on operating the right routes with prices and service frequencies that offer good value for money and reflect the pattern of customer demand. Vehicle miles operated in the first half of the year were 2.9% lower than in the equivalent period last year. The vehicle miles we operate on a commercial basis were reduced by 1.5% with greater reductions in the mileage tendered by local authorities and operated under contract. Reflecting the actions taken, revenue per vehicle mile grew 2.7%, journeys per vehicle mile grew 0.3% and revenue per journey increased 2.4%.

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

	H1 2018 £m	H1 2017 £m	Change %
Commercial on and off bus revenue			
- megabus.com	11.2	11.2	-
- other	307.8	303.5	1.4%
Concessionary revenue	125.9	127.5	(1.3)%
Commercial & concessionary revenue	444.9	442.2	0.6%
Tendered and school revenue	47.6	49.7	(4.2)%
Contract and other revenue	19.8	21.0	(5.7)%
Like-for-like revenue	512.3	512.9	(0.1)%

The growth in commercial revenue reflects the actions we have taken, with improvement in the yield per journey. Our low-fares strategy remains central to our customer offer. Combined with a focus on operational excellence and continued investment, that underpins our strategy for growth. Reflecting that emphasis on operational excellence, we operated 99.6% of our scheduled mileage in the half-year.

We are starting to see improving trends at our megabus.com business in the UK after a period of

disappointing performance in the half-year reflecting weakness in the wider inter-city coach market. We are addressing this through improved yield management, reviewing our network and operational plans, and modifying our commercial and marketing strategy.

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

We continue to work with local authorities to maximise the community value from the financial support they can provide for socially desirable transport services. The decline in tender revenue mainly reflects further reductions by local authorities in the tendered bus services that they support. We do not believe the bottom of this cycle has yet been reached and we anticipate some further cuts in tender services over the next year or so.

While relatively small, the movements in contract and other revenue include the effects of year-on-year changes in the amount and timing of one-off contract and events work.

The movement in operating margin was built up as follows:

Operating margin – H1 2017 (restated)	12.6%
Change in:	
Staff costs	(0.9)%
Fuel costs	0.6%
Other	(0.3)%
Operating margin – H1 2018	12.0%

The main changes in the operating margin shown above are:

- As expected, staff costs have continued to rise, and not all headcount varies with vehicle miles. The half-year staff costs include over £1m in respect of the new Apprenticeship Levy applied by the UK Government to fund new apprenticeships. However, staff costs remain under control with wage awards in the period being in line with our forecast assumptions and stable staff retention rates.
- Fuel costs have reduced, reflecting market fuel prices and our fuel hedging programme.
- Other costs have increased, including higher depreciation as a result of our continued fleet investment.

Enhanced customer experience

We are continuing to make significant investment to further enhance customers' experience. We are harnessing technology to make travel easier for our customers. Stagecoach bus passengers across the UK can now pay on the bus for their travel using a contactless credit or debit card, Apple Pay or Android Pay. The £12m programme is the fastest growing contactless transit scheme in Europe through 2017. We have added the Scottish Citylink coach network to an expanded national roll-out programme which will see the technology installed on all of our buses across the UK by the end of 2018.

* See definitions in note 23 to the condensed financial statements

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

We are continuing to improve our product offer in our local bus networks for young people, who are a key element of our customer base now and in the future. There is an opportunity to use new technology to make bus travel more attractive to Millennials, who research shows are less likely to aspire to car ownership and are more open to the 'sharing economy'.

Commercial initiatives for growth

In addition to the developments explained above, our restructured UK Bus commercial team is pursuing a number of other commercial initiatives to support the growth of the Division, examples of which are as follows:

- Reflecting changes in travel patterns, we have seen stronger growth on our urban and inter urban networks. Additional areas of potential growth in these parts of the business have been identified and implementation plans are being developed.
- Linked to that, we are evaluating opportunities for more demand responsive services in a number of locations.
- Building on work to understand the segmentation of our existing and potential customer base, we are exploring the development and implementation of a new customer relationship management ("CRM") system to engage and improve customer loyalty and yield.
- Our work on customer segmentation will also inform improved marketing to drive revenue growth, placing less emphasis on the traditional sector approach of "publicity" and developing closer engagement with prospective customers.
- While we are thinking about the changing travel landscape, we are also ensuring we continue to perform the basics well. We are re-visiting how we communicate our offers across all of our offline and online channels, including how we deliver understandable information on journeys and fares.
- We are reviewing price elasticities, price points and ticketing structures to simplify our ticket offering while continuing to offer value for money and meet customers' expectations. We are aiming to evolve our ticket offering to reflect changing travel, shopping and working patterns.
- We see opportunities to increase the volume of work we undertake to support events, festivals and other businesses, where new technology can support an increased capability to grow revenue in these areas.

Outlook

We are encouraged that the effects of the management actions undertaken at the start of 2017 have been in line with our expectations. Our expectation of the Division's operating profit for the year ending 28 April 2018 is accordingly unchanged.

UK Bus (London)

Summary

- Positive tender results
- Maintaining sustainable contract pricing

Financial performance

The financial performance of the UK Bus (London) Division for the half-year ended 28 October 2017 is summarised below:

	H1 2018 £m	H1 2017 £m	Change
Revenue and like-for-like revenue	128.4	131.5	(2.4)%
Operating profit	6.5	9.1	(28.6)%
Operating margin	5.1%	6.9%	(180)bp

We are pleased that through the contract tenders on which the outcomes were confirmed during the first half of our financial year, we have achieved a net 4.5% increase in contracted annual bus mileage. That should benefit our revenue in the next financial year, 2018/19. The revenue impact of contracts lost in the prior year is reflected in this year's financial performance and is weighted towards the second half of the financial year.

The decrease in operating margin was expected and was built up as follows:

Operating margin – H1 2017	6.9%
Change in:	
Staff costs	(0.8)%
Other operating income	(0.4)%
Operating lease costs	(0.4)%
Other	(0.2)%
Operating margin – H1 2018	5.1%

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

Advertising income fell year-on-year, reflecting lower yields for on-bus advertising experienced by London bus operators more generally. This is reflected in the reduction in other operating income shown in the table above. Operating lease costs have moved as a percentage of revenue, principally due to year-on-year changes in end of lease vehicle return costs.

We see significant differences in the level of bus depot capacity versus the demand from Transport for London for bus services across the different areas of London. We are exploring the extent to which that presents us with opportunities for growth and/or possible re-deployment of capital.

Outlook

Although our 2017/18 operating margin is likely to be below our long-term aspiration of around 7%, we are encouraged by tender results so far this year. While Transport for London's plans to reduce contracted bus mileage in London presents a risk to the Division, we will aim to maintain our contract pricing at a sustainable level where service quality can be maintained and the financial returns reflect the capital invested.

North America

Summary

- Improved revenue trends
- Innovative technology use to manage safety risks
- New megabus.com website performing well
- On course to grow profit in 2017/18

Financial performance

The financial performance of the North America Division for the half-year ended 28 October 2017 is summarised below:

	H1 2018 US\$m	H1 2017 (Restated) US\$m	Change
Revenue	333.9	338.4	(1.3)%
Like-for-like revenue	333.3	332.9	0.1%
Operating profit	27.6	22.8	21.1%
Operating margin	8.3%	6.7%	160bp

The growth in like-for-like revenue reflects the improving trend we have seen in the first half of the year and is reflected in increased operating profit along with the benefit of lower fuel costs.

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

	H1 2018 US\$m	H1 2017 US\$m	Change
Megabus.com	97.0	101.7	(4.6)%
Scheduled service			
- Commercial revenue	81.4	80.8	0.7%
- Support from local authorities	6.1	7.0	(12.9)%
Charter	61.0	66.5	(8.3)%
Contract services	72.0	58.7	22.7%
Sightseeing and tour	15.8	18.2	(13.2)%
Like-for-like revenue	333.3	332.9	0.1%

Trading at our megabus.com inter-city coach business in North America continues to show some signs of improvement. Revenue per vehicle mile increased 3.2% year-on-year reflecting the changes we made to our network to better match our services with customer demand.

Trading at the other businesses in North America remains in line with our expectations. Like-for-like revenue at these businesses increased by 2.2%. We have been encouraged by further additional revenue generated from our focus on contract opportunities. In the first half of the year, we have benefitted from rail replacement contracts linked to train disruptions on New Jersey Transit and Long Island Rail Road as a result of track repair work at Pennsylvania Station in New York. This has contributed to the reduction in charter revenue as we deployed some vehicles on the rail contract work that would otherwise have been available for charter. Elsewhere, weak sightseeing markets have impacted some of our services, and we see potential to restructure our sightseeing operations to improve profitability.

The movement in the operating margin of the North America Division was built up as follows:

Operating margin – H1 2017 (restated)	6.7%
Change in:	
Staff costs	(0.5)%
Fuel costs	1.8%
Insurance and claims costs	0.4%
Other	(0.1)%
Operating margin – H1 2018	8.3%

The main changes in the operating margin shown above are:

- Staff costs have continued to rise as a proportion of our revenue base. That includes increased overtime levels at some locations, where we are working to recruit new drivers to reduce the need for overtime working. In addition, we continue to see above-inflation increases in the cost of US healthcare benefits and the improved financial performance of the Division is reflected in higher staff incentive costs.
- Fuel costs have reduced reflecting market fuel prices and our fuel hedging programme.
- The change in insurance and claims costs reflects our latest assessment of the required provision for claims on major incidents. Our relentless focus on safety and reducing accident rates also brings financial benefits through reduced insurance and claims cost. We see opportunities to further reduce claims costs, including through technology investment. For example, we are trialling “seeing machines” capable of monitoring for driver fatigue and distraction in real-time.

Customer experience

The investment we have made in our new megabus.com website has improved our customers' experience and is supporting our growth. The new website provides a much improved experience for those visiting the website on a mobile device. For those visiting on a desktop device, we have seen an 11% improvement in the conversion rate in the US, and a 22% improvement in the conversion rate in Canada, for the half-year compared to the equivalent period last year. We have also seen improvements in the bounce rate, being the percentage of visitors who leave the site without any interaction. In the half-year, this is 13% down year-on-year for the US and 46% down for Canada. The website also brings new functionality that has allowed us to improve our search engine rankings. We have used these to create route and destination pages that drive organic traffic to the site from unbranded searches. We saw a 42% increase in sessions from organic search from September 2016 to September 2017.

Our ongoing refinement of yield management at megabus.com has allowed us to maintain our reputation for good value for money while improving yield based on patterns of demand.

Outlook

We remain on course to grow the Division's operating profit in 2017/18, reflecting our targeted pursuit of contract opportunities, and management action to match our services with customer demand at our megabus.com inter-city coach business.

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

UK Rail

Summary	
• Good profits from South West Trains and East Midlands Trains • Progressing negotiations with Department for Transport on new contract at Virgin Trains East Coast • East Midlands Trains franchise extended to March 2019 with plans for a further direct award franchise beyond that time • Bids for new franchises • UK rail franchises moving to a more balanced risk profile • Limited exposure to long-term rail revenue risk	

Financial performance

The financial performance of the UK Rail Division for the half-year ended 28 October 2017 is summarised below:

	H1 2018 £m	H1 2017 (Restated) £m	Change
Revenue	905.6	1,092.3	(17.1)%
Like-for-like revenue	596.6	579.0	3.0%
Operating profit	21.7	19.5	11.3%
Operating margin	2.4%	1.8%	60bp

Our UK Rail business continues to see growth in revenue, with like-for-like revenue up 3.0% year-on-year, reflecting 3.0% growth at each of East Midlands Trains and Virgin Trains East Coast.

The profit for the half-year principally reflects good profitability at East Midlands Trains and South West Trains. The South West Trains franchise expired in August 2017; its profitability in the period was strong and included the resolution of a number of contractual matters as part of the transition of the train operations to a new operator. There remain a number of matters to finalise in respect of the South West Trains franchise and we continue to press for a timely resolution of those. Consistent with our other franchises, the outcome on open contractual matters could result in adjustments to our current estimates of assets and liabilities.

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

Virgin Trains East Coast – contractual arrangements

We welcome the Secretary of State for Transport's recent announcement on the planned new direction for the UK rail network, which is consistent with a vision for the railway that we have championed over many years. As part of that, we and the Department for Transport are discussing new terms for the East Coast franchise and we are hopeful of reaching an agreement within the next few months. Our objective is to address the changed circumstances affecting the franchise, deliver value for money for taxpayers, provide innovative solutions to drive better outcomes for customers, and secure a fair deal for investors. There is no change to either the estimate of the onerous contract provision reported in June or the extent of the maximum financial commitments of the parent company in respect of the current franchise contract. The onerous contract provision is based on a forecast that assumes the £165m loan commitment is funded in full.

Virgin Trains East Coast – investment and customer satisfaction

Virgin Trains East Coast is continuing the transformation of its services for customers. As well as investing in our fleet of trains, we have made our website more personalised and easier to navigate. We have introduced improved features such as new tools to search for the best fares, and the ability to buy season tickets online. Customers can take advantage of easy-to-use mtickets and can now book tickets 24 weeks before travel.

Innovation is continuing to improve the journey experience for customers before, during and after travel. Virgin Trains' revolutionary new on-train entertainment streaming service, BEAM, has been well received by customers, along with a range of on-train catering improvements. We also recently launched an industry first tool, TrainMapper, aimed at helping customers avoid rail disruption on their journey and get to their destination. The new Seatfrog app allows customers to bid for first class upgrades on trains where space permits.

These improvements have helped drive a historic shift in travel patterns as more Scotland-London passengers are now choosing train over plane than at any time in more than 20 years. Virgin Trains East Coast has achieved strong customer ratings, with 91% satisfaction in the latest National Rail Passenger Survey. Net advocacy scores have also increased significantly.

We are introducing 24 new services on Saturdays, bringing that day's level of service more in line with our Monday-Friday operation and allowing us to put 6,000 additional cheap tickets on sale every week. In early 2018, new sensors will detect which seats on our trains are occupied. This will provide us with data to inform customers about spare seats on our services and also enable more dynamic on-the-day pricing.

East Midlands Trains

Like-for-like revenue at East Midlands Trains grew by 3.0% for the period, with growth in the early months of the period adversely affected by the terrible terrorist events in London and Manchester. The business continues to deliver good levels of profitability.

The Department for Transport has exercised its pre-contracted option to extend the East Midlands Trains franchise to March 2019, with plans for a further Direct Award franchise beyond that time. We look forward to the next competitively tendered East Midlands franchise which the Department for Transport has indicated will be operated by a joint team overseeing both train operations and rail infrastructure management.

Consistent with our drive for operational excellence, East Midlands Trains continues to deliver amongst the best punctuality for customers of any inter-city rail franchise. We are continuing to invest in improvements for customers, including better value ticketing, improved information and station developments. In summer 2017, we introduced a new app and mobile website to make booking easier. We have introduced purchase on the day for Advance tickets on selected routes to offer better value fares, building on lower Advance Purchase fares that we are already making available on quieter trains to London. In August, East Midlands Trains launched a new ticket tool offering customers email alerts as soon as Advance tickets become available on a particular route on their chosen travel date. We have also started the roll-out of mobile ticketing, with the facility already live in Derby, Nottingham, and London St. Pancras.

Passengers have responded well to the launch of our most frequent ever Sunday services on the route between Lincoln and Nottingham, with new hourly services for most of the day. The new Ilkeston station - which incorporates fully accessible platforms, modern waiting areas and car park - has expanded commuter and leisure travel options, as well as exceeding forecasts for passenger demand and revenue.

East Midlands Trains recently invested more than £300,000 in new train driver simulator technology at our Derby training academy, which will revolutionise driver training, briefings and assessments. We have also completed a highly successful recruitment campaign to employ additional drivers. In addition, we are working closely with Network Rail on planning for a major Derby station remodelling and signalling system upgrade. The work will remove a bottleneck which often results in trains waiting outside of the station. The bulk of the work will take place in 2018.

Most recent independent research shows that 89% of customers at East Midlands Trains are satisfied with their service, equalling the best ever results and marking a 3% year-on-year improvement.

South West Trains

In August, we completed the delivery of our South Western rail franchise, working collaboratively with the new operator and industry partners to ensure a smooth transition.

Sheffield Supertram

The first passenger service of the new Citylink vehicles to be used for the innovative Tram Train project took place at Sheffield Supertram in September. The project, which will improve journeys between Sheffield and Rotherham, is the first of its kind in the country and due for completion in 2018. We are also making the first changes to the Supertram timetable in 15 years to improve reliability following a significant increase in traffic on roads across Sheffield.

Franchising update

We are working on new opportunities in the UK franchised rail market. We are shortlisted to bid for the South Eastern franchise and we are also bidding for the West Coast Partnership franchise jointly with Virgin Group and SNCF.

We are encouraged by indications of an improving risk-reward balance in new franchise competitions. The Department for Transport is looking to move to a more comprehensive sharing of revenue risk on new franchises and while this will likely vary from franchise to franchise, we expect to see the return of arrangements where the Department shares in revenue variances versus the relevant bid irrespective of the causes of those variances. We expect such an arrangement to apply to the new South Eastern franchise. While the train operating company will still bear some revenue risk on most new franchises awarded by the Department, we anticipate that its exposure to revenue risk will be significantly less than on franchises awarded in the last few years, such as the Virgin Trains East Coast franchise. We are also encouraged to see signs of moderation in the level of capital put at risk on individual franchises. While we recognise the importance that franchise bids are backed with significant risk capital, we continue to believe that the level of risk capital should be commensurate with the potential financial returns.

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

Outside the UK, we were one of five bidders shortlisted for an early train operator contract for a new high-speed railway being constructed in California. However, following the receipt of more information, we decided not to progress the bid based on weighing up the risks and opportunities. Nevertheless, we do not rule out pursuing other rail opportunities outside the UK.

Outlook

Revenue growth in the UK rail sector has, in recent years, been below the levels typically seen since privatisation in the 1990s. That said, revenue has continued to grow and we aim to support a growing, vibrant rail network in the UK. From our own perspective, our financial returns are driven less by the outlook for rail revenue growth in general and more by how actual revenue growth compares to that assumed in our relevant franchise bid. At this time, we are therefore relatively content to have limited further exposure to long-term rail revenue growth, reflecting that:

- We expect to conclude a new contract at Virgin Trains East Coast within the next few months and have the opportunity to ensure that any revenue risk that remains with us is acceptable.
- The current East Midlands Trains franchise has only around 15 months to run and Virgin Rail Group's current West Coast franchise has only a few months to run. Both continue to report good levels of profit. We can take account of recent revenue trends, assess revenue risk sharing arrangements and form a view on longer term revenue expectations as part of agreeing any new contracts.

- In our bids for new franchises, we will assess revenue trends, revenue risk sharing arrangements and longer term revenue expectations to ensure we do not take unacceptable long-term rail revenue risk. Developments in the Department for Transport's thinking on revenue risk sharing are welcome.

Any UK Rail operating profit for the second half of 2017/18 is expected to be modest, reflecting the end of our South West Trains franchise and higher rail bidding costs, partially off-setting the expected profitability at East Midlands Trains.

We will continue to consider other rail bidding opportunities where we believe we can deliver benefits to passengers and add value for our investors.

Group overheads

Group overheads were £7.9m in the half-year ended 28 October 2017 compared to £6.3m in the equivalent prior year period. The overheads include the cost of some digital projects we are working on outside of the core operating divisions.

Virgin Rail Group

Summary

- Continuing good financial performance
- High customer satisfaction
- Progressing towards new direct award franchise

Financial performance

The financial performance of the Group's Virgin Rail joint venture for the half-year ended 28 October 2017 is summarised below:

49% share:	H1 2018 £m	H1 2017 £m
Revenue and like-for-like revenue	288.5	280.1
Operating profit	14.8	17.1
Net finance income	0.2	0.3
Taxation	(2.9)	(3.5)
Profit after tax	12.1	13.9
Operating margin	5.1%	6.1%

Although Virgin Rail Group's operating profit has fallen slightly year-on-year, its West Coast rail franchise continues to perform well, with like-for-like revenue growth of 3.0% for the half-year ended 28 October 2017, and a good profit margin. That good performance continues to benefit taxpayers through profit share payments by the business to the UK Department for Transport. The reduction in profit reflects a lower rate of revenue growth being more than offset by cost increases and the premia payable to the Department.

Virgin Rail Group is continuing to drive improvements for customers as it celebrates 20 years of operating the West Coast route. Virgin Trains has broken new records for passengers travelling between Liverpool and London. Sales of digital tickets have more than trebled in a year, with around 20% of Virgin Trains customers now choosing this form of ticket on the West Coast route. Customer satisfaction remains amongst the highest in the UK, with the latest National Rail Passenger Survey showing an overall satisfaction score of 92%.

Virgin Rail Group is making good progress towards agreeing a new direct award contract with the Department for Transport to run from April 2018. We are hopeful that this will be concluded shortly.

Pre-exceptional EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, intangible asset amortisation and exceptional items (pre-exceptional EBITDA) amounted to £189.9m (H1 2017: £191.0m). Pre-exceptional EBITDA can be reconciled to the financial statements as follows:

	H1 2018 £m	H1 2017 £m	Year to 28 Oct 2017 £m
Total operating profit	114.8	108.9	181.9
Intangible asset amortisation	5.5	8.1	14.2
Depreciation	66.7	70.5	141.7
Add back joint venture finance income & tax	2.9	3.5	6.5
Pre-exceptional EBITDA	189.9	191.0	344.3

Intangible asset amortisation reduced from £8.1m to £5.5m, reflecting the write-down in intangible assets at Virgin Trains East Coast in the year to 29 April 2017.

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

Exceptional items

There were no exceptional items recognised in the half-year ended 28 October 2017.

Net finance costs

Net finance costs for the half-year ended 28 October 2017 were £18.1m (H1 2017: £16.6m) and are further analysed below. The small increase in net finance costs is principally due to higher interest expense on defined benefit pension schemes arising from changes in market-driven assumptions used to determine pension amounts.

	H1 2018 £m	H1 2017 £m
Finance costs		
Interest payable and facility costs on bank loans, overdrafts and trade finance	1.9	2.2
Hire purchase and finance lease interest payable	0.8	1.0
Interest payable and other finance costs on bonds	10.9	10.9
Unwinding of discount on provisions	1.8	1.8
Interest expense on defined benefit pension schemes	3.4	1.9
	18.8	17.8
Finance income		
Interest receivable on cash	(0.3)	(0.7)
Unwinding of discount on receivable	-	(0.5)
Effect of interest rate swaps	(0.4)	-
	(0.7)	(1.2)
Net finance costs	18.1	16.6

Taxation

The effective tax rate for the half-year ended 28 October 2017, excluding exceptional items, was 21.7% (H1 2017: 21.3%). The tax charge can be analysed as follows:

Half-year to 28 October 2017	Pre-tax profit £m	Tax £m	Rate %
With joint venture taxation gross	99.8	(21.7)	21.7%
Reclassify joint venture taxation for reporting purposes	(3.1)	3.1	-
Reported in income statement	96.7	(18.6)	19.2%

Fuel costs

The Group's operations as at 28 October 2017 consume approximately 391m litres of diesel fuel per annum. As a result, the Group's profit is exposed to movements in the underlying price of fuel. The Group's fuel costs include the costs of delivery and duty as well as the costs of the underlying product. Accordingly, not all of the cost varies with movements in oil prices.

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

Year ending April	2018	2019	2020	2021
Total Group	83%	74%	58%	23%

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

Cash flows and net debt

Consolidated net debt has, as expected, increased from 29 April 2017, reflecting operating cash outflows at Virgin Trains East Coast, the transfer of cash following the expiry of the South West Trains franchise, additional capital investment, the timing of interest payments associated with our 4.00% bonds, partly offset by continued cash generation from other operations.

Net cash from operating activities before tax for the half-year ended 28 October 2017 was £44.2m (H1 2017: £142.9m) and can be further analysed as follows:

	H1 2018 £m	H1 2017 £m
EBITDA of Group companies before exceptional items	174.1	172.5
(Gain)/loss on disposal of property, plant and equipment	(0.4)	0.4
Equity-settled share based payment expense	0.3	1.0
Working capital movements	(112.9)	(20.7)
Net interest paid	(20.3)	(21.1)
Dividends from joint ventures	3.4	10.8
Net cash flows from operating activities before taxation	44.2	142.9

Net debt (as analysed in note 18 to the condensed financial statements) increased from £409.4m at 29 April 2017 to £482.8m at 28 October 2017. The movement in net debt, showing train operating companies separately, was:

Half-year to 28 October 2017	Train operating companies £m	Other £m	Total £m
EBITDA of Group companies before exceptional items	34.1	140.0	174.1
(Gain)/loss on disposal of property, plant and equipment	0.1	(0.5)	(0.4)
Equity-settled share based payment expense	0.1	0.2	0.3
Working capital movements	(127.1)	14.2	(112.9)
Net interest paid	(1.0)	(19.3)	(20.3)
Dividends from joint ventures	-	3.4	3.4
Net cash flows from operating activities before taxation	(93.8)	138.0	44.2
Inter-company movements	(12.7)	12.7	-
Tax paid	(5.4)	0.4	(5.0)
Investing activities	3.2	(70.2)	(67.0)
Financing activities	-	(47.6)	(47.6)
Foreign exchange/other	-	2.0	2.0
Movement in net debt	(108.7)	35.3	(73.4)
Opening net debt	219.4	(628.8)	(409.4)
Closing net debt	110.7	(593.5)	(482.8)

The expiry of the South West Trains franchise has increased our net debt in the period by around £50m. We would anticipate a further net cash outflow in this respect of up to £30m as we conclude open matters. The closing cash balance of £110.7m for train operating companies shown in the table above excludes South West Trains.

The working capital movements in the half-year are principally due to the expiry of the South West Trains franchise referred to above and the previously provided for cash losses at Virgin Trains East Coast.

The impact of purchases of property, plant and equipment for the half-year on net debt was £89.5m (H1 2017: £138.6m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £60.8m (H1 2017: £108.9m) and new hire purchase and finance lease debt of £28.7m (H1 2017: £29.7m). In addition, £30.7m (H1 2017: £13.1m) of cash was received from disposals of property, plant and equipment. Around £22.5m (H1 2017: £11.0m) of this cash received related to the UK Rail Division, which include South West Trains' assets sold to the new franchise operator.

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

	H1 2018 £m	H1 2017 £m
UK Bus (regional operations)	31.4	83.0
megabus Europe	(1.7)	-
UK Bus (London)	0.7	0.8
North America	34.9	30.9
UK Rail	(6.5)	10.8
	58.8	125.5

In addition to the amounts shown in the table above, a further net £8.2m (H1 2017: £8.5m) was invested in software and a technology business.

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

The Group's financial position remains strong and is evidenced by:

- The ratio of net debt at 28 October 2017 to pre-exceptional EBITDA for the year ended 28 October 2017 was 1.4 times (year ended 29 October 2016: 1.4 times).
- Pre-exceptional EBITDA for the half-year ended 28 October 2017 was 10.6 times (H1 2017: 11.7 times) net finance charges (including joint venture net finance income).
- Undrawn, committed bank facilities of £387.7m at 28 October 2017 (29 April 2017: £333.8m) were available to be drawn as bank loans with further amounts available only for non-cash utilisation. In addition, the Group has available asset finance lines.
- The three main credit rating agencies continue to assign investment grade credit ratings to the Group.

Net assets

Net assets at 28 October 2017 were £272.0m (29 April 2017: £68.5m). The increase in the net assets reflects the good financial results for the half-year ended 28 October 2017, actuarial gains on defined benefit pension schemes and fair value gains on cash flow hedges, partly offset by dividends paid.

Retirement benefits

We are pleased that our net retirement benefit obligations have reduced in the half-year, reflecting good investment returns on pension scheme assets, higher interest rates, changes in inflation assumptions and experience gains on the Stagecoach Group Pension Scheme. The Group recognised pre-tax actuarial gains of £184.6m in the half-year ended 28 October 2017 (H1 2017: pre-tax actuarial losses of £137.1m) on Group defined benefit schemes.

The reported net assets of £272.0m (29 April 2017: £68.5m), that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £57.8m (29 April 2017: £232.5m), and associated deferred tax assets of £14.9m (29 April 2017: £44.4m).

Related parties

Details of significant transactions with related parties are given in note 21 to the condensed financial statements.

Principal risks and uncertainties

Like most businesses, there is a range of risks and uncertainties facing the Group. A brief summary is given below of those specific risks and uncertainties that the Directors believe could have the most significant impact on the Group's financial position and/or future financial performance. Pages 10 to 14 of the Group's

2017 Annual Report set out specific risks and uncertainties in more detail.

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 performance. In assessing the Group's likely financial performance for the second half of the current financial year, these risks and uncertainties should be considered in addition to the matters referred to regarding seasonality in note 3 to the condensed financial statements, and the comments made later under the heading "Outlook".

- Catastrophic events – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus and rail services. The ongoing negotiation of the terms of the UK leaving the European Union may lead to 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.
- Rail cost base – a substantial element of the cost base of the UK Rail Division is essentially fixed as under its UK rail franchise agreements, the Group is obliged to provide a minimum level of train services and is less able to flex supply in response to changes in demand.
- Sustainability of rail profit – there is a risk that the Group's revenue and profit could be significantly affected (either positively or negatively) as a result of the Group winning UK rail franchises or failing to retain its existing franchises.
- Breach of franchise – if the Group fails to comply with certain conditions as part of its rail franchise agreements it may be liable to penalties including potential termination of one or more of the rail franchise agreements.
- Changing customer habits – There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position.
- Pension scheme funding – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as investment performance, discount rates and life expectancies, or due to regulatory intervention.
- Insurance and claims environment – there is a risk that the cost to the Group of settling claims against it is significantly higher or lower than expected.
- Regulatory changes and availability of public funding – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. New legislation introduced and planned in the UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations.

- **Management and Board succession** – there is a risk that the Group does not recruit and retain sufficient directors and managers with the skills important to the operation of the business.
- **Disease** – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease.
- **Information security** – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- **Information technology** – there is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand.
- **Litigation** – there is a risk of commercial and consumer litigation arising from the legal environment in some markets, particularly North America.
- **Competition** – in certain of the markets we operate in, there is a risk of increased competitive pressures from existing competitors and new entrants.

Use of non-GAAP measures

Our reported interim financial information is prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, pre-exceptional EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 23 to the condensed financial statements provides further information on these non-GAAP financial measures.

Updating definition of adjusted earnings per share

As well as reporting earnings per share in accordance with Generally Accepted Accounting Principles, we also report an adjusted earnings per share measure to help explain the financial performance of the Group. For some years, our measure of adjusted earnings per share has been calculated with reference to profit excluding intangible asset expenses and exceptional items.

In our preliminary results announcement of 28 June 2017, we noted our intention to discuss with analysts and investors whether adjusting our definition of adjusted earnings per share to include software amortisation would provide them with a more useful measure of performance, reflecting the growth in these costs as we have invested in our digital programmes. We confirmed in our trading statement of 28 September 2017 that based on those discussions and consistent with emerging market practice, we will now report adjusted earnings per share inclusive of software amortisation. The adjusted earnings per share of 13.6p that we have reported for the half-year ended 28 October 2017 has been determined on that basis.

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

Half-year ended 29 October 2016	Build-up of adjusted EPS £m	Software amortisation £m	Revised build-up of adjusted EPS £m
UK Bus (regional operations)	66.6	(1.7)	64.9
megabus Europe	(4.6)	-	(4.6)
UK Bus (London)	9.1	-	9.1
North America	17.5	(0.5)	17.0
UK Rail	20.5	(1.0)	19.5
Group overheads and restructuring costs	(7.1)	-	(7.1)
Joint ventures	15.0	-	15.0
Finance costs (net)	(16.6)	-	(16.6)
Taxation	(17.9)	0.6	(17.3)
Non-controlling interests	(0.1)	-	(0.1)
Profit for adjusted earnings per share	82.4	(2.6)	79.8
	Pence	Pence	Pence
Adjusted earnings per share	14.4p	(0.5)p	13.9p

Year ended 29 April 2017	Build-up of adjusted EPS £m	Software amortisation £m	Revised build-up of adjusted EPS £m
UK Bus (regional operations)	121.1	(4.1)	117.0
megabus Europe	(4.3)	-	(4.3)
UK Bus (London)	18.4	-	18.4
North America	19.3	(1.1)	18.2
UK Rail	31.0	(2.5)	28.5
Group overheads and restructuring costs	(18.9)	-	(18.9)
Joint ventures	26.2	-	26.2
Finance costs (net)	(34.1)	-	(34.1)
Taxation	(20.7)	1.4	(19.3)
Non-controlling interests	1.7	0.1	1.8
Profit for adjusted earnings per share	139.7	(6.2)	133.5
	Pence	Pence	Pence
Adjusted earnings per share	24.4p	(1.1)p	23.3p

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the half-year ended 28 October 2017.

Outlook

Our expectation of adjusted earnings per share for the year ending 28 April 2018 is unchanged.

We see positive long-term prospects for public transport. There is a large market opportunity for modal shift from cars to public transport against a backdrop of technological advancements, rising road congestion and increasing environmental awareness.

Martin Griffiths
Chief Executive
6 December 2017

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 by the European Union;
- (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
6 December 2017

Ross Paterson
Finance Director
6 December 2017

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 and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation. Nothing in the 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

	Notes	Unaudited			Unaudited		
		Half-year to 28 October 2017			Half-year to 29 October 2016		
		Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 5)	Results for the period	Performance pre intangibles (exc software) and exceptional items	(Restated) Intangibles (exc software) and exceptional items (note 5)	Results for the period
		£m	£m	£m	£m	£m	£m
Revenue	4(a)	1,800.4	-	1,800.4	2,002.1	-	2,002.1
Operating costs and other operating income		(1,698.5)	-	(1,698.5)	(1,903.3)	(4.9)	(1,908.2)
Operating profit of Group companies	4(b)	101.9	-	101.9	98.8	(4.9)	93.9
Share of profit of joint ventures after net finance income and taxation	4(c)	12.9	-	12.9	15.0	-	15.0
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	4(b)	114.8	-	114.8	113.8	(4.9)	108.9
Non-operating exceptional items	5	-	-	-	-	(2.8)	(2.8)
Profit before interest and taxation		114.8	-	114.8	113.8	(7.7)	106.1
Finance costs		(18.8)	-	(18.8)	(17.8)	-	(17.8)
Finance income		0.7	-	0.7	1.2	-	1.2
Profit before taxation		96.7	-	96.7	97.2	(7.7)	89.5
Taxation		(18.6)	-	(18.6)	(17.3)	0.6	(16.7)
Profit from continuing operations and profit after taxation for the period		78.1	-	78.1	79.9	(7.1)	72.8
Attributable to:							
Equity holders of the parent		78.2	-	78.2	79.8	(6.7)	73.1
Non-controlling interests		(0.1)	-	(0.1)	0.1	(0.4)	(0.3)
		78.1	-	78.1	79.9	(7.1)	72.8
Earnings per share from continuing and total operations							
- Adjusted basic/Basic	7	13.6p		13.6p	13.9p		12.7p
- Adjusted diluted/Diluted	7	13.6p		13.6p	13.9p		12.7p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m
Profit for the period	78.1	72.8
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Net fair value gains on cash flow hedges	21.2	35.4
- Reclassified and reported in profit for the period	3.6	16.4
- Share of other comprehensive (expense)/income on joint ventures' cash flow hedges	(0.1)	2.7
- Tax effect of cash flow hedges	(4.7)	(9.8)
- Tax effect of other comprehensive income on joint ventures' cash flow hedges	-	(0.5)
Foreign exchange differences on translation of foreign operations (net of hedging)	(0.9)	20.1
Total items that may be reclassified to profit or loss	19.1	64.3
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on Group defined benefit pension schemes	184.6	(137.1)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	(31.1)	24.2
Share of actuarial gains on joint ventures' defined benefit schemes	-	0.8
Tax effect of actuarial gains on joint ventures' defined benefit pension schemes	-	(0.2)
Total items that will not be reclassified to profit or loss	153.5	(112.3)
Other comprehensive income/(expense) for the period	172.6	(48.0)
Total comprehensive income for the period	250.7	24.8
Attributable to:		
Equity holders of the parent	250.8	25.5
Non-controlling interests	(0.1)	(0.7)
	250.7	24.8

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

		Unaudited	Audited
		As at	As at
		28 October 2017	29 April 2017
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	8	146.9	148.2
Other intangible assets	9	45.1	45.0
Property, plant and equipment	10	1,159.9	1,190.3
Interests in joint ventures	11	35.1	25.7
Available for sale investments		2.7	-
Derivative instruments at fair value		12.8	7.0
Deferred tax asset		-	14.4
Retirement benefit assets	14	47.3	45.6
Other receivables		5.1	4.9
		1,454.9	1,481.1
Current assets			
Inventories		23.9	25.2
Trade and other receivables		357.8	449.0
Derivative instruments at fair value		9.4	7.3
Foreign tax recoverable		-	0.3
Cash and cash equivalents		215.6	313.3
		606.7	795.1
Total assets	4(d)	2,061.6	2,276.2
LIABILITIES			
Current liabilities			
Trade and other payables		663.8	848.0
Current tax liabilities		47.6	36.6
Borrowings		39.5	40.5
Derivative instruments at fair value		4.8	16.6
Provisions	19	133.8	118.6
		889.5	1,060.3
Non-current liabilities			
Other payables		33.5	35.8
Borrowings		661.1	693.0
Derivative instruments at fair value		2.6	6.9
Deferred tax liabilities		23.7	-
Provisions	19	74.1	133.6
Retirement benefit obligations	14	105.1	278.1
		900.1	1,147.4
Total liabilities	4(d)	1,789.6	2,207.7
Net assets	4(d)	272.0	68.5
EQUITY			
Ordinary share capital	15	3.2	3.2
Share premium account		8.4	8.4
Retained earnings		(135.0)	(320.4)
Capital redemption reserve		422.8	422.8
Own shares		(38.0)	(37.0)
Translation reserve		9.3	10.2
Cash flow hedging reserve		11.1	(9.0)
Total equity attributable to the parent		281.8	78.2
Non-controlling interests		(9.8)	(9.7)
Total equity		272.0	68.5

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Translation reserve £m	Cash flow hedging reserve £m	Total equity attributable to the parent £m	Non- controlling interest £m	Total equity £m
Balance at 29 April 2017 and 30 April 2017		3.2	8.4	(320.4)	422.8	(37.0)	10.2	(9.0)	78.2	(9.7)	68.5
Profit for the period		-	-	78.2	-	-	-	-	78.2	(0.1)	78.1
Other comprehensive income/(expense) net of tax		-	-	153.4	-	-	(0.9)	20.1	172.6	-	172.6
Total comprehensive income/(expense)		-	-	231.6	-	-	(0.9)	20.1	250.8	(0.1)	250.7
Own ordinary shares purchased		-	-	-	-	(1.0)	-	-	(1.0)	-	(1.0)
Credit in relation to equity-settled share based payments		-	-	0.3	-	-	-	-	0.3	-	0.3
Dividends paid on ordinary shares	6	-	-	(46.5)	-	-	-	-	(46.5)	-	(46.5)
Balance at 28 October 2017		3.2	8.4	(135.0)	422.8	(38.0)	9.3	11.1	281.8	(9.8)	272.0
Balance at 30 April 2016 and 1 May 2016		3.2	8.4	(185.1)	422.8	(34.3)	1.3	(40.3)	176.0	1.8	177.8
Profit for the period		-	-	73.1	-	-	-	-	73.1	(0.3)	72.8
Other comprehensive (expense)/income net of tax		-	-	(109.9)	-	-	20.1	42.2	(47.6)	(0.4)	(48.0)
Total comprehensive (expense)/income		-	-	(36.8)	-	-	20.1	42.2	25.5	(0.7)	24.8
Own ordinary shares purchased		-	-	-	-	(2.7)	-	-	(2.7)	-	(2.7)
Credit in relation to equity-settled share based payments		-	-	1.0	-	-	-	-	1.0	-	1.0
Dividends paid on ordinary shares	6	-	-	(45.3)	-	-	-	-	(45.3)	-	(45.3)
Balance at 29 October 2016		3.2	8.4	(266.2)	422.8	(37.0)	21.4	1.9	154.5	1.1	155.6

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m
	Notes		
Cash flows from operating activities			
Cash generated by operations	16	61.1	153.2
Interest paid		(22.4)	(21.8)
Interest received		2.1	0.7
Dividends received from joint ventures		3.4	10.8
Net cash flows from operating activities		44.2	142.9
Tax paid		(5.0)	(4.6)
Net cash from operating activities after tax		39.2	138.3
Cash flows from investing activities			
Disposals of businesses, net of cash disposed of	12	-	(2.7)
Purchase of property, plant and equipment		(60.8)	(108.9)
Disposal of property, plant and equipment		30.7	13.1
Purchase of intangible assets and other investments		(10.9)	(8.5)
Disposal of intangible assets		2.7	-
Net cash outflow from investing activities		(38.3)	(107.0)
Cash flows from financing activities			
Purchase of treasury shares		(1.0)	(2.7)
Repayments of hire purchase and lease finance debt		(14.2)	(30.4)
Drawdown of other borrowings		100.0	102.9
Repayment of other borrowings		(136.8)	(100.4)
Dividends paid on ordinary shares	6	(46.5)	(45.3)
Sale of tokens		0.1	0.1
Redemption of tokens		(0.2)	(0.2)
Net cash used in financing activities		(98.6)	(76.0)
Net decrease in cash and cash equivalents		(97.7)	(44.7)
Cash and cash equivalents at beginning of period		313.3	382.3
Exchange rate effects		-	3.8
Cash and cash equivalents at end of period		215.6	341.4

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

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

NOTES

1 BASIS OF PREPARATION

The condensed consolidated interim financial information for the half-year ended 28 October 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 29 April 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. As explained in note 5 to the condensed financial statements, the definition of adjusted earnings has been changed to include software amortisation. The accounting policies and methods of computation applied in the consolidated interim financial information are otherwise the same as those of the annual financial statements for the year ended 29 April 2017, as described on pages 79 to 87 of the Group's 2017 Annual Report which can be found on the Stagecoach Group website at <http://www.stagecoach.com/investors/financial-analysis/reports/>.

The figures for this half-year include the results for all divisions for the 26 weeks to 28 October 2017. The comparative figures for the half-year ended 29 October 2016 include the results for all divisions for the 26 weeks ended 29 October 2016.

This condensed consolidated interim financial information for the half-year ended 28 October 2017 has not been audited, nor has the comparative financial information for the half-year ended 29 October 2016 but they have both been reviewed by the auditors. The comparative financial information presented in this announcement for the year ended 29 April 2017 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 29 April 2017, were approved by the Board of Directors on 28 June 2017, were reported on by the auditors under sections 495 and 496 of the Companies Act 2006, received an unqualified audit report, did not contain an emphasis of matter paragraph, did not contain a statement under section 498(2) or (3) 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 6 December 2017. This announcement will be available on the Group's website at <http://www.stagecoach.com/investors/financial-analysis/reports/>.

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

2 FOREIGN CURRENCIES

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

	Half-year to 28 October 2017	Half-year to 29 October 2016	Year to 29 April 2017
US Dollar:			
Period end rate	1.3110	1.2149	1.2937
Average rate	1.3029	1.3426	1.2937
Canadian Dollar:			
Period end rate	1.6899	1.6243	1.7689
Average rate	1.6748	1.7487	1.7036

3 SEASONALITY

The Group's North American bus operations typically earn higher operating profit for the first half of the financial year (i.e. the half-year to the end of October) than for the second half. This is because leisure customers generate an element of the revenue with demand being at its strongest in the summer months.

4 SEGMENTAL ANALYSIS

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

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

<i>Segment name</i>	<i>Service operated</i>	<i>Countries of operation</i>
UK Bus (regional operations)	Coach and bus operations	United Kingdom
megabus Europe	Coach operations	United Kingdom and mainland Europe
UK Bus (London)	Bus operations	United Kingdom
North America	Coach and bus operations	USA and Canada
UK Rail	Rail operations	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 29 April 2017.

The Group has interests in two material joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). The results of these joint ventures are shown separately in note 4(c).

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (i.e. United Kingdom, mainland Europe or North America) is the same in all cases except in respect of an immaterial amount of revenue for services previously operated by megabus Europe between the UK and mainland Europe. As the Group sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

Revenue split by segment was as follows:

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m
UK Bus (regional operations)	512.4	513.9
megabus Europe	-	14.9
UK Bus (London)	128.4	131.5
North America	256.3	252.0
Total bus operations	897.1	912.3
UK Rail	905.6	1,092.3
Total Group revenue	1,802.7	2,004.6
Intra-Group revenue – UK Bus (regional operations)	(2.3)	(2.5)
Reported Group revenue	1,800.4	2,002.1

4 SEGMENTAL ANALYSIS (CONTINUED)

(b) Operating profit

Operating profit split by segment was as follows:

	Unaudited			Unaudited		
	Half-year to 28 October 2017			Half-year to 29 October 2016 (Restated)		
	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 5)	Results for the period	Performance pre intangibles (exc software) and exceptional items	Intangibles (exc software) and exceptional items (note 5)	Results for the period
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	61.6	-	61.6	64.9	-	64.9
megabus Europe	-	-	-	(4.6)	-	(4.6)
UK Bus (London)	6.5	-	6.5	9.1	-	9.1
North America	21.2	-	21.2	17.0	-	17.0
Total bus operations	89.3	-	89.3	86.4	-	86.4
UK Rail	21.7	-	21.7	19.5	-	19.5
	111.0	-	111.0	105.9	-	105.9
Group overheads	(7.9)	-	(7.9)	(6.3)	-	(6.3)
Intangible asset amortisation (exc software)	-	-	-	-	(4.9)	(4.9)
Restructuring costs	(1.2)	-	(1.2)	(0.8)	-	(0.8)
Total operating profit of Group companies	101.9	-	101.9	98.8	(4.9)	93.9
Share of joint ventures' profit after net finance income and taxation	12.9	-	12.9	15.0	-	15.0
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	114.8	-	114.8	113.8	(4.9)	108.9

(c) Joint ventures

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

	Unaudited	Unaudited
	Half-year to 28 October 2017 £m	Half-year to 29 October 2016 £m
Virgin Rail Group (UK Rail)		
Operating profit	14.8	17.1
Finance income (net)	0.2	0.3
Taxation	(2.9)	(3.5)
	12.1	13.9
Citylink (UK Bus, regional operations)		
Operating profit	1.0	1.4
Taxation	(0.2)	(0.3)
	0.8	1.1
Share of profit of joint ventures after net finance income and taxation	12.9	15.0

4 SEGMENTAL ANALYSIS (CONTINUED)

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Unaudited			Audited		
	As at 28 October 2017			As at 29 April 2017		
	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	926.1	(237.9)	688.2	952.5	(358.3)	594.2
megabus Europe	-	(2.6)	(2.6)	7.1	(10.1)	(3.0)
UK Bus (London)	67.6	(113.5)	(45.9)	69.1	(176.7)	(107.6)
North America	453.5	(144.2)	309.3	429.5	(144.7)	284.8
UK Rail	342.5	(482.4)	(139.9)	426.2	(704.3)	(278.1)
	1,789.7	(980.6)	809.1	1,884.4	(1,394.1)	490.3
Central functions	21.2	(37.1)	(15.9)	38.1	(43.5)	(5.4)
Joint ventures	35.1	-	35.1	25.7	-	25.7
Borrowings and cash	215.6	(700.6)	(485.0)	313.3	(733.5)	(420.2)
Taxation	-	(71.3)	(71.3)	14.7	(36.6)	(21.9)
Total	2,061.6	(1,789.6)	272.0	2,276.2	(2,207.7)	68.5

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

5 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET AMORTISATION

The Group separately highlights non-software intangible asset amortisation and exceptional items. Exceptional items are defined in note 23. As explained in the section headed "Updating definition of adjusted earnings per share" on page 13, adjusted earnings per share are now reported inclusive of software amortisation, and the effect on previously reported amounts of including these costs within adjusted earnings is set out below:

(a) Consolidated income statement – restatement of adjusted amounts

	Half-year to 29 October 2016					
	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	H1 2017 reported £m	Software £m	H1 2017 restated £m	H1 2017 reported £m	Software £m	H1 2017 restated £m
Revenue	2,002.1	-	2,002.1	-	-	-
Operating costs and other operating income	(1,900.1)	(3.2)	(1,903.3)	(8.1)	3.2	(4.9)
Operating profit of Group companies	102.0	(3.2)	98.8	(8.1)	3.2	(4.9)
Share of profit of joint ventures after net finance income and taxation	15.0	-	15.0	-	-	-
Total operating profit: Group and share of joint ventures profit after taxation	117.0	(3.2)	113.8	(8.1)	3.2	(4.9)
Non-operational exceptional items	-	-	-	(2.8)	-	(2.8)
Profit before interest and taxation	117.0	(3.2)	113.8	(10.9)	3.2	(7.7)
Finance costs	(17.8)	-	(17.8)	-	-	-
Finance income	1.2	-	1.2	-	-	-
Profit before taxation	100.4	(3.2)	97.2	(10.9)	3.2	(7.7)
Taxation	(17.9)	0.6	(17.3)	1.2	(0.6)	0.6
Profit from continuing operations and profit after taxation for the period	82.5	(2.6)	79.9	(9.7)	2.6	(7.1)

5 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET AMORTISATION (CONTINUED)

(b) Segmental operating profit – restatement of adjusted amounts

	Half-year to 29 October 2016					
	Performance pre intangibles and exceptional items			Intangibles and exceptional items		
	H1 2017 reported £m	Software £m	H1 2017 restated £m	H1 2017 reported £m	Software £m	H1 2017 restated £m
UK Bus (regional operations)	66.6	(1.7)	64.9	-	-	-
megabus Europe	(4.6)	-	(4.6)	-	-	-
UK Bus (London)	9.1	-	9.1	-	-	-
North America	17.5	(0.5)	17.0	-	-	-
Total bus operations	88.6	(2.2)	86.4	-	-	-
UK Rail	20.5	(1.0)	19.5	-	-	-
	109.1	(3.2)	105.9	-	-	-
Group overheads	(6.3)	-	(6.3)	-	-	-
Intangible asset amortisation	-	-	-	(8.1)	3.2	(4.9)
Restructuring costs	(0.8)	-	(0.8)	-	-	-
Total operating profit of Group companies	102.0	(3.2)	98.8	(8.1)	3.2	(4.9)
Share of profit of joint ventures after net finance income and taxation	15.0	-	15.0	-	-	-
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	117.0	(3.2)	113.8	(8.1)	3.2	(4.9)

(c) Reported exceptional items and non-software intangible asset amortisation

The items shown in the column headed "Intangibles (exc software) and exceptional items" on the face of the consolidated income statement for the half-year ended 29 October 2016 can be further analysed as follows:

	Unaudited		
	Half-year to 29 October 2016		
	Exceptional items £m	Intangible asset amortisation (exc software) £m	Intangibles (exc software) and exceptional items £m
Operating costs			
Intangible asset amortisation (exc software)	-	(4.9)	(4.9)
Non-operating exceptional items			
megabus Europe disposal	(2.8)	-	(2.8)
Intangible asset amortisation (exc software) and exceptional items			
Tax effect	(2.8)	(4.9)	(7.7)
	-	0.6	0.6
Intangible asset amortisation (exc software) and exceptional items after taxation			
	(2.8)	(4.3)	(7.1)

6 DIVIDENDS

Dividends on ordinary shares are shown below.

	Unaudited Half-year to 28 October 2017 pence per share	Unaudited Half-year to 29 October 2016 pence per share	Audited Year to 29 April 2017 pence per share	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m	Audited Year to 29 April 2017 £m
Amounts recognised as distributions						
Dividends on ordinary shares:						
Final dividend in respect of the previous year	8.1	7.9	7.9	46.5	45.3	45.3
Interim dividend in respect of the current year	-	-	3.8	-	-	21.8
Amounts recognised as distributions to equity holders	8.1	7.9	11.7	46.5	45.3	67.1
Dividends declared or proposed but neither paid nor included as liabilities in the financial statements						
Dividends on ordinary shares:						
Final dividend in respect of the current year	-	-	8.1	-	-	46.5
Interim dividend in respect of the current year	3.8	3.8	-	21.8	21.8	-
	3.8	3.8	8.1	21.8	21.8	46.5

The interim ordinary dividend of 3.8p per ordinary share was declared by the Board of Directors on 6 December 2017 and has not been included as a liability as at 28 October 2017. It is payable on 7 March 2018 to shareholders on the register at close of business on 26 January 2018.

7 EARNINGS PER SHARE

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

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

	Unaudited Half-year to 28 October 2017 No. of shares Million	Unaudited Half-year to 29 October 2016 No. of shares Million
Basic weighted average number of ordinary shares	573.4	573.6
Dilutive ordinary shares - Executive Participation Plan	2.7	2.2
Diluted weighted average number of ordinary shares	576.1	575.8
	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 (restated) £m
Net profit attributable to equity holders of the parent (for basic EPS calculation)	78.2	73.1
Intangible asset amortisation (exc software)	-	4.9
Non-controlling interest in intangible asset expenses (exc software)	-	(0.4)
Exceptional items before tax	-	2.8
Tax effect of intangible asset amortisation (exc software)	-	(0.6)
Net profit attributable to equity holders of the parent for adjusted EPS calculation	78.2	79.8

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

8 GOODWILL

The movements in goodwill were as follows:

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m	Audited Year to 29 April 2017 £m
Net book value at beginning of period	148.2	136.9	136.9
Foreign exchange movements	(1.3)	17.5	11.3
Net book value at end of period	146.9	154.4	148.2

9 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m	Audited Year to 29 April 2017 £m
Cost at beginning of period	163.1	142.9	142.9
Additions	8.2	8.5	17.8
Disposals	(6.4)	(0.1)	(0.5)
Foreign exchange movements	(0.3)	4.6	2.9
Cost at end of period	164.6	155.9	163.1
Accumulated amortisation at beginning of period	(118.1)	(54.2)	(54.2)
Amortisation charged to income statement	(5.5)	(8.1)	(16.8)
Impairment charged to income statement	-	-	(44.8)
Disposals	3.8	-	0.5
Foreign exchange movements	0.3	(4.4)	(2.8)
Accumulated amortisation at end of period	(119.5)	(66.7)	(118.1)
Net book value at beginning of period	45.0	88.7	88.7
Net book value at end of period	45.1	89.2	45.0

10 PROPERTY, PLANT AND EQUIPMENT

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

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m	Audited Year to 29 April 2017 £m
Cost at beginning of period	2,178.2	2,049.4	2,049.4
Additions	69.3	117.9	199.5
Disposals	(114.2)	(38.7)	(133.0)
Foreign exchange movements	(4.8)	102.8	62.3
Transferred to assets held for sale	-	(18.1)	-
Cost at end of period	2,128.5	2,213.3	2,178.2
Depreciation at beginning of period	(987.9)	(884.2)	(884.2)
Depreciation charged to income statement	(66.7)	(70.5)	(145.5)
Impairment charged to income statement	-	(3.0)	(3.2)
Disposals	83.7	25.1	73.5
Foreign exchange movements	2.3	(47.4)	(28.5)
Transferred to assets held for sale	-	6.3	-
Depreciation at end of period	(968.6)	(973.7)	(987.9)
Net book value at beginning of period	1,190.3	1,165.2	1,165.2
Net book value at end of period	1,159.9	1,239.6	1,190.3

11 INTERESTS IN JOINT VENTURES

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

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m	Audited Year to 29 April 2017 £m
Net book value at beginning of period	25.7	22.4	22.4
Share of recognised profit	12.9	15.0	26.2
Share of actuarial gains on defined benefit pension schemes, net of tax	-	0.6	2.5
Share of other comprehensive (expense)/income on cash flow hedges, net of tax	(0.1)	2.2	2.7
Dividends received in cash	(3.4)	(10.8)	(28.1)
Net book value at end of period	35.1	29.4	25.7

A loan payable to Scottish Citylink Coaches Limited of £1.7m (29 April 2017: £1.7m) is included within current liabilities under the caption "Trade and other payables".

12 BUSINESS COMBINATIONS AND DISPOSALS

The Group completed no material business combinations or business disposals in the half-year to 28 October 2017, or since then.

Details of acquisitions and disposals completed in earlier periods are given in the Group's annual reports for the relevant periods.

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Liquidity risk

There have been no material changes since 29 April 2017 in the contractual undiscounted cash outflows for financial liabilities.

Fair value estimation

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

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

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 28 October 2017.

	Unaudited Level 2 & Total £m
Assets	
Derivatives used for hedging	22.2
Available for sale investments – equity securities	2.7
	24.9
Liabilities	
Derivatives used for hedging	(7.4)

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

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

There were no transfers between levels during the half-year ended 28 October 2017.

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

	Unaudited		Audited	
	Carrying value	Fair Value	Carrying value	Fair value
	28 October 2017 £m	28 October 2017 £m	29 April 2017 £m	29 April 2017 £m
Loans and receivables				
- Non-current assets				
- Other receivables	0.2	0.2	0.2	0.2
- Available for sale investments	2.7	2.7	-	-
- Current assets				
- Accrued income	46.2	46.2	54.0	54.0
- Trade receivables, net of impairment	204.3	204.3	254.4	254.4
- Other receivables	24.1	24.1	39.4	39.4
- Cash and cash equivalents	215.6	215.6	313.3	313.3
Total financial assets	493.1	493.1	661.3	661.3
Financial liabilities measured at amortised cost				
- Non-current liabilities- Borrowings	(661.1)	(698.7)	(693.0)	(737.0)
- Current liabilities				
- Trade payables	(158.1)	(158.1)	(270.0)	(270.0)
- Accruals	(355.4)	(355.4)	(436.7)	(436.7)
- Loans from joint ventures	(1.7)	(1.7)	(1.7)	(1.7)
- Loan from non-controlling interest	(10.6)	(10.6)	(5.8)	(5.8)
- Borrowings	(39.5)	(39.5)	(40.5)	(40.5)
Total financial liabilities	(1,226.4)	(1,264.0)	(1,447.7)	(1,491.7)
Net financial liabilities	(733.3)	(770.9)	(786.4)	(830.4)

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

13 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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

- The carrying value of £2.7m (29 April 2017: £Nil) of an available for sale investment is measured at cost, which based on recent transactions is considered to be a reasonable approximation of fair value.
- The carrying value of cash and cash equivalents, accrued income, trade receivables, and other receivables is considered to be a reasonable approximation of fair value. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial. Given the short average time to maturity, no specific assumptions on discount rates have been made.
- The carrying value of trade payables, accruals, loan from non-controlling interest and loans from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price at the balance sheet date.
- The carrying value of fixed-rate notes that are not quoted on a recognised stock exchange and fixed-rate hire purchase and finance lease liabilities (included in borrowings) is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

14 RETIREMENT BENEFITS

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

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

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

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

The movements for the half-year ended 28 October 2017 in the net pre-tax retirement benefit liabilities recognised in the balance sheet were as follows:

Unaudited	SPS £m	RPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
Liability/(asset) at beginning of period	251.8	(45.1)	17.5	4.0	4.3	232.5
Current service cost	2.4	25.4	0.6	0.8	-	29.2
Administration costs	0.5	0.2	-	-	-	0.7
Net Interest expense	3.5	4.3	0.3	0.1	0.1	8.3
Unwinding of franchise adjustment	-	(4.9)	-	-	-	(4.9)
Employers' contributions	(1.8)	(17.1)	(3.9)	(0.5)	(0.1)	(23.4)
Actuarial (gains)/losses	(174.4)	(9.7)	0.1	(0.6)	-	(184.6)
Liability/(asset) at end of period	82.0	(46.9)	14.6	3.8	4.3	57.8

14 RETIREMENT BENEFITS (CONTINUED)

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

	Unaudited As at 28 October 2017 £m	Audited As at 29 April 2017 £m
Retirement benefit assets	47.3	45.6
Retirement benefit obligations	(105.1)	(278.1)
Net retirement benefit liability	(57.8)	(232.5)

15 ORDINARY SHARE CAPITAL

At 28 October 2017, there were 576,099,960 ordinary shares in issue (29 April 2017: 576,099,960). This figure includes 2,757,038 (29 April 2017: 2,467,204) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements. The shares held in treasury do not qualify for dividends.

16 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 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m
Operating profit of Group companies	101.9	93.9
Depreciation	66.7	70.5
Intangible asset amortisation	5.5	8.1
EBITDA of Group companies before exceptional items	174.1	172.5
(Gain)/loss on disposal of property, plant and equipment	(0.4)	0.4
Equity-settled share based payment expense	0.3	1.0
Operating cashflows before working capital movements	174.0	173.9
Decrease in inventories	1.3	2.4
Decrease/(increase) in receivables	96.7	(18.6)
Decrease in payables	(172.4)	(22.7)
(Decrease)/increase in provisions	(45.0)	16.3
Differences between employer contributions and pension expense in operating profit	6.5	1.9
Cash generated by operations	61.1	153.2

17 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:

	Unaudited Half-year to 28 October 2017 £m	Unaudited Half-year to 29 October 2016 £m
Decrease in cash and cash equivalents	(97.7)	(44.7)
Cash flow from movement in borrowings	51.0	27.9
	(46.7)	(16.8)
New hire purchase and finance leases	(28.7)	(29.7)
Foreign exchange movements	2.3	(38.3)
Other movements	(0.3)	(0.3)
Increase in net debt	(73.4)	(85.1)
Net debt at beginning of period	18 (409.4)	(399.3)
Net debt at end of period	18 (482.8)	(484.4)

During the period, the Group entered into hire purchase and finance lease arrangements in respect of assets with a total capital value at inception of the contracts of £28.7m (H1 2017: £33.1m). After taking account of deposits paid up-front, new hire purchase and finance lease liabilities of £28.7m (H1 2017: £29.7m) were recognised.

18 ANALYSIS OF NET DEBT

The analysis provided below shows the analysis of net debt as defined in note 23. The analysis below further shows the other items classified as net borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase and finance leases £m	Foreign exchange movements £m	Charged to income statement/ other £m	Closing £m
Cash and cash equivalents	294.7	(97.7)	-	-	-	197.0
Cash collateral	18.6	-	-	-	-	18.6
Hire purchase and finance lease obligations	(72.0)	14.2	(28.7)	0.8	-	(85.7)
Bank loans and loan notes	(140.4)	36.8	-	-	-	(103.6)
Bonds and notes	(510.3)	-	-	1.5	(0.3)	(509.1)
Net debt	(409.4)	(46.7)	(28.7)	2.3	(0.3)	(482.8)
Accrued interest on bonds	(9.5)	18.4	-	0.1	(10.6)	(1.6)
Effect of fair value hedges	(1.3)	-	-	-	0.7	(0.6)
Net borrowings (IFRS)	(420.2)	(28.3)	(28.7)	2.4	(10.2)	(485.0)

The cash collateral balance as at 28 October 2017 of £18.6m (29 April 2017: £18.6m) comprises balances held in respect of loan notes of £18.2m (29 April 2017: £18.2m) and North America restricted cash balances of £0.4m (29 April 2017: £0.4m). In addition, cash includes train operating company cash of £110.7m (29 April 2017: £219.4m). Under the terms of the franchise agreements, other than with the UK Department for Transport's consent, train operating companies can only distribute cash out of retained earnings and only to the extent they do not breach the financial covenants specified in applicable contracts.

19 PROVISIONS

The Group's provisions principally relate to insurance provisions on incurred accidents where claims have not been fully settled, and onerous contracts where the costs of fulfilling the contract outweigh the economic benefits to be received. The total provision for uninsured claims of £166.0m (29 April 2017: £156.8m) has increased during the half-year, reflecting both our latest assessment of the required provision for claims on major incidents and foreign exchange movements. The Group engages with third party actuarial professionals to assist in the calculation of these provisions. As expected, the onerous contract provisions have decreased from £88.6m at 29 April 2017 to £33.9m at 28 October 2017, principally reflecting the utilisation of a provision for losses incurred by Virgin Trains East Coast.

20 COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

Capital commitments contracted but not provided for at 28 October 2017 were £55.8m (29 April 2017: £115.2m).

(ii) Rail bonds

At 28 October 2017, the Group has provided performance bonds backed by bank facilities or insurance arrangements of £75.3m (29 April 2017: £75.3m) and season ticket bonds backed by bank facilities or insurance arrangements of £11.8m (29 April 2017: £72.1m) to the Department for Transport in relation to the Group's rail franchise operations. Liabilities for deferred season ticket income, which the season ticket bonds are intended to cover, are reflected in the consolidated balance sheet. No liabilities have been recorded in respect of performance bonds. £82.5m (29 April 2017: £82.5m) of an inter-company loan facility provided to a subsidiary train operating company is backed by a guarantee issued under a bank facility.

(iii) Legal actions

The Group and the Company are from time to time party to legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 28 October 2017 and 29 April 2017, the aggregate amount of such liabilities was not material. In addition, certain of the claims intended to be covered by insurance provisions are subject to or might become subject to litigation against the Group.

21 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the half-year ended 28 October 2017 are provided below, except for those relating to the remuneration of the Directors and management.

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

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the half-year ended 28 October 2017, the Group earned fees of £30,000 (half-year ended 29 October 2016: £30,000) from Virgin Rail Group Holdings Limited in this regard. As at 28 October 2017, the Group had £30,000 (29 April 2017: £60,000) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net purchased £0.3m (half-year ended 29 October 2016: £0.1m) from the group headed by Virgin Rail Group Holdings Limited and had immaterial amounts outstanding as at 28 October 2017 and 29 April 2017 in this respect.

(ii) *West Coast Trains Limited*

West Coast Trains Limited is a subsidiary of Virgin Rail Group Holdings Limited (see above). In the half-year ended 28 October 2017, East Midlands Trains Limited (a subsidiary of the Company) had purchases totalling £0.1m (half-year ended 29 October 2016: £0.1m) from West Coast Trains Limited. The outstanding amounts payable as at 28 October 2017 and 29 April 2017 were immaterial.

During the half-year ended 28 October 2017, South West Trains Limited (a subsidiary of the Group) sold services of £0.1m (half-year ended 29 October 2016: £0.2m) to West Coast Trains Limited.

(iii) *Alexander Dennis Limited*

Sir Brian Souter (Chairman) and Ann Gloag (Non-Executive Director) collectively hold, via companies that they control, 55.1% (29 April 2017: 55.1%) of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which, Sir Ewan Brown (Non-Executive Director) is a director of its holding company) controls a further 33.2% (29 April 2017: 33.2%) of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Ann Gloag or Sir Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the half-year ended 28 October 2017, the Group purchased £26.4m (half-year ended 29 October 2016: £52.6m) of vehicles from Alexander Dennis Limited and £6.3m (half-year ended 29 October 2016: £4.9m) of spare parts and other services. As at 28 October 2017, the Group had £6.7m (29 April 2017: £0.5m) payable to Alexander Dennis Limited, along with outstanding orders of £31.9m (29 April 2017: £56.7m).

(iv) *Pension Schemes*

Details of contributions made to pension schemes are contained in note 14.

(v) *Scottish Citylink Coaches Limited*

A non interest bearing loan of £1.7m (29 April 2017: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 28 October 2017. The Group earned £9.1m in the half-year ended 28 October 2017 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (half-year ended 29 October 2016: £9.9m). The Group also collected revenue of £7.9m on behalf of Scottish Citylink Coaches Limited in the half-year ended 28 October 2017 (half-year ended 29 October 2016: £9.5m). As at 28 October 2017, the Group had a net £0.4m receivable (29 April 2017: £1.6m receivable) from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(vi) *Twin America LLC*

In the year to 29 April 2017, the Group disposed of its interest in Twin America LLC. In the half-year ended 29 October 2016, Twin America LLC sold travel of £1.4m for tour services operated by the Group.

21 RELATED PARTY TRANSACTIONS (CONTINUED)

(vii) *East Coast Main Line Company Limited*

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and enters into various arm's length transactions with other Group companies. In the half-year ended 28 October 2017, other Group companies earned £8.6m from East Coast Main Line Company Limited in respect of the provision of certain services including train maintenance and rail replacement bus services (half-year ended 29 October 2016: £8.8m). Other Group companies had a net payable balance of £1.7m to East Coast Main Line Company Limited as at 28 October 2017 (29 April 2017: £4.5m payable).

The ultimate parent company of the Group, Stagecoach Group plc, had an outstanding receivable of £105.7m as at 28 October 2017 in respect of a loan to East Coast Main Line Company Limited (29 April 2017: £57.5m). The interest receivable on the loan for the half-year ended 28 October 2017 was £1.0m (half-year ended 29 October 2016: £0.7m) and the accrued interest outstanding at 28 October 2017 was £2.5m (29 April 2017: £1.5m). Related to that, the Group had an outstanding payable for £10.6m as at 28 October 2017 in respect of a loan from Virgin Holdings Limited (29 April 2017: £5.8m) and the accrued interest outstanding at 28 October 2017 was £0.2m (29 April 2017: £0.1m).

22 POST BALANCE SHEET EVENTS

Details of the interim dividend declared are given in note 6.

23 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 28 October 2017 and for comparative amounts shown in this document for prior periods.

Adjusted earnings per share

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

For the half-year ended 28 October 2017 and the comparative prior year period, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance pre intangibles (exc software) and exceptional items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 7 to the condensed financial statements.

Like-for-like amounts

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

Like-for-like revenue growth for the half-year ended 28 October 2017 is calculated by comparing the revenue for the current and comparative periods, each adjusted as described above. The revenue of each segment is shown in note 4(a) to the condensed financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

		Unaudited Half-year to 28 October 2017				
		Reported revenue	Exclude effect of business closed	Exclude expired rail franchise	Exclude effect of foreign exchange	Like-for-like revenue
UK Bus (regional operations)	£m	512.4	(0.1)	-	-	512.3
UK Bus (London)	£m	128.4	-	-	-	128.4
North America	US\$m	333.9	-	-	(0.6)	333.3
UK Rail	£m	905.6	-	(309.0)	-	596.6

		Unaudited				
		Half-year to 29 October 2016				
		Reported revenue	Normalise for no. of days	Exclude effect of business closed	Exclude expired rail franchise	Like-for-like revenue
UK Bus (regional operations)	£m	513.9	-	(1.0)	-	512.9
UK Bus (London)	£m	131.5	-	-	-	131.5
North America	US\$m	338.4	(5.5)	-	-	332.9
UK Rail	£m	1,092.3	-	-	(513.3)	579.0

Operating profit

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

Operating profit (or loss) for a particular business unit or division within the Group refers to profit (or loss) before net finance income/charges, taxation, non-controlling interests, non-software intangible asset amortisation, exceptional items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from the financial statements – see note 4(b) to the condensed financial statements.

Operating margin

Operating margin for a particular business unit or division within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from the financial statements – see notes 4(a) and 4(b) to the condensed financial statements. The revenue, operating profit (or loss) and operating margin (being operating profit (or loss) as a percentage of revenue) for each segment are also shown on page 4 of this document.

Pre-exceptional EBITDA

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

A reconciliation of pre-exceptional EBITDA for the half-year ended 28 October 2017, and the comparative prior year period, to the financial statements is shown on page 10 of this document.

EBITDA from Group companies before exceptional items

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

EBITDA from Group companies before exceptional items is directly identifiable from the financial statements – see note 16 to the condensed financial statements.

Net finance charges

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

Gross debt

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

The components of gross debt are shown in note 18 to the condensed financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated balance sheet.

Net debt

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

The components of net debt are shown in note 18 to the condensed financial statements, which also reconciles net debt to the net borrowings (cash less borrowings) shown on the face of the consolidated financial statements.

Net capital expenditure

Net capital expenditure is the impact of purchases and sales of property, plant and equipment. Its reconciliation to the consolidated financial statements is explained on page 11 of this document.

23 **DEFINITIONS (CONTINUED)**
(b) **Other definition**

The following other definition is also used in this document:

Exceptional items

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

Independent review report to Stagecoach Group plc

Introduction

We have been engaged by the Company to review the condensed consolidated interim financial statements in the half-yearly financial report for the half-year ended 28 October 2017 which comprises:

- The Consolidated Income Statement for the half-year ended 28 October 2017;
- The Consolidated Statement of Comprehensive Income for the half-year ended 28 October 2017;
- The Consolidated Balance Sheet as at 28 October 2017;
- The Consolidated Statement of Changes in Equity for the half-year ended 28 October 2017;
- The Consolidated Statement of Cash Flows for the half-year ended 28 October 2017;
- The related explanatory notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated interim financial statements included in this

half-yearly financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half-yearly financial report for the half-year ended 28 October 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Glasgow
6 December 2017

Notes:

- (a) The maintenance and integrity of the Stagecoach Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.