

**Stagecoach Group Limited (formerly Stagecoach Group plc)
Interim results for the half-year ended 29 October 2022**

Financial summary

	“Adjusted” results Results excluding separately disclosed items*		“Statutory” results	
	H1 2023	H1 2022	H1 2023	H1 2022
Revenue (£m)	669.6	579.4	669.6	579.4
Total operating profit (£m)	46.8	32.9	33.0	45.2
Non-operating separately disclosed items (£m)	-	-	1.5	-
Net finance costs (£m)	(10.4)	(14.5)	(10.1)	(14.1)
Profit before taxation (£m)	36.4	18.4	24.4	31.1

*See definitions in note 20 to the condensed financial statements

Financial highlights

- Growth in adjusted profit reflecting recovery in passenger volumes and payments from national governments to protect public transport services for customers
- Half-year profit consistent with management’s expectations and overall expectations for full-year profit are broadly unchanged
- Further positive underlying cash generation and reduction in net debt, notwithstanding additions to net debt resulting from two acquisitions of businesses in the half-year
- Substantial strengthening of pensions position:
 - Net pre-deferred tax pensions assets of £167.4m at 29 October 2022, a £197.2m improvement in the half-year
 - Proactive de-risking of pension schemes
- Active management of economic headwinds to control costs, maintain sustainable bus networks, and help protect customers and employees from cost-of-living pressures

Strategic and operational highlights

- Growth in passenger demand in UK regional bus
 - Recent passenger journeys at around 80% of equivalent 2019 levels
 - Challenging economic environment supporting modal shift away from car to bus
 - Free bus travel scheme for under-22s is supporting strong growth in bus travel by young people in Scotland
- Proactive management of labour shortages and re-shaping of local bus networks to reflect new travel patterns
- Expansion in contracted London bus operations
 - Acquisition of two businesses with more than 300 buses and 28 routes contracted with Transport for London, providing good strategic fit with existing depot footprint
- Positive long-term outlook, leveraging the benefits of new ownership and supportive government policy and funding

Martin Griffiths, Stagecoach Group Chief Executive, said:

“We are pleased to report a positive set of results for the half-year ended 29 October 2022 as we move forward under new ownership. We have delivered increased revenue and profit, reflecting growth in our business and investment by the UK, Scottish and Welsh Governments in bus networks.

“We have made further progress as we rebuild from the pandemic, manage the immediate-term macro-economic headwinds, and position our business to maximise the opportunities for growth as we transition to a net zero future. At the same time, the current economic environment is helping to demonstrate the good value of our public transport services and encourage modal shift away from the car.

“We remain positive on the long-term outlook for the Group, while mindful of the macro-economic challenges facing businesses across the country. Underpinned by a strong financial position and with strong relationships with our national and local government partners, we are well-positioned for future growth for the benefit of our customers, employees, investors and wider stakeholders.”

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Notes to editors

Stagecoach Group

- Stagecoach is one of Britain's leading public transport businesses, helping connect communities for over 40 years.
- Stagecoach is Britain's biggest bus and coach operator, and it runs the Supertram light rail network in Sheffield.
- Our team of around 23,000 people and our c.8,300 buses, coaches and trams are part of the fabric of daily life in England, Scotland and Wales.
- We connect people with jobs, skills and training. We bring customers to our high streets, link tourists with visitor attractions, and draw families, friends and communities together.
- Our impact is about far more than transport – we support the economy, help cut congestion on our roads, protect our environment and air quality, boost safety on our roads, and contribute to a healthier nation.

Interim management report

The Directors of Stagecoach Group Limited are pleased to present their report on the Company for the half-year ended 29 October 2022. The Company was re-registered from a public limited company to a private limited company, and re-named from Stagecoach Group plc to Stagecoach Group Limited, on 17 October 2022.

Description of the business

Stagecoach Group Limited is a private limited company, limited by shares. It is incorporated, domiciled and has its registered office in Scotland. The Company is a wholly-owned subsidiary of Inframobility UK Bidco Limited, which is indirectly owned by an international infrastructure fund managed and advised by DWS Infrastructure. Throughout this document, we refer to Stagecoach Group Limited as “the Company” and we refer to the group headed by it as “Stagecoach” or “the Group”.

Overview

Introduction

In the first half of the financial year, we have made further progress as we rebuild from the pandemic, manage the immediate-term macro-economic headwinds, and position our business to maximise the opportunities for growth as we transition to a net zero future. At the same time, the current economic environment is helping to demonstrate the good value of our public transport services and encourage modal shift away from the car.

There has been a recovery in demand for our public transport services, with year-on-year growth in regional bus passenger journeys of 20.6% in first half of the year. Our recent regional bus passenger journeys were at around 80% of pre-pandemic levels, with recent commercial passenger revenue at around 92%. Concessionary travel volumes have recovered less quickly than fare-paying passenger volumes, although we are seeing positive growth in bus travel under the Scottish Government's under-22 free bus travel scheme.

UK Bus (regional operations)

We are continuing to work collaboratively with national and local government in England, Scotland and Wales to re-shape local bus networks to reflect new travel patterns. Our transport services are more important than ever in getting people to work, accessing education, skills and public services, and connecting people in our communities. We remain grateful for the huge commitment and professionalism of our people who are delivering services safely in our communities day in, day out.

Government also recognises the importance of our services in delivering economic growth, social equity and objectives around decarbonisation. This is reflected in the investment national governments have made in pandemic recovery funding, as well as other funding streams to support our own investment in the transition to net zero.

Along with our partner regional and local transport authorities, we are progressing the delivery of dozens of Bus Service Improvement Plans across England. In addition, we welcome the new £2 fare initiatives in England by the UK Government and several metro mayor Combined Authorities. This is one element of a package of interventions which can help make public transport more affordable and attract more people to bus travel.

During the first half of the year, we have invested in further customer improvements. Our new dedicated UK customer contact centre is fully established, and we are rolling out new ticketing options for our customers, such as our Flexirider product, to deliver even better value and match changed travel patterns.

We continue to invest in the future of the business. Net capital expenditure in the half-year ended 29 October 2022 was £22.1m (H1 2022: £19.6m) and we forecast it to be c.£123m (2022: £38.4m) for the full-year. We have already made capital commitments for future years too. We are continuing to invest in the transition of our bus fleet to new zero-emission technologies as part of our target to deliver a net zero UK bus fleet by 2035. We are progressing the introduction of new electric buses in several locations, and over the coming months we will deliver the UK's first all-electric city bus networks in Inverness and Perth. As part of our sustainability journey to net zero, we have announced plans for a £48m investment in around 200 Euro VI buses in the coming months. These buses have 95% lower pollutants than Euro III buses and will allow us to more quickly phase out older vehicles from our fleet, benefitting local air quality and reducing carbon emissions.

We published new research in November 2022 on modal shift, which demonstrates that consumers support partnership working between local authorities and bus operators to deliver a balanced package of incentives. It is clear this approach can deliver significant modal shift from car to public transport and active travel.

As part of our business strategy, we are continuing to seek new opportunities to diversify and grow our business. We are pleased to have played our part in the success of the 2022 Commonwealth Games in Birmingham with the delivery of key transport for spectators, media and athletes.

UK Bus (London)

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

Trading in our London bus operations has been challenging with a small operating loss for the first half of the year compared to a good operating profit in the equivalent prior year period. The London bus business is contracted to run specified services on behalf of Transport for London and cannot unilaterally reduce service levels. Accordingly, staff shortages have resulted in higher levels of lost mileage and weaker operational performance, which have resulted in contractual penalties and lower quality incentive income. In addition, staff and other costs have increased because of the staff shortages, as well as high inflation. However, we expect profitability to improve as we address labour market challenges, benefit from lagged inflationary increases in contract revenues and seek to re-price contracts as they are tendered.

Macro-economic factors

We are actively managing the current inflationary environment by taking a balanced approach to protecting our customers and employees from the cost-of-living pressures as far as possible while ensuring we maintain properly funded and sustainable bus networks. The fuel hedging we have in place gives us more time to adjust to increases in fuel prices.

In common with other businesses in our sector, we are taking steps to manage the continued labour shortages in the UK economy. Our priority has been to focus resources where they will deliver the best benefit for most customers in our local communities. In the first six months of the year, we have recruited and trained more than 2,300 new bus drivers, to protect and improve the reliability of our services.

Financial results

In the half-year to 29 October 2022, revenue grew to £669.6m (H1 2022: £579.4m) and adjusted total operating profit grew to £46.8m (H1 2022: £32.9m). Revenue excludes COVID-19 grant income from government, which is reported as other operating income. The growth in revenue reflects recovering passenger demand across our regional bus and tram services as pandemic-related restrictions have eased and confidence has returned, as well as the effect of new businesses acquired in the half-year. The growth in adjusted total operating profit reflects that revenue growth and payments from governments to support the recovery of public transport networks vital to the future of the country. Unadjusted operating profit was £33.0m (H1 2022: £45.2m), with the decrease principally due to the growth in adjusted total operating profit being offset by transaction costs in the half-year related to the two offers to acquire the Company, and non-recurring separately disclosed gains in the prior half-year.

Positive cash generation in the half-year saw a £28.1m (H1 2022: £45.1m) reduction in net debt, even after the increases in net debt of £34.4m arising on the acquisitions of two bus businesses in London.

In addition, we saw a substantial strengthening of our pensions position in the half-year. At 29 October 2022, our net pre-deferred tax pension assets were £167.4m, a £197.2m improvement in the half-year. Steps taken during the half-year have further de-risked our pension schemes.

Dividend policy

The Board has proposed no dividends in respect of the half-year ended 29 October 2022.

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

Outlook

We remain positive on the long-term outlook for the Group, while mindful of the immediate-term macro-economic challenges facing businesses across the country. Under new ownership, we have made further capital investment in delivering a more sustainable business and we are confident that we can deliver growth that benefits all stakeholders.

Public transport will be critical to delivering national and regional government ambitions to create a greener, healthier and more inclusive country, and more connected local communities. We are excited by the significant opportunities from the transport strategies being progressed nationally in England, Scotland and Wales, as well as in our major city regions and other local transport authority areas.

We are confident that our strong financial position and the momentum we are seeing means that we are well-positioned for future growth for the benefit of our customers, employees, investors and wider stakeholders.

Summary of financial results

Revenue, split by segment, is summarised below:

REVENUE	H1 2023	H1 2022	Growth
	£m	£m	%
UK Bus (regional operations)	508.1	438.4	15.9%
UK Bus (London)	154.4	135.6	13.9%
UK Rail	7.1	5.4	31.5%
Group revenue	669.6	579.4	

Operating profit, split by segment, is summarised below:

OPERATING PROFIT	H1 2023		H1 2022	
	£m	% margin	£m	% margin
UK Bus (regional operations)	50.4	9.9%	30.3	6.9%
UK Bus (London)	(1.6)	(1.0)%	8.3	6.1%
UK Rail	(0.5)		(2.1)	
Group overheads	(5.0)		(5.2)	
Restructuring costs	(0.1)		(0.1)	
Operating profit before joint ventures and separately disclosed items	43.2		31.2	
Joint ventures – share of profit after tax				
WCT Group	0.1		1.6	
Citylink	2.9		0.1	
Crown Sightseeing	0.6		-	
Total operating profit before separately disclosed items	46.8		32.9	
Separately disclosed items	(13.8)		12.3	
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	33.0		45.2	

Financial Review

UK Bus (regional operations)

Summary
<ul style="list-style-type: none"> Strong growth in revenue and operating profit reflecting recovering customer demand and payments from government for continuing bus services Operationally challenging period with lost mileage arising from staff shortages Positive long-term outlook for the business

Financial performance

The financial performance of UK Bus (regional operations) for the half-year ended 29 October 2022 is summarised below:

	H1 2023 £m	H1 2022 £m	Change
Revenue	508.1	438.4	15.9%
Like-for-like revenue	497.0	432.1	15.0%
Operating profit	50.4	30.3	66.3%
Operating margin	9.9%	6.9%	300bp

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

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

The operating profit for the half-year includes £45.9m of COVID-related grant income from governments (H1 2022: £65.2m). We have continued to benefit from the financial commitments made by governments across the UK to secure the continuity of bus services while passenger volumes recover, and we expect the various government financial support arrangements to cover the period through to March 2023.

Like-for-like vehicle miles operated in the half-year were 8.5% lower than the equivalent prior year period, reflecting adjustments to our network to take account of customer demand and staff shortages. Like-for-like revenue per vehicle mile increased 25.7% and like-for-like revenue per journey reduced 4.6%. The increase in revenue per mile reflects the COVID-related increase in year-on-year revenue despite the year-on-year decrease in vehicle mileage. The reduction in revenue per journey is largely attributable to the rise in concessionary journey numbers not being matched by an equivalent increase in concessionary revenue, recognising that prior year concessionary revenue payments were maintained at close to pre-COVID revenue rates despite the substantially lower concessionary journey numbers in the prior year.

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

	H1 2023 £m	H1 2022 £m	Change %
Commercial on and off bus revenue	281.1	226.8	23.9%
Concessionary revenue	121.9	127.3	(4.2)%
Commercial and concessionary revenue	403.0	354.1	13.8%
Tendered and school revenue	56.7	54.9	3.3%
Contract and other revenue	37.3	23.1	61.5%
Like-for-like revenue	497.0	432.1	15.0%

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

As expected, having generally maintained concessionary revenue payments at closer to pre-COVID levels during the pandemic, public authorities have been reducing their concessionary revenue payments during the period to better reflect the reductions in concessionary patronage. This reduction in concessionary revenue has been partially offset by the introduction of the under-22 free bus travel scheme in Scotland, which has seen strong growth in travel by young people.

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

The principal reason for the increase in contract and other revenue, compared to the equivalent period in the prior year, is the work undertaken for the 2022 Commonwealth Games.

Outlook

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

Whilst we expect further recovery in demand for our services, we see ongoing forecasting uncertainty in relation to passenger demand, payments from government to support the continuation of regional bus services and cost inflation. We anticipate that it will take some time for demand for our regional bus services to return to pre-COVID levels and are therefore planning for a number of scenarios. Nevertheless, we currently forecast continued good regional bus profitability for the second half of the year to 29 April 2023.

COVID-19 recovery funding from governments was a significant part of our income in the half-year ended 29 October 2022. As we move forward and return to a more commercial model for regional bus services, we are working with governments and others in the sector to strike an appropriate balance between aligning bus networks in the short to medium-term to customer demand, driving long-term modal shift from car to public transport and active travel as a key component of achieving Net Zero, and ensuring value for money from continued government support for bus services amidst significant pressure on government finances more generally.

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

UK Bus (London)

Summary
<ul style="list-style-type: none"> Short-term financial performance challenging arising from impact of staff shortages Significant expansion with acquisitions from Kelsian Group and HCT Group

Financial performance

The financial performance of UK Bus (London) for the half-year ended 29 October 2022 is summarised below:

	H1 2023 £m	H1 2022 £m	Change
Revenue	154.4	135.6	13.9%
Like-for-like revenue	137.0	135.6	1.0%
Operating (loss)/profit	(1.6)	8.3	(119.3)%
Operating margin	(1.0)%	6.1%	(710)bp

Consistent with other sectors of the UK economy, we are facing operational challenges due to the effects of upward wage pressure and increased staff turnover and staff shortages. In respect of the Group's financial performance, the greatest impact has been borne in our London business, where the impact of lost mileage has resulted in significant contractual penalties and lost quality incentive income. We expect profitability to improve as we address labour market challenges, benefit from lagged inflationary increases in contract revenues and seek to re-price contracts as they are tendered.

We recently reached an agreement on a pay award for our East London bus drivers and South East London and Kent ("Selkent") bus drivers and engineers. The settlement sees a 10% increase in basic pay rates, backdated to the anniversary of the previous pay agreement. That award reflects the current high inflationary environment and comparable awards made by competitor bus operators in the London market. We will separately consider pay for our supervisory roles and staff who joined us with the businesses acquired in the half-year.

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

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

is provided in note 6 to the condensed financial statements.

Outlook

We anticipate higher like-for-like revenue growth in the second half of the year with the benefit from higher inflation indexation of contract revenues. While this should see some recovery in profitability, we expect any profit for the year ending 29 April 2023 to be modest. We believe the business will recover its profitability over the medium-term, and we see good prospects for growth from the integration of our recent acquisitions.

UK Rail

Summary
<ul style="list-style-type: none"> Continuing positive progress on unwinding our former train operating companies Sheffield Supertram supported by further government payments for essential services

Financial performance

The financial performance of UK Rail for the half-year ended 29 October 2022 is summarised below:

	H1 2023 £m	H1 2022 £m	Change
Revenue	7.1	5.4	31.5%
Like-for-like revenue	6.7	5.1	31.4%
Operating loss	(0.5)	(2.1)	

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

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

Outlook

In October 2022, South Yorkshire Mayoral Combined Authority decided to transition the Supertram system in Sheffield to a publicly owned operator when the Group's concession ends in 2024. We are proud of the service we have delivered over the past 25 years and will continue to work hard to deliver a safe, high quality and professional service to our customers, meet our obligations and ensure a smooth transition to the new operator.

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

Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items ("adjusted EBITDA") increased to £99.6m (H1 2022: £86.4m). Adjusted EBITDA can be reconciled to the financial statements as follows:

	H1 2023 £m	H1 2022 £m	Year to 29 Oct 2022 £m
Total operating profit	33.0	45.2	54.7
Separately disclosed items	13.8	(12.3)	31.9
Software amortisation	0.5	0.7	1.2
Depreciation	51.5	52.5	102.7
Impairment losses	-	-	4.4
Add back joint venture tax	0.8	0.3	0.9
Adjusted EBITDA	99.6	86.4	195.8

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

Depreciation and software amortisation of £52.0m is lower than the £53.2m for the equivalent prior year period, and principally reflects our constrained capital expenditure since early in the COVID-19 pandemic.

Separately disclosed items

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

Non-software intangible asset amortisation

Non-software intangible asset amortisation of £0.4m (H1 2022: £Nil) was recorded in the half-year ended 29 October 2022 in relation to intangible assets acquired in the half-year as part of the acquisition of two London bus businesses.

Reassessment of onerous contract provision

As at 30 April 2022, an onerous contract provision of £8.1m was held in respect of the Sheffield Supertram concession. We have recalculated the onerous contract provision, reflecting our latest forecast for the business, and recorded a separately disclosed charge for Sheffield Supertram of £0.3m (H1 2022: £3.9m profit) in the half-year ended 29 October 2022.

Transaction costs

We have recorded transaction costs of £12.9m, predominantly professional fees and share based payment expenses accelerated by the change of control of the Company, in relation to the offer for the Company from DWS Infrastructure and the lapsed all-share combination with National Express Group plc (H1 2022: £1.2m).

Acquisition costs

£0.2m (H1 2022: £Nil) of costs incurred in connection with the acquisition of two London bus businesses in the half-year ended 29 October 2022 have been presented as a separately disclosed item, because the costs are not related to the ongoing trading of the Group and due to the irregularity of business acquisitions.

Disposal of megabus retail and Falcon

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:

- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the half-year ended 29 October 2022.

Changes in the fair value of Deferred Payment Instrument

We received a Deferred Payment Instrument as deferred consideration for the sale of the North American business. The instrument, which is accounted for at fair value through profit or loss, has a maturity date of October 2024 and due to the credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind the secured lenders. The carrying value of the instrument was £2.9m as at 30 April 2022. We estimated the carrying value of the instrument to be £3.2m as at 29 October 2022, resulting in a gain of £0.3m (H1 2022: £0.4m) recognised in finance income in the half-year ended 29 October 2022.

Tax

The separately disclosed taxation credit of £0.8m (H1 2022: charge of £17.0m) comprises a credit of £0.8m (H1 2022: charge of £0.9m) in relation to the taxation effect of the pre-tax separately disclosed items, and £Nil (H1 2022: charge of £16.1m), in relation to the one-off effect of the change in the UK corporation tax rate.

Net finance costs

Net finance costs, excluding separately disclosed items, for the half-year ended 29 October 2022 were £10.4m (H1 2022: £14.5m) and are further analysed below. The decrease in net finance costs is principally due to the lower pensions finance charges arising from the prior year reduction in the pension deficit, in addition to higher interest received on surplus cash balances.

	H1 2023 £m	H1 2022 £m
Finance costs		
Interest payable and facility costs on bank loans, overdrafts and trade finance	0.7	0.7
Lease interest payable	1.6	1.4
Interest payable and other finance costs on bonds	8.4	8.5
Interest payable on Covid Corporate Financing Facility commercial paper	-	0.9
Effect of interest rate swaps	0.8	0.1
Unwinding of discount on provisions	0.5	0.5
Interest expense on defined benefit pension schemes	-	2.6
	12.0	14.7
Finance income		
Interest receivable on cash and cash equivalents	(1.6)	(0.2)
Net finance costs, excluding separately disclosed items ("adjusted net finance costs")	10.4	14.5

Taxation

The tax charge for the half-year to 29 October 2022 has been calculated on the basis of the estimated annual effective rate for the year ending 29 April 2023.

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge, including our share of joint ventures' tax, relative to the Group's profit before tax excluding joint ventures' tax. On that basis, the effective tax rate for the half-year ended 29 October 2022, excluding separately disclosed items, was 18.0% (H1 2022: 19.8%).

The tax charge on profit can be analysed as follows:

Half-year to 29 October 2022	Pre-tax profit £m	Tax £m	Rate %
Excluding separately disclosed items	37.2	(6.7)	18.0
Separately disclosed items	(12.0)	0.8	
With joint venture taxation gross	25.2	(5.9)	
Reclassify joint venture taxation for reporting purposes	(0.8)	0.8	
Reported in income statement	24.4	(5.1)	

The effective tax rate, excluding separately disclosed items, of 18.0% is lower than the 19.5% rate of UK corporation tax for the year, principally due to tax relief on additional pension contributions in respect of defined benefit schemes which are in surplus.

The cash tax paid in the half-year ended 29 October 2022 of £16.8m (H1 2022: £2.5m) compares to the tax charge for Group companies of £5.1m (H1 2022: £20.4m). The difference principally reflects the timing of tax payments on prior year fair value movements on fuel derivatives.

The separately disclosed tax credit of £0.8m (H1 2022: charge of £17.0m) is explained earlier in the section headed "Separately disclosed items".

Cash flows and net debt

The Group has continued to focus on delivering positive cash flow and maintain strong available liquidity. That continued during the half-year ended 29 October 2022, where net debt was reduced by £28.1m from £224.3m to £196.2m and net debt plus net train operating company liabilities was reduced by £29.6m from £264.5m to £234.9m. We recognise that the positive cash flow partly reflects that dividend payments have been paused and capital expenditure constrained. Our capital expenditure is weighted to the second half of the year ending 29 April 2023, partly reflecting further investment in the transition to zero-emission vehicles, and we expect to resume dividend payments when appropriate.

By the half-year end date of 29 October 2022, all of the major rail franchises previously operated by Group subsidiaries had ended. However, the settlement of the train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 29 October 2022, the consolidated net assets included net liabilities (excluding cash) of £38.7m (30 April 2022: £40.2m) in respect of such items. Accordingly, if all items were settled at their 29 October 2022 carrying values, consolidated net debt would increase by that amount. Consolidated net debt plus outstanding train operating company net liabilities as at 29 October 2022 was £234.9m (30 April 2022: £264.5m).

Net cash from operating activities before tax for the half-year ended 29 October 2022 was £102.8m (H1 2022: £71.2m) and can be further analysed as follows:

	H1 2023 £m	H1 2022 £m
EBITDA of Group companies before separately disclosed items	95.2	84.4
Cash effect of current period separately disclosed items	(8.2)	4.7
(Gain)/loss on disposal of property, plant and equipment	(1.0)	0.7
Capital grant amortisation	(1.2)	(0.6)
Share based payment movements, excluding separately disclosed items	0.2	1.7
Working capital movements	33.7	(1.6)
Net interest paid	(17.7)	(18.1)
Dividends received from joint ventures	1.8	-
Net cash flows from operating activities before taxation	102.8	71.2

Net debt (as analysed in note 16 to the condensed financial statements) decreased from £224.3m at 30 April 2022 to £196.2m at 29 October 2022. The movement in net debt was:

Half-year to 29 October 2022	£m
Net cash flows from operating activities before taxation	102.8
Tax paid	(16.8)
Investing activities	(57.5)
Other	(0.4)
Movement in net debt in the half-year	28.1
Opening net debt	(224.3)
Closing net debt	(196.2)

Net cash flows from operating activities were higher than the equivalent prior period principally due to favourable working capital inflows and increased adjusted EBITDA from Group companies.

The £33.7m working capital inflow in the half-year ended 29 October 2022 includes inflows of approximately £12.3m in relation to COVID-19 related payments from governments and inflows of approximately £11.1m in relation to a refund from the Teesside Local Government Pension Scheme, following the cessation of the Group's participation in the prior year. We consider the inflow of COVID-19 related payments to be a timing difference, which we expect to reverse in the second half of the year.

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

	H1 2023 £m	H1 2022 £m
UK Bus (regional operations)	17.7	9.9
UK Bus (London)	4.4	9.7
Net capital expenditure	22.1	19.6

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

	H1 2023 £m	H1 2022 £m
Cash flow from:		
- Purchase of property, plant and equipment	26.5	10.4
- Disposal of property, plant and equipment	(3.5)	(0.7)
- Capital grants received	(6.6)	(1.2)
Decrease in net debt from negotiated early termination of lease	(0.3)	-
Increase in net debt from new leases in period	6.0	11.1
	22.1	19.6

In addition to the amounts shown in the table above, the impact of purchases of intangible assets was £1.0m (H1 2022: £2.6m).

Financial position and liquidity

The Group maintains a good financial position, as evidenced by:

- We have available liquidity of over £500m.
- We have comfortably complied with all applicable debt covenants for the year to 29 October 2022.
- The ratio of net debt at 29 October 2022 to adjusted EBITDA for the year ended 29 October 2022 was 1.0 times (year ended 30 October 2021: 1.5 times).
- Adjusted EBITDA for the half-year ended 29 October 2022 was 9.6 times (H1 2022: 6.0 times) adjusted net finance charges.
- Two major credit rating agencies – S&P and Moody's – continue to assign investment grade credit ratings to the Group's £400m bonds.

Financial position of the Group

Net assets

Net assets at 29 October 2022 were £577.0m (30 April 2022: £391.5m). The increase in the net assets principally reflects the actuarial gains on defined benefit pension schemes and the profit for the half-year ended 29 October 2022.

Retirement benefits

The reported net assets of £577.0m (30 April 2022: £391.5m), that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit assets, net of withholding tax payable on surpluses, of £167.4m (30 April 2022: £29.8m net retirement benefit liabilities) and associated deferred tax assets of £3.2m (30 April 2022: £21.6m).

The Group recognised pre-tax actuarial gains of £191.4m in the half-year ended 29 October 2022 (H1 2022: £16.5m) on Group defined benefit schemes.

The discount rate used to determine pension scheme liabilities as at 29 October 2022 was 4.7%, compared to 3.2% as at 30 April 2022.

The Stagecoach Group Pension Scheme is the Group's largest defined benefit pension scheme exposure. The Scheme's latest formal valuation was as at September 2021 and showed a funding surplus of £48.7m. Following the change of ownership of the Company to a company managed by DWS Infrastructure, and based on a legally binding agreement entered into between the Company and the Trustees, employer funding contributions, in excess of salary related contributions, increased to £12.5m per annum, with a plan for increases of 3% per annum compound, for ten years or until the Scheme's long-term funding objective is met, whichever is earlier. By 29 October 2022, the Group had made significant progress in de-risking its main defined benefit scheme, adjusting its asset allocation to take advantage of lower prices to purchase gilts and bonds as a hedge against its pension liabilities and had substantially achieved the long-term funding objective on a whole scheme basis. Our main defined benefit scheme does not use collateral-backed leveraged liability-driven investment, and therefore we avoided the challenges faced by some other pension schemes in recent weeks. The £12.5m per annum employer funding contributions referred to above are continuing but, given the substantially improved funding position of the Scheme, we intend to explore the need for continuing contributions with the Scheme Trustees.

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 9 to 15 of the Group's 2022 Annual Report set out specific risks and uncertainties in more detail.

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

- Major event such as a serious accident – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's services, the availability of suitable staff and the Group's costs. A weaker economy may also increase the risk of the Group's contingent liabilities, particularly those in relation to its former North American business, crystallising.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Changing customer habits – There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. We see trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram,

there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.

- **Pension scheme funding** – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as regulatory approach, investment performance, discount rates and life expectancies. There remains a risk of further significant market movements that could result in significant changes in the amount of our net retirement benefit assets reported in the financial statements.
- **Insurance and claims environment** – there is a risk that the cost to the Group of settling claims against it is significantly higher or lower than expected.
- **Climate change** – we see public transport as a critical part of the battle against climate change. At the same time, we recognise that climate change presents a number of risks to the Group.
- **Regulatory changes and availability of public funding** – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. The extent to which payments from government continue to support public transport services will affect the Group's future profitability and cash flow.
- **People and culture** – There is a risk that the Group is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision making.
- **Disease** – there is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. This was identified by the Board as a principal risk some years ago, but the COVID-19 situation is a clear and substantial crystallisation of the risk.
- **Information security** – there is a risk that potential malicious attacks on our systems lead to a loss of data or disruption to operations.
- **Information technology** – there is a risk that technology failures or interruptions could adversely affect the Group, including a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand.
- **Competition** – in certain of the markets we operate in, there is a risk of increased competitive pressures from existing competitors and new entrants.
- **Treasury risks** – the Group is affected by changes in fuel prices, interest rates and exchange rates.

Auditors' review

For UK companies, there is no statutory or regulatory requirement for auditors to report on interim financial information. A review of interim financial information by the auditors is substantially less in scope than an audit and does not provide the level of assurance of an audit. We recognise the importance of reporting the interim financial information on a timely basis. To help ensure that we published the interim financial information at a similar time to previous years and recognising that an interim review does not provide the level of assurance of an audit in any event, we decided not to engage the auditors to perform a review of the interim financial report for the half-years ended 29 October 2022, 30 October 2021 and 31 October 2020. The financial statements for the year ending 29 April 2023 will be subject to audit as usual.

Use of non-GAAP measures

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

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the condensed financial statements for the half-year ended 29 October 2022. We have not identified a material uncertainty regarding the Group's ability to continue as a going concern for a period of not less than 12 months. Further detail of our going concern assessment is explained in note 1(c) to the condensed financial statements.

Outlook

We remain positive on the long-term outlook for the Group, while mindful of the immediate-term macro-economic challenges facing businesses across the country. Under new ownership, we have made further capital investment in delivering a more sustainable business and we are confident that this strategic long-term approach can deliver growth that benefits all stakeholders.

Public transport will be critical to delivering national and regional government ambitions to create a greener, healthier and more inclusive country, and more connected local communities. We are excited by the significant opportunities from the transport strategies being progressed nationally in England, Scotland and Wales, as well as in our major city regions and other local transport authority areas.

We are confident that our strong financial position and the momentum we are seeing means we are well-positioned for future growth for the benefit of our customers, employees, investors and wider stakeholders.

Martin Griffiths
Chief Executive
7 December 2022

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the condensed consolidated interim financial information contained in this document has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted in the UK;
- (b) the interim management report contained in this document includes a fair review of the information required by the Financial Conduct Authority's Disclosure and Transparency Rules ("DTR") 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

By order of and on behalf of the Board

Martin Griffiths
Chief Executive
7 December 2022

Ross Paterson
Chief Financial Officer
7 December 2022

Cautionary statement

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

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited			Unaudited		
		Half-year to 29 October 2022			Half-year to 30 October 2021		
		Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the period £m	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the period £m
CONTINUING OPERATIONS							
Revenue	3(a)	669.6	-	669.6	579.4	-	579.4
Operating costs and other operating income		(626.4)	(13.8)	(640.2)	(548.2)	12.3	(535.9)
Operating profit of Group companies	3(b)	43.2	(13.8)	29.4	31.2	12.3	43.5
Share of profit of joint ventures after taxation	3(c)	3.6	-	3.6	1.7	-	1.7
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	3(b)	46.8	(13.8)	33.0	32.9	12.3	45.2
Non-operating separately disclosed item	4	-	1.5	1.5	-	-	-
Profit before interest and taxation		46.8	(12.3)	34.5	32.9	12.3	45.2
Finance costs		(12.0)	-	(12.0)	(14.7)	-	(14.7)
Finance income		1.6	0.3	1.9	0.2	0.4	0.6
Profit before taxation		36.4	(12.0)	24.4	18.4	12.7	31.1
Taxation		(5.9)	0.8	(5.1)	(3.4)	(17.0)	(20.4)
Profit for the period, all attributable to equity holders of the parent		30.5	(11.2)	19.3	15.0	(4.3)	10.7

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m
Profit for the period	19.3	10.7
Items that may be reclassified to profit or loss		
Cash flow hedges:		
- Net fair value gains on cash flow hedges	30.0	30.0
- Reclassified and reported in profit for the period	(43.7)	0.5
- Tax effect of cash flow hedges	2.7	(5.8)
Total items that may be reclassified to profit or loss	(11.0)	24.7
Items that will not be reclassified to profit or loss		
Actuarial gains on Group defined benefit pension schemes, excluding withholding tax	257.7	16.5
Tax effect of actuarial gains on Group defined benefit pension schemes	(18.5)	(4.0)
Movement in withholding tax payable on pension surpluses	(66.3)	-
Effect of change in the UK corporation tax rate on Group defined benefit pension schemes	-	15.8
Total items that will not be reclassified to profit or loss	172.9	28.3
Other comprehensive income for the period	161.9	53.0
Total comprehensive income for the period, all attributable to equity holders of the parent	181.2	63.7

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

		Unaudited	Audited
		As at	As at
		29 October 2022	30 April 2022
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill	7	87.0	51.9
Other intangible assets	8	7.9	4.3
Property, plant and equipment:	9		
- Owned assets		701.9	732.1
- Right-of-use assets		82.1	68.6
Interests in joint ventures	10	10.7	7.2
Derivative instruments at fair value		43.5	36.2
Retirement benefit assets – net of withholding tax payable	12	171.8	45.3
Other receivables		21.5	20.4
		1,126.4	966.0
Current assets			
Inventories		13.5	12.3
Trade and other receivables		139.8	133.5
Current tax recoverable		4.0	-
Derivative instruments at fair value		47.3	61.2
Cash and cash equivalents		290.2	248.9
Assets classed as held for sale		1.2	2.4
		496.0	458.3
Total assets	3(d)	1,622.4	1,424.3
LIABILITIES			
Current liabilities			
Trade and other payables		313.1	268.5
Current tax liabilities		-	18.2
Borrowings:			
- Lease liabilities		27.5	22.1
Derivative instruments at fair value		4.8	2.2
Provisions	18	40.3	36.7
		385.7	347.7
Non-current liabilities			
Other payables		41.7	27.9
Borrowings:			
- Lease liabilities		59.7	52.3
- Other borrowings		396.0	404.7
Derivative instruments at fair value		2.9	1.6
Deferred tax liabilities		70.5	48.4
Provisions	18	84.5	75.1
Retirement benefit obligations	12	4.4	75.1
		659.7	685.1
Total liabilities	3(d)	1,045.4	1,032.8
Net assets	3(d)	577.0	391.5
EQUITY			
Ordinary share capital	13	3.2	3.2
Share premium account		8.4	8.4
Retained earnings		147.7	(48.8)
Capital redemption reserve		422.8	422.8
Own shares		(69.6)	(69.6)
Cash flow hedging reserve		64.4	75.4
Total equity, all attributable to the parent		576.9	391.4
Non-controlling interest		0.1	0.1
Total equity		577.0	391.5

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Cash flow hedging reserve £m	Total Equity attributable to parent £m	Non- controlling interest £m	Total equity £m
Balance at 30 April 2022	3.2	8.4	(48.8)	422.8	(69.6)	75.4	391.4	0.1	391.5
Profit for the period	-	-	19.3	-	-	-	19.3	-	19.3
Other comprehensive income/(loss), net of tax	-	-	172.9	-	-	(11.0)	161.9	-	161.9
Total comprehensive income/(loss)	-	-	192.2	-	-	(11.0)	181.2	-	181.2
Credit in relation to equity-settled share based payments	-	-	3.9	-	-	-	3.9	-	3.9
Effect of tax deduction on share based payments in excess of cumulative income statement expense	-	-	0.4	-	-	-	0.4	-	0.4
Balance at 29 October 2022	3.2	8.4	147.7	422.8	(69.6)	64.4	576.9	0.1	577.0
Balance at 1 May 2021	3.2	8.4	(299.0)	422.8	(69.6)	(4.8)	61.0	-	61.0
Profit for the period	-	-	10.7	-	-	-	10.7	-	10.7
Other comprehensive income, net of tax	-	-	28.3	-	-	24.7	53.0	-	53.0
Total comprehensive income	-	-	39.0	-	-	24.7	63.7	-	63.7
Credit in relation to equity-settled share based payments	-	-	1.7	-	-	-	1.7	-	1.7
Balance at 30 October 2021	3.2	8.4	(258.3)	422.8	(69.6)	19.9	126.4	-	126.4

CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Notes</i>	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m
Cash flows from operating activities			
Cash generated by operations	14	118.7	89.3
Interest paid		(19.3)	(18.3)
Interest received		1.6	0.2
Dividends received from joint ventures		1.8	-
Net cash flows from operating activities before tax		102.8	71.2
Tax paid		(16.8)	(2.5)
Net cash from operating activities after tax		86.0	68.7
Cash flows from investing activities			
Acquisition of subsidiaries	6	(13.6)	-
Purchase of property, plant and equipment		(26.5)	(10.4)
Disposal of property, plant and equipment		3.5	0.7
Receipt of capital grants		6.6	1.2
Purchase of intangible assets		(1.0)	(2.6)
Net cash outflow from investing activities		(31.0)	(11.1)
Cash flows from financing activities			
Payments of principal portion of lease liabilities		(13.7)	(12.8)
Net cash flow from financing activities		(13.7)	(12.8)
Net increase in cash and cash equivalents		41.3	44.8
Cash and cash equivalents at beginning of period		248.9	483.2
Cash and cash equivalents at end of period		290.2	528.0

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

NOTES

1 BASIS OF PREPARATION

(a) Basis of preparation

The condensed consolidated interim financial information for the half-year ended 29 October 2022 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and UK-adopted International Accounting Standard 34, *Interim Financial Reporting*. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 April 2022, which have been prepared in accordance with UK-adopted International Accounting Standards. The accounting policies and methods of computation applied in the consolidated interim financial information are the same as those of the annual financial statements for the year ended 30 April 2022, as described on pages 106 to 121 of the Group's 2022 Annual Report which can be found on the Stagecoach Group website at <http://www.stagecoachgroup.com/investors/financial-analysis/reports/>.

The figures for this half-year include the results for all segments for the 26 weeks to 29 October 2022. The comparative figures for the half-year ended 30 October 2021 include the results for all segments for the 26 weeks ended 30 October 2021.

This condensed consolidated interim financial information for the half-year ended 29 October 2022 has not been audited or reviewed by the auditors. The comparative financial information presented in this announcement for the year ended 30 April 2022 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 30 April 2022 were approved by the Board of Directors on 29 June 2022. They received a qualified audit report from the auditors, did not contain an emphasis of matter paragraph, did not contain a statement under section 498 of the Companies Act 2006 and have been filed with the Registrar of Companies.

As explained in the Group's 2022 Annual Report, the report of the auditors was qualified, only in respect of a difference of interpretation on how the Group's participation in Local Government Pension Schemes ("LGPS") should be accounted for. Further details are provided below and in the Group's 2022 Annual Report on pages 92, and 108 to 110.

The Group concluded that its accounting for its participation in LGPSs remained appropriate. However, the Group also identified a potential alternative basis of accounting for its participation in LGPSs and sees the choice of basis as a significant judgement in applying the Group's accounting policies.

The Directors took independent expert advice on the accounting, which supported their view that the Group's accounting remains appropriate. They also confirmed that the basis of the Group's accounting is consistent with other major groups with UK public transport operations that have LGPS participations. They also noted that the alternative basis of accounting would result in an increase in the Group's consolidated profit before tax and net assets and so result in a less prudent outcome. In light of all of those factors, the Directors concluded that the Group's accounting for its participation in LGPSs remained appropriate.

The Group's auditor, Ernst & Young, has a different interpretation from the Directors and believes that the alternative accounting approach should be applied and accordingly, it qualified its audit opinion on the financial statements for the year ended 30 April 2022 in relation to that.

The Directors, having considered the independent professional advice, consider that the accounting treatment adopted is the most appropriate because:

- The Directors have been advised that it complies with the applicable accounting standards;
- It provides comparability over time;
- It is consistent with how the Group understands its sector peers account for similar arrangements, and so it provides comparability with peers;
- It is less likely than the alternative approach to result in the recognition of irrecoverable net pension assets.

Applying the alternative basis of accounting would have no impact on the Group's reported consolidated cash flows or its reported net debt, and any impact on adjusted measures of consolidated profit would be immaterial. It would increase the reported consolidated profit before tax for the half-year ended 29 October 2022 by £0.2m (half-year ended 30 October 2021: £0.1m) and increase reported consolidated net assets as at 29 October 2022 by £12.8m (30 April 2022: £10.8m).

The Board of Directors approved this announcement, including the condensed consolidated interim financial information, on 7 December 2022. This announcement will be available on the Group's website at <http://www.stagecoachgroup.com/investors/financial-analysis/reports/>.

1 BASIS OF PREPARATION (CONTINUED)

(b) New accounting standards adopted during the period

From 1 May 2022, the following standards and amendments are effective in the Group's consolidated financial statements:

- Reference to the Conceptual Framework (Amendment to IFRS 3)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendment to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37)
- Annual Improvements 2018-20

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

(c) Going concern

(i) Going concern assessment

During the half-year ended 29 October 2022, we have made further progress. We have delivered increased revenue and adjusted profit, and are pleased to report a further fall in the Group's consolidated net debt and strengthening of the funding position of our pension schemes.

The Board considered the liquidity position and covenant headroom in the Group's financial forecasts which cover the period of 12 months from the date of this announcement ("the going concern period"). The key areas of forecasting uncertainty include:

- The effect of more challenging UK macroeconomic conditions, including the combination of high inflation and low unemployment;
- The duration and scale of government support measures to the bus sector, including the Bus Recovery Grant for eligible local bus services in England;
- The extent and timing of a continued recovery in passenger demand; and
- The size of the network (mileage) to support that level of passenger demand.

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

Our base case forecast assumes that regional bus vehicle mileage is 87% of pre-COVID levels throughout the going concern period. It also assumes that regional bus commercial revenue is at 91% of pre-COVID levels for the six months ending 29 April 2023, increasing to 99% of pre-COVID levels for the remainder of the going concern period, reflecting inflationary price increases and assumed growth in patronage as the country continues to recover from the pandemic. Concessionary revenue for the going concern period, is forecast at 98% of pre-COVID levels. During the pandemic, governments have confirmed additional COVID-related measures to support the continuity of regional bus services. Our base case forecast assumes that regional bus support measures by governments in England, Scotland and Wales cover the period to March 2023.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue, in addition to more cautious assumptions around higher inflationary cost increases. The range of downside scenarios considered cover:

- commercial revenue at between 89% and 91% of pre-COVID levels in the six months ending 29 April 2023;
- commercial revenue at between 95% and 99% of pre-COVID levels for the remainder of the going concern period;
- concessionary revenue at 92% of pre-COVID levels in the six months ending 29 April 2023;
- concessionary revenue at between 96% and 98% of pre-COVID levels for the remainder of the going concern period;
- we assume that cost inflation is between 0% and 3% higher than the base case forecast for the duration of the going concern period;
- vehicle mileage between 82% and 87% of pre-COVID levels for the duration of the going concern period;
- the Group's pre-tax pension deficit to £100m; and
- certain contingent liabilities, including in respect of our former North America business, crystallising as actual liabilities.

(ii) Mitigating actions

To the extent any severe downside scenarios materialised, we consider that the Group would have sufficient controllable, mitigating actions to avoid a breach of the covenants tests during the going concern period in our committed bank facilities entered into in March 2020 and the £400m sterling bond.

Having constrained the Group's capital expenditure during the pandemic, our base case forecast assumes that we return to more "normal" levels of investment, as we progress our plans to transition to a zero-emission bus fleet. Accordingly, reducing or deferring this capital expenditure would be the key mitigation available. In addition, we would be able to further reduce the Group's cost base, in particular reducing regional bus vehicle mileage to better match customer demand, which would result in variable cost savings. These mitigations are within the Group's control and do not have any associated penalties.

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment: asset sale and leasebacks; reduced employer funding contributions arising from the substantially improved pensions funding position of our schemes; and obtaining covenant variations or waivers.

1 BASIS OF PREPARATION (CONTINUED)

(c) Going concern (continued)

(iii) Covenant headroom

Under all of the modelled scenarios, the Group remains in compliance with the covenant tests in our committed bank facilities entered into in March 2020 and the £400m sterling bond. In the most severe of the downside scenarios modelled (the reverse stress test scenario), headroom against the covenant tests exists throughout the going concern period, after taking account of controllable, mitigating actions.

(iv) Public policy context

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

(v) Going concern conclusion

Accordingly, the condensed consolidated interim financial information for the half-year ended 29 October 2022 has been prepared on a going concern basis. Taking account of the recent change in the Company's ownership, recovery from the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated interim financial information, with no material uncertainties identified. The Directors have a reasonable expectation that the Group will continue to operate as a going concern for a period of 12 months from the date of this announcement.

2 SEASONALITY

The trajectory of the recovery from the COVID-19 situation, and the arrangements with government, could affect the phasing of the Group's revenue and profit for the year ending 29 April 2023.

3 SEGMENTAL ANALYSIS

The Group is managed, and reports internally, on a basis consistent with its three continuing operating segments, being UK Bus (regional operations), UK Bus (London), and UK Rail. The Group's accounting policies are applied consistently, where appropriate, to each segment.

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

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

The basis of segmentation and the basis on which segment profit/(loss) is measured are consistent with the Group's last annual financial statements for the year ended 30 April 2022.

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

(a) Revenue

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

The vast majority of the UK Bus (London) revenue is from Transport for London.

Revenue split by class and segment, was as follows:

	Unaudited				Total
	Half-year to 29 October 2022				
	Commercial passenger revenue £m	Concessionary revenue £m	Tendered & school revenue £m	Contract & other revenue £m	
UK Bus (regional operations)	292.2	121.9	56.7	37.3	508.1
UK Bus (London)	-	-	-	154.4	154.4
Total bus operations	292.2	121.9	56.7	191.7	662.5
UK Rail	6.8	-	-	0.3	7.1
Reported Group revenue	299.0	121.9	56.7	192.0	669.6

	Unaudited				Total
	Half-year to 30 October 2021				
	Commercial passenger revenue £m	Concessionary revenue £m	Tendered & school revenue £m	Contract & other revenue £m	
UK Bus (regional operations)	233.1	127.3	54.9	23.1	438.4
UK Bus (London)	-	-	-	135.6	135.6
Total bus operations	233.1	127.3	54.9	158.7	574.0
UK Rail	4.8	-	-	0.6	5.4
Reported Group revenue	237.9	127.3	54.9	159.3	579.4

3 SEGMENTAL ANALYSIS (CONTINUED)

(b) Operating profit

Operating profit split by segment, was as follows:

	Unaudited			Unaudited		
	Half-year to 29 October 2022			Half-year to 30 October 2021		
	Performance excluding separately disclosed items	Separately disclosed items (note 4)	Results for the period	Performance excluding separately disclosed items	Separately disclosed items (note 4)	Results for the period
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	50.4	(2.5)	47.9	30.3	4.7	35.0
UK Bus (London)	(1.6)	(0.8)	(2.4)	8.3	-	8.3
Total bus operations	48.8	(3.3)	45.5	38.6	4.7	43.3
UK Rail	(0.5)	(0.8)	(1.3)	(2.1)	8.8	6.7
	48.3	(4.1)	44.2	36.5	13.5	50.0
Group overheads	(5.0)	(9.7)	(14.7)	(5.2)	(1.2)	(6.4)
Restructuring costs	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Total operating profit of Group companies	43.2	(13.8)	29.4	31.2	12.3	43.5
Share of joint ventures' profit after taxation	3.6	-	3.6	1.7	-	1.7
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	46.8	(13.8)	33.0	32.9	12.3	45.2

(c) Joint ventures

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

	Unaudited	Unaudited
	Half-year to 29 October 2022	Half-year to 30 October 2021
	£m	£m
WCT Group (UK Rail)		
Operating profit	0.1	1.9
Taxation	-	(0.3)
	0.1	1.6
Citylink (UK Bus, regional operations)		
Operating profit	3.6	0.1
Taxation	(0.7)	-
	2.9	0.1
Crown Sightseeing (UK Bus, London)		
Operating profit	0.7	-
Taxation	(0.1)	-
	0.6	-
Share of profit of joint ventures after taxation	3.6	1.7

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Unaudited			Audited		
	As at 29 October 2022			As at 30 April 2022		
	Gross assets	Gross liabilities	Net assets/(liabilities)	Gross assets	Gross liabilities	Net assets/(liabilities)
	£m	£m	£m	£m	£m	£m
UK Bus (regional operations)	1,069.2	(317.8)	751.4	1,006.4	(283.3)	723.1
UK Bus (London)	210.7	(90.1)	120.6	133.4	(121.2)	12.2
UK Rail	6.8	(54.4)	(47.6)	2.7	(55.0)	(52.3)
	1,286.7	(462.3)	824.4	1,142.5	(459.5)	683.0
Central functions	30.8	(29.4)	1.4	25.7	(27.6)	(1.9)
Joint ventures	10.7	-	10.7	7.2	-	7.2
Borrowings and cash equivalents	290.2	(483.2)	(193.0)	248.9	(479.1)	(230.2)
Taxation	4.0	(70.5)	(66.5)	-	(66.6)	(66.6)
Total	1,622.4	(1,045.4)	577.0	1,424.3	(1,032.8)	391.5

The UK Rail net liabilities of £47.6m (30 April 2022: £52.3m) shown above include £38.7m (30 April 2022: £40.2m) of train operating company net liabilities in relation to major rail franchises previously operated by the Group.

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

4 SEPARATELY DISCLOSED ITEMS

(a) Summary of separately disclosed items

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

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

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m
Operating costs and other operating income		
Non-software intangible asset amortisation	(0.4)	-
Reassessment of onerous contract provision	(0.3)	3.9
Expired rail franchises	-	4.9
Re-measurement of pensions settlement	-	4.7
Transaction costs	(12.9)	(1.2)
Acquisition costs	(0.2)	-
	(13.8)	12.3
Non-operating separately disclosed item		
Disposal of Megabus retail and Falcon	1.5	-
Finance income		
Change in fair value of Deferred Payment Instrument	0.3	0.4
	(12.0)	12.7
Separately disclosed items before taxation		
Taxation effect	0.8	(17.0)
Separately disclosed items after taxation	(11.2)	(4.3)

(b) Reassessment of onerous contract provision

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

As part of that, an onerous contract provision of £14.1m was recorded as at 2 May 2020 in respect of the Group’s Sheffield Supertram concession. The amount of that onerous contract provision is re-assessed, and adjusted if appropriate, at each balance sheet date. As at 30 April 2022, an onerous contract provision of £8.1m was held in respect of the Sheffield Supertram concession and represented the majority of the total onerous contract provision of £8.3m. We have recalculated the Sheffield Supertram onerous contract provision, reflecting our latest forecast for the business. That re-assessment resulted in a £0.4m increase (H1 2022: £3.5m reduction) in the level of the provision, with the increase, net of the £0.1m (H1 2022: £0.4m) of Sheffield Supertram’s other operating profit in the half-year, charged (H1 2022: credited) to the consolidated income statement for the half-year ended 29 October 2022 and presented as a separately disclosed item.

The estimate of the Supertram onerous contract provision involves estimation uncertainty, particularly in relation to forecast passenger revenue, albeit the level of estimation uncertainty is reducing as we approach the contract expiry date of March 2024. The forecasts used to estimate the provision as at 29 October 2022 assume that underlying passenger revenue from 29 October 2022, as a percentage of the underlying pre-COVID revenue, will be around 86% for the six months ended 29 April 2023 and around 96% for the remaining period, until the end of the Supertram concession in March 2024. Underlying passenger revenue has been normalised to take account of changes in the timing of infrastructure work on the tram system. If total forecast revenue from 29 October 2022 was increased by 10%, the onerous contract provision as at 29 October 2022 would be £2.1m lower (30 April 2022: £2.5m lower) and if it was decreased by 10%, the provision would be £2.1m higher (30 April 2022: £2.5m higher).

No specific assumptions have been made regarding climate change in estimating the Supertram onerous contract provision. Taking account of the remaining term of the Supertram concession being less than two years and that the trams are electrically (rather than diesel) powered, we do not consider that climate change considerations materially affect the estimate of the provision as at 29 October 2022.

(c) Expired rail franchises

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

Due to the size and nature of this change in estimate, the Directors consider that it is helpful for understanding the Group’s financial performance to disclose it separately.

4 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(d) Re-measurement of pensions settlement

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

The final settlement received by the Group in the half-year ended 30 October 2021 was £8.2m, an increase of £4.7m above the £3.5m receivable previously recognised at 1 May 2021. The increase in the exit settlement of £4.7m arose due to final actuarial assumptions on settlement as determined by the relevant authority, differing from previous estimates.

(e) Transaction costs

The Group has recorded expenses of £12.9m, predominantly professional fees, accelerated shared based payment expenses (see below) and accelerated management incentives, in relation to the offer from DWS Infrastructure and the lapsed all-share combination with National Express Group plc (H1 2022: £1.2m). Due to the non-recurring nature of the expenses, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the expenses incurred.

The change of control triggered the early vesting of certain share based awards. As a result, share based payment expenses that were previously expected to arise in future periods were immediately expensed and are classified within separately disclosed items for the half-year ended 29 October 2022.

(f) Acquisition costs

£0.2m (H1 2022: £Nil) of costs incurred in connection with the acquisition of two London bus businesses in the half-year ended 29 October 2022 have been presented as a separately disclosed item, because the costs are not related to the ongoing trading of the Group and due to the irregularity of business acquisitions.

(g) Disposal of megabus retail and Falcon

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:

- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

We have assessed the assets transferred to Scottish Citylink Coaches and consider them to constitute a business as defined in International Financial Reporting Standard 3 ("IFRS 3"), *Business Combinations*. The carrying value of the Group's interest in Scottish Citylink has been increased by the cost of the additional investment, being the estimated fair value of the business transferred to Scottish Citylink. The gain resulting from the sale of the business to Scottish Citylink has been recognised in full in the half-year ended 29 October 2022 and has not been restricted to the extent of the other investor's interest in the joint venture.

The consideration received in respect of the disposal was an increase in the Group's share of Scottish Citylink Coaches Limited, from 35% to 37.5%, which has resulted in a gain on disposal of £1.5m being recognised during the half-year ended 29 October 2022. Due to the irregular occurrence of business disposals, the Directors consider that it is helpful for understanding the Group's financial performance to disclose separately the gain realised in respect of the business disposal.

(h) Change in fair value of Deferred Payment Instrument

The Group received a Deferred Payment Instrument as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. The carrying value of the instrument was £2.9m as at 30 April 2022. We estimated the carrying value of the instrument to be £3.2m as at 29 October 2022, resulting in a gain of £0.3m (H1 2022: £0.4m) recognised in finance income in the half-year ended 29 October 2022.

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

4 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(i) Taxation effect

The separately disclosed taxation credit of £0.8m (H1 2022: charge of £17.0m) comprises a credit of £0.8m, (H1 2022: charge of £0.9m) in relation to the taxation effect of the pre-tax separately disclosed items and a charge of £Nil (H1 2022: £16.1m) in relation to the effect of the change in the UK corporation tax rate increasing from 19% to 25% which was treated as a separately disclosed item due to its size and nature.

The transaction costs (excluding expenses related to early vesting of certain share-based awards) and acquisition costs have been treated as non tax-deductible while all the other pre-tax separately disclosed items have been treated as deductible/taxable.

5 DIVIDENDS

No dividends have been paid during, or declared in respect of, the half-year ended 29 October 2022, the half-year ended 30 October 2021, or the year ended 30 April 2022.

6 BUSINESS COMBINATIONS AND DISPOSALS

In the half-year ended 29 October 2022, the Group acquired two businesses. The details of these business combinations are as follows:

(a) Lea Interchange Bus Company Limited

On 25 June 2022, the Group acquired 100% of the share capital of Lea Interchange Bus Company Limited, a bus operator providing services in the London area.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as follows:

	Unaudited £m
Other intangible assets	0.8
Property plant and equipment	
- owned assets	0.6
- right-of-use assets	13.6
Inventories	0.3
Trade and other receivables	2.0
Trade and other payables	(5.3)
Lease liabilities	(13.6)
Provisions	(8.8)
Deferred tax asset	2.3
Net liabilities acquired	(8.1)
Goodwill arising on acquisition	26.2
Total consideration	18.1
Consideration	
- settled by cash	10.6
- contingent consideration	7.5
Total consideration	18.1

As permitted by IFRS 3, *Business Combinations*, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

It is expected that historic tax losses will be assumed by the Group as part of this acquisition. We are awaiting confirmation of the final calculation of these losses, which are currently estimated to be in the region of £6.7m. Due to restrictions on their use, we have not recognised a deferred tax asset in respect of those losses.

Goodwill of £26.2m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes acquiring an assembled workforce, particularly at a time of labour shortages, extending the Group's geographical footprint to effectively compete for new Transport for London contracts, and synergy potential from site consolidation. None of the goodwill recognised is expected to be deductible for income tax purposes.

The consideration recorded as payable includes £7.5m of contingent consideration which represents a further £1.0m per annum payable for ten years commencing 12 months following completion, subject to certain conditions. The minimum expected undiscounted payment is £Nil and the maximum expected undiscounted payment is £10m. The likelihood of the conditions not being satisfied are remote and we expect the maximum amount to be paid. The fair value of the contingent consideration, with the effects of discounting, has been estimated at £7.5m.

6 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

(b) Bus operations previously operated by HCT Group

On 26 August 2022 the Group acquired the trade and assets of the London “red bus” operations previously operated by HCT Group.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as follows:

	Unaudited £m
Other intangible assets	2.7
Property, plant and equipment	
- owned assets	0.4
- right-of-use assets	7.2
Inventories	0.3
Trade and other receivables	0.9
Trade and other payables	(4.1)
Lease liabilities	(7.2)
Provisions	(6.8)
Deferred tax asset	1.5
Net liabilities acquired	(5.1)
Goodwill arising on acquisition	8.9
Total consideration	3.8
Consideration	
- settled by cash	3.0
- contingent consideration	0.8
Total consideration	3.8

As permitted by IFRS 3, *Business Combinations*, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

Goodwill of £8.9m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes acquiring an assembled workforce, particularly at a time of labour shortages, growth in our geographical footprint and access to leased sites not reflected in the right-of-use asset value. None of the goodwill recognised is expected to be deductible for income tax purposes.

The consideration recorded as payable includes £0.8m of contingent consideration which is due to be paid within the next 12 months. The minimum expected undiscounted payment is £Nil and the maximum expected undiscounted payment is £0.8m. We expect the maximum amount to be paid, with the amount recognised undiscounted as the effect of discounting is not material.

(c) Impact of acquisitions

The acquired businesses contributed £17.4m of revenue and £Nil operating profit to the Group's results for the period between their acquisition and the balance sheet date of 29 October 2022. Had both acquisitions completed on the first day of the financial year, the Group's revenue and operating profit would have been £685.9m and £33.0m respectively for the half-year ended 29 October 2022.

(d) Disposal of megabus retail and Falcon

In August 2022, the Group disposed of the following businesses to its joint venture, Scottish Citylink Coaches Limited:

- the megabus retail platform and customer-service business, which sells and markets inter-city coach services in England and Wales
- Falcon South-West, which retails tickets for the coach route between Plymouth and Bristol Airport.

Further details of the disposal are included in note 4(g).

7 GOODWILL

The movements in goodwill were as follows:

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m	Audited Year to 30 April 2022 £m
Net book value at beginning of period	51.9	51.9	51.9
Goodwill arising through acquisitions of businesses	35.1	-	-
Net book value at end of period	87.0	51.9	51.9

Goodwill arose in the half-year ended 29 October 2022 on two business combinations. Further details of the business combinations and the provisional fair value adjustments are included in note 6.

The goodwill represents items that cannot be separately recognised, including the assembled workforce particularly at a time of labour market shortages, extending the Group's geographical footprint to effectively compete for new Transport for London contracts, synergy potential from site consolidation and access to leased sites not reflected in the right-of-use asset value.

8 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m	Audited Year to 30 April 2022 £m
Cost at beginning of period	33.2	39.8	39.8
Reclassification of items to prepayments	-	-	(5.0)
Acquired through business combinations	3.5	-	-
Additions	1.0	2.6	3.1
Disposals	(1.4)	-	(4.7)
Cost at end of period	36.3	42.4	33.2
Accumulated amortisation at beginning of period	(28.9)	(27.5)	(27.5)
Amortisation charged to income statement	(0.9)	(0.7)	(1.4)
Disposals	1.4	-	-
Accumulated amortisation at end of period	(28.4)	(28.2)	(28.9)
Net book value at beginning of period	4.3	12.3	12.3
Net book value at end of period	7.9	14.2	4.3

9 PROPERTY, PLANT AND EQUIPMENT

(a) Owned assets

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

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m	Audited Year to 30 April 2022 £m
Cost at beginning of period	1,582.6	1,560.8	1,560.8
Additions	8.8	8.6	45.9
Acquired through business combinations	1.0	-	-
Transfers from right-of-use assets	-	-	22.0
Transferred to assets held for sale	(0.1)	-	(3.7)
Disposals	(17.8)	(15.3)	(42.4)
Cost at end of period	1,574.5	1,554.1	1,582.6
Depreciation at beginning of period	(850.5)	(800.4)	(800.4)
Depreciation charged to income statement	(38.5)	(40.1)	(79.8)
Impairment charged to income statement	-	-	(4.4)
Transfers from right-of-use assets	-	-	(7.5)
Transferred to assets held for sale	-	-	1.3
Disposals	16.4	14.7	40.3
Depreciation at end of period	(872.6)	(825.8)	(850.5)
Net book value at beginning of period	732.1	760.4	760.4
Net book value at end of period	701.9	728.3	732.1

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Movements in right-of-use assets

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

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m	Audited Year to 30 April 2022 £m
Cost at beginning of period	118.9	140.1	140.1
Additions	6.0	11.1	19.0
Acquired through business combinations	20.8	-	-
Transfers to owned property, plant and equipment	-	-	(22.0)
Disposals	(5.8)	(8.2)	(18.2)
Cost at end of period	139.9	143.0	118.9
Depreciation at beginning of period	(50.3)	(49.5)	(49.5)
Depreciation charged to income statement	(13.0)	(12.4)	(23.9)
Transfers to owned property, plant and equipment	-	-	7.5
Disposals	5.5	8.2	15.6
Depreciation at end of period	(57.8)	(53.7)	(50.3)
Net book value at beginning of period	68.6	90.6	90.6
Net book value at end of period	82.1	89.3	68.6

10 INTERESTS IN JOINT VENTURES

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

	Unaudited Half-year to 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m	Audited Year to 30 April 2022 £m
Net book value at beginning of period	7.2	6.7	6.7
Increase in investment (see note 4(g))	1.7	-	-
Share of recognised profit	3.6	1.7	3.4
Dividends received in cash	(1.8)	-	(2.9)
Net book value at end of period	10.7	8.4	7.2

A loan payable to joint venture, Scottish Citylink Coaches Limited, of £1.7m (30 April 2022: £1.7m) is included within current liabilities under the caption "Trade and other payables". A loan receivable from Crown Sightseeing of £0.1m (30 April 2022: £0.1m) and a provision against that receivable of £0.1m (30 April 2022: £0.1m) are included within current assets under the caption "Trade and other receivables".

11 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 30 April 2022. There have been no material changes in any of the Group's significant financial risk management policies since 30 April 2022.

Liquidity risk

There have been no material changes since 30 April 2022 in the contractual undiscounted cash outflows for financial liabilities.

11 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimation

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

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

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 29 October 2022.

	Unaudited		Total £m
	Level 2 £m	Level 3 £m	
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	3.2	3.2
Financial derivatives	90.8	-	90.8
Total assets	90.8	3.2	94.0
Liabilities			
Contingent consideration for acquisition of businesses	-	(8.3)	(8.3)
Financial derivatives	(7.7)	-	(7.7)
Total liabilities	(7.7)	(8.3)	(16.0)

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 30 April 2022.

	Audited		Total £m
	Level 2 £m	Level 3 £m	
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	2.9	2.9
Financial derivatives	97.4	-	97.4
Total assets	97.4	2.9	100.3
Liabilities			
Financial derivatives	(3.8)	-	(3.8)

There were no transfers between levels during the half-year ended 29 October 2022.

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

The Group applies relevant hedge accounting to all financial derivatives outstanding as at 29 October 2022 and 30 April 2022. All designated hedge relationships were effective under International Financial Reporting Standard 9 ("IFRS 9"), *Financial Instruments*.

The consideration for the sale of the North American business in April 2019 included a Deferred Payment Instrument of US\$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 October 2024 or (b) in part, after distributions of US\$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US\$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. As a result, the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £3.2m as at 29 October 2022 (30 April 2022: £2.9m).

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

11 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimation (continued)

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

No specific assumptions have been made regarding climate change in valuing the Deferred Payment Instrument. While climate change does present both opportunities and risks to the North America business, we do not consider that climate change considerations materially affect the fair value of the instrument as at 29 October 2022, taking account of the approximate remaining two-year term of the instrument.

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

	Carrying value		Fair value	
	29 October 2022 Unaudited £m	30 April 2022 Audited £m	29 October 2022 Unaudited £m	30 April 2022 Audited £m
Financial assets				
Financial assets measured at fair value through profit or loss				
– Non-current assets				
– Other receivables - Deferred Payment Instrument	3.2	2.9	3.2	2.9
Financial assets measured at amortised cost				
– Non-current assets				
– Insurance claim receivables	14.0	14.0	14.0	14.0
– Other receivables	0.3	0.2	0.3	0.2
– Current assets				
– Accrued income	34.0	26.0	34.0	26.0
– Trade receivables, net of impairment	29.9	26.2	29.9	26.2
– Other receivables	0.4	0.8	0.4	0.8
– Cash and cash equivalents	290.2	248.9	290.2	248.9
Total financial assets	372.0	319.0	372.0	319.0
Financial liabilities				
Financial liabilities measured at amortised cost				
– Non-current liabilities				
– Contingent consideration for business combinations	(8.3)	-	(8.3)	-
– Borrowings	(455.7)	(457.0)	(431.5)	(465.8)
– Current liabilities				
– Trade payables	(23.7)	(31.3)	(23.7)	(31.3)
– Payables for purchase of property, plant and equipment	(2.3)	(3.6)	(2.3)	(3.6)
– Interest payable	(0.1)	(0.2)	(0.1)	(0.2)
– Accruals	(170.8)	(135.4)	(170.8)	(135.4)
– Loan from joint venture	(1.7)	(1.7)	(1.7)	(1.7)
– Borrowings	(27.5)	(22.1)	(27.5)	(22.1)
Total financial liabilities	(690.1)	(651.3)	(665.9)	(660.1)
Net financial liabilities	(318.1)	(332.3)	(293.9)	(341.1)

Financial derivatives with bank counterparties are not shown in the above table.

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

- The determination of the fair value of the Deferred Payment Instrument is described earlier in this note 11.
- The carrying value of cash and cash equivalents, accrued income, trade receivables, insurance claim receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The fair value of contingent consideration payable in respect of business combinations is estimated with reference to the applicable contractual terms and the expected outcomes on the contingent elements, then discounted to present value. Further details are provided in note 6.
- The carrying value of trade payables, payables for purchase of property, plant and equipment, interest payable, accruals and loans to/from joint ventures is considered a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the “bid” price at the balance sheet date.
- The fair value of leases is presented above as being equal to their carrying value as International Financial Reporting Standard 7 (“IFRS 7”), *Financial Instruments: Disclosure*, does not require the disclosure of fair values for leases.

12 RETIREMENT BENEFITS

(a) Overview

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

- The Stagecoach Group Pension Scheme (“SPS”); and
- Two UK Local Government Pension Schemes (“LGPS”).

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

(b) Presentation in consolidated balance sheet

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

	Unaudited As at 29 October 2022 £m	Audited As at 30 April 2022 £m
Retirement benefit assets	171.8	45.3
Retirement benefit obligations	(4.4)	(75.1)
	167.4	(29.8)

(c) Gross pension scheme assets and obligations

The gross pension scheme assets and the present value of obligations as at 29 October 2022 were as follows:

	Unaudited				
	Funded schemes				
	SPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
Fair value of scheme assets	1,453.4	158.0	16.4	-	1,627.8
Present value of obligations	(1,200.4)	(130.6)	(9.3)	(3.8)	(1,344.1)
	253.0	27.4	7.1	(3.8)	283.7
Asset ceiling	-	(27.8)	-	-	(27.8)
Pension asset/(liability) before withholding tax	253.0	(0.4)	7.1	(3.8)	255.9
Withholding tax payable on surplus	(88.5)	-	-	-	(88.5)
Net asset/(liability)	164.5	(0.4)	7.1	(3.8)	167.4

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

The movements for the half-year ended 29 October 2022 in the net pre-tax retirement benefit assets/liabilities (excluding withholding tax on surpluses) recognised in the balance sheet were as follows:

Unaudited	SPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
(Liability)/asset at beginning of period	(7.3)	-	3.7	(4.0)	(7.6)
Current service cost	(2.0)	(0.2)	(0.4)	-	(2.6)
Administration costs	(0.4)	-	-	-	(0.4)
Employers' contributions	8.1	0.2	0.4	0.1	8.8
Recognised in the consolidated statement of comprehensive income	254.6	(0.4)	3.4	0.1	257.7
Asset/(liability) at end of period	253.0	(0.4)	7.1	(3.8)	255.9

12 RETIREMENT BENEFITS (CONTINUED)

(e) Scheme valuations

The latest actuarial valuations of the then two sections of SPS were completed as at 30 September 2021. The combined surplus across the two sections on the Trustees' technical provisions basis was £48.7m, comprising scheme assets of £1,482.3m less benefit obligations of £1,433.6m. The weighted average discount rate applied in determining the value of those benefit obligations was 3.4%. The discount rate reflected the asset allocation of SPS and its strong track record of investment returns.

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2019. The combined deficit across those schemes on the funding basis agreed by each of the Administering Authorities was £1.5m, comprising scheme assets of £360.8m less benefit obligations of £362.3m. The weighted average discount rate applied in determining the value of those benefit obligations was 2.0%. Between the date of those valuations and 29 October 2022, the Group exited two of the LGPS schemes.

13 ORDINARY SHARE CAPITAL

At 29 October 2022, there were 576,099,960 ordinary shares in issue (30 April 2022: 576,099,960). This figure includes 14,143,274 (30 April 2022: 24,581,369) 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.

14 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 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m
Operating profit of Group companies	29.4	43.5
Separately disclosed items	13.8	(12.3)
Depreciation	51.5	52.5
Software amortisation	0.5	0.7
EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA from Group companies")	95.2	84.4
Cash effect of current period separately disclosed items	(8.2)	4.7
(Gain)/loss on disposal of property, plant and equipment	(1.0)	0.7
Capital grant amortisation	(1.2)	(0.6)
Share based payment movements (excluding separately disclosed items)	0.2	1.7
Operating cashflows before working capital movements	85.0	90.9
(Increase)/decrease in inventories	(0.6)	0.1
Decrease in receivables	12.2	6.7
Increase/(decrease) in payables	31.3	(5.2)
Decrease in provisions	(3.4)	(0.5)
Differences between employer contributions and pension expense in operating profit	(5.8)	(2.7)
Cash generated by operations	118.7	89.3

15 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 29 October 2022 £m	Unaudited Half-year to 30 October 2021 £m
Increase in cash and cash equivalents	41.3	44.8
Cash flow from movement in borrowings	13.7	12.8
	55.0	57.6
New leases in period	(6.0)	(11.1)
Lease additions from business combinations	(20.8)	-
Negotiated early termination of lease	0.3	-
Other movements	(0.4)	(1.4)
Decrease in net debt	28.1	45.1
Net debt at beginning of period	16 (224.3)	(312.6)
Net debt at end of period	16 (196.2)	(267.5)

16 NET DEBT AND CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Unaudited Half-year to 29 October 2022						Closing £m
	Opening £m	Cashflows £m	New leases £m	Negotiated early lease termination £m	Lease additions from business combinations £m	Charged to income statement £m	
Cash and cash equivalents	248.9	41.3	-	-	-	-	290.2
Gross debt – see split in table below	(473.2)	13.7	(6.0)	0.3	(20.8)	(0.4)	(486.4)
Net debt	(224.3)	55.0	(6.0)	0.3	(20.8)	(0.4)	(196.2)

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

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

	Unaudited As at 29 October 2022 £m	Audited As at 30 April 2022 £m
Current liabilities: borrowings	(27.5)	(22.1)
Non-current liabilities: borrowings	(455.7)	(457.0)
Current liabilities: interest rate derivatives included in financial derivatives	(4.8)	(2.2)
Non-current liabilities: interest rate derivatives included in financial derivatives	-	(1.6)
Current liabilities: loan from joint venture	(1.7)	(1.7)
Total liabilities arising from financing activities	(489.7)	(484.6)

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

	Unaudited Half-year to 29 October 2022							Closing £m
	Opening £m	Cashflows £m	New leases £m	Negotiated early lease termination £m	Lease additions from business combinations £m	Fair value movements on hedge £m	Charged to income statement £m	
Lease liabilities	(74.4)	13.7	(6.0)	0.3	(20.8)	-	-	(87.2)
Bonds								
- Principal	(400.0)	-	-	-	-	-	-	(400.0)
- Unamortised costs & discounts on issue	1.2	-	-	-	-	-	(0.4)	0.8
Gross debt	(473.2)	13.7	(6.0)	0.3	(20.8)	-	(0.4)	(486.4)
Loan from joint venture	(1.7)	-	-	-	-	-	-	(1.7)
Accrued interest on bonds	(9.5)	16.0	-	-	-	-	(8.0)	(1.5)
Effect of fair value hedges on carrying value of borrowings	3.6	-	-	-	-	1.1	-	4.7
Interest rate derivatives that hedge liabilities from financing activities	(3.8)	0.9	-	-	-	(1.1)	(0.8)	(4.8)
Total liabilities arising from financial activities	(484.6)	30.6	(6.0)	0.3	(20.8)	-	(9.2)	(489.7)

17 NON-CASH TRANSACTION

As explained in note 4(g), the Group disposed of businesses in the half-year ended 29 October 2022 in exchange for non-cash consideration in the form of shares in its joint venture, Scottish Citylink Coaches Limited. The estimated fair value of the shares received by the Group was £1.7m.

18 PROVISIONS

The Group's provisions at each of 30 April 2022 and 29 October 2022 principally relate to claims provisions for estimated liabilities on incurred incidents up to the balance sheet date.

The total claims provisions of £99.3m (30 April 2022: £97.9m) have increased during the half-year, reflecting the latest assessment of the required provision for claims on major incidents. These provisions contain £14.0m (30 April 2022: £14.0m) which is recoverable from insurance companies and is included within other receivables. The Group engages with third party actuarial professionals to assist in the calculation of these provisions.

19 COMMITMENTS AND CONTINGENCIES

(i) *Capital commitments*

Capital commitments contracted for the purchase of property, plant and equipment but not provided for at 29 October 2022 were £41.3m (30 April 2022: £19.3m).

(ii) *Legal actions*

On 27 February 2019, an application for a collective proceedings order (a form of class action) was filed with the UK Competition Appeal Tribunal ("CAT") against Stagecoach South Western Trains Limited ("SSWT"), a subsidiary of the Company that formerly operated train services under franchise. Equivalent claims have been brought against First MTR South Western Trains Limited, which succeeded SSWT as the operator of the South Western franchised train services, and London & South Eastern Railway Limited (the "Defendants"). It is alleged that SSWT and the other Defendants breached their obligations under competition law, by (i) failing to make sufficiently available, or (ii) restricting the practical availability of, boundary fares for Transport for London ("TfL") Travelcard holders wishing to travel outside the TfL fare zones in which the Travelcard was valid. The claim seeks compensation for all those who have allegedly been affected by the train operating companies' allegedly anti-competitive behaviour. The total sought from SSWT is estimated at around £38m (excluding interest).

In October 2021, the CAT granted the collective proceedings order ("CPO") sought by the proposed class representative. In November 2021, SSWT sought permission to appeal against the CAT's decision to grant the CPO. Permission was refused and SSWT applied to the Court of Appeal for permission to bring the appeal, which was granted. The appeal was heard in June 2022, which was unsuccessful.

The claim is disputed in respect of its technical merits. No provision is held as at 29 October 2022 (30 April 2022: £Nil) for any damages or settlement payable in respect of this matter

The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 29 October 2022, the liabilities in the consolidated financial statements for such matters total £0.7m (30 April 2022: £1.0m) in addition to those covered by the claims provisions.

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

As explained in note 29(iii) to the Group's consolidated financial statements for the year ended 30 April 2022, the Group has certain contingent liabilities in respect of claims from third parties against its former North American business. The estimated amount of those contingent liabilities has reduced from £32.1m as at 30 April 2022 to £29.4m as at 29 October 2022.

20 DEFINITIONS

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the half-year ended 29 October 2022 and for comparative amounts shown in this document for prior periods.

Like-for-like amounts

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

Like-for-like revenue growth for the half-year ended 29 October 2022 is calculated by comparing the revenue for the current and comparative periods, each adjusted as described above. The revenue of each segment is shown in note 3(a) to the condensed financial statements. Where applicable, the reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

		Unaudited				
		Half-year to 29 October 2022				
		Reported revenue	Exclude effect of acquisitions	Exclude effect of disposals	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	508.1	-	(11.1)	-	497.0
UK Bus (London)	£m	154.4	(17.4)	-	-	137.0
UK Rail	£m	7.1	-	-	(0.4)	6.7

		Unaudited				
		Half-year to 30 October 2021				
		Reported revenue	Exclude effect of disposals	Exclude expired rail franchises	Like-for-like revenue	
UK Bus (regional operations)	£m	438.4	(6.3)	-	432.1	
UK Rail	£m	5.4	-	(0.3)	5.1	

Liquidity

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

Operating profit

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

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

Adjusted operating profit

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

Operating margin

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

Adjusted EBITDA

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

A reconciliation of adjusted EBITDA for the half-year ended 29 October 2022, and the comparative prior year period, to the condensed financial statements is shown on page 8 of this document.

Adjusted EBITDA is also presented for the year to 29 October 2022. That, and the constituent elements of the reconciliation for that year, are determined by adding the amounts for the half-year ended 29 October 2022 to the amounts for the year ended 30 April 2022, and deducting the amounts for the half-year ended 30 October 2021.

20 DEFINITIONS (CONTINUED)

(a) Alternative performance measures (continued)

Adjusted EBITDA from Group companies

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

Adjusted EBITDA from Group companies is directly identifiable from the condensed financial statements – see note 14 to the condensed financial statements.

Net finance costs

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

Adjusted net finance costs

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

Gross debt

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

The components of gross debt are shown in note 16 to the condensed financial statements.

Net debt

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

The components of net debt are shown in note 16 to the condensed financial statements.

Net capital expenditure

Net capital expenditure is the impact of purchases, new leases, lease disposals and sales of property, plant and equipment, and the impact of capital grants received, on net debt. Its reconciliation to the condensed financial statements is explained on page 10 of this document.

Net debt plus train operating company liabilities

Net debt plus train operating company liabilities is the aggregate of net debt (see above) and net liabilities (excluding cash) in relation to major rail franchises previously operated by the Group. The reconciliation to the consolidated financial statements is shown below:

	As at 29 October 2022 £m	As at 30 April 2022 £m
Net debt as shown in note 16	196.2	224.3
Net train operating company liabilities as shown in note 3(d)	38.7	40.2
Net debt plus train operating company liabilities	234.9	264.5

(b) Other definition

The following other definition is also used in this document:

Separately disclosed items

Separately disclosed items means:

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

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

Separately disclosed items can include both pre-tax and tax-related items.