Stagecoach

9 December 2020

Stagecoach Group plc – Interim results for the half-year ended 31 October 2020

Financial summary

	"Adjusted" results[1] Results excluding separately disclosed items		**"Statutory" results**	
	H1 2021	H1 2020	**H1 2021**	H1 2020
CONTINUING OPERATIONS[2]				
Revenue (£m)	**454.6**	800.2	**454.6**	800.2
Total operating profit (£m)	**16.1**	79.6	**23.6**	77.0
Net finance costs (£m)	**(15.7)**	(13.0)	**(18.2)**	(11.1)
Profit before taxation (£m)	**0.4**	66.6	**5.4**	65.9
Earnings per share (pence)	**0.1p**	10.0p	**0.8p**	9.9p
TOTAL OPERATIONS				
Earnings per share (pence)	**0.1p**	10.0p	**0.8p**	9.8p
Interim dividend per share (pence)	**-**	3.8p	**-**	3.8p

Financial highlights

- Positive pre-tax profit reflecting management actions to respond to COVID-19, and supportive measures by government and local authorities
- Cash positive with reduction in net debt to £310.8m (2 May 2020: £352.1m)
    - 1.8 times net debt to adjusted 12-month EBITDA
- Adjusted earnings per share 0.1p (H1 2020: 10.0p), reflecting effect of COVID-19 pandemic and prior year expiry of rail franchises
- Statutory earnings per share 0.8p (H1 2020: 9.8p)
- c.£17m of annualised cost savings identified since March 2020
- Continued substantial available liquidity: over £850m of undrawn, committed bank facilities and available cash/deposits

Strategic and operational highlights

- Public transport has a key role to play in economic recovery and environmental sustainability
- Regional bus: significant recovery in patronage and commercial revenue since May 2020, notwithstanding social distancing and other restrictions throughout that period
- Regional bus: currently operating around 91% of prior year vehicle mileage, with commercial sales having recovered to almost 60% of prior year levels and now at around 54%, reflecting some tightening of COVID-19 restrictions
- London bus: continuation of strong operating and financial performance, reflecting additional contracts
- Proactive management of COVID-19 impact:
    - Actions to safeguard health and wellbeing of our customers and our people
    - Protecting the business through robust cost control and planning for recovery
    - Constructive engagement with government on protecting services and on regional bus "Recovery Partnerships" to bridge from current COVID-19 arrangements to commercial sustainability
- Further progress on delivery of business strategy
    - Change programme delivering more agile and efficient business
    - Diversification: exploring partnership opportunities and new commercial initiatives; short-listed for bus contracts in Sweden, and in Dubai
- Continued strong environmental, social and governance ("ESG") performance
    - Zero-emissions bus fleet targeted by 2035
    - London Stock Exchange Green Economy Mark and MSCI ESG "A" rating reaffirmed
    - "Low risk" rating from Sustainalytics
    - FTSE4Good 99th percentile ranking

[1] The "adjusted" results are the results for the relevant period excluding separately disclosed items as detailed in note 5 to the condensed financial statements.

[2] Continuing operations include all operations other than the North America business that was sold in April 2019.

Martin Griffiths, Stagecoach Group Chief Executive, said:

"The safety and wellbeing of customers and our people remains our absolute priority as we continue to navigate the COVID-19 pandemic. While the situation remains fluid, we have made progress in the restoration of our networks to close to pre-COVID levels and in growing passenger volumes safely.

"We have a strong business, with good liquidity, devolved operating companies closely focused on our customers and local communities, and a supportive relationship with government and our local authority partners.

“As well as continuing to provide vital connections to jobs and public services during the current pandemic, our sustainable public transport services are central to long-term plans for a greener, smarter, safer, healthier and fairer country.

“We welcome the UK, Scottish and Welsh governments’ recognition of the importance of bus and tram services, as evidenced by the sector-specific actions they have taken to support the continuation of vital services during the COVID-19 pandemic. We are working closely with our government and sector partners on a new framework to ensure the country’s public transport networks adapt to new working and travel patterns, are fit for the post-COVID world, and meet the continuing needs of our customers and communities.

“We are grateful for our people’s professionalism, selfless spirit and dedication to serving our customers, throughout this difficult period. I’m confident that with our strong leadership and committed frontline people we can come through the challenge of the COVID-19 pandemic and maximise the significant opportunities for public transport ahead.”

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A pre-recorded presentation in relation to the interim results announcement will be available from 7.30am on 9 December 2020 at:

https://www.investis-live.com/stagecoach/5fad0dd2d874660a0031bebc/yfnv

Notes to editors

Stagecoach Group

- Stagecoach is one of Britain’s leading public transport businesses, helping connect communities for 40 years.
- Our team of around 24,000 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.
- Stagecoach is Britain's biggest bus and coach operator and it runs the Supertram light rail network in Sheffield.
- Our impact is about far more than transport – we support the economy, help cut congestion on our roads, protect our environment and air quality, boost safety on our roads, and contribute to a healthier nation.

Interim management report

The Directors of Stagecoach Group plc are pleased to present their report on the Company for the half-year ended 31 October 2020.

Description of the business

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

Overview

We are operating in a radically different environment today compared with 12 months ago before the COVID-19 pandemic took hold. Throughout this difficult period, our priority remains the safety and wellbeing of customers and our people, and our continuing thoughts are with the families and friends of colleagues we have lost.

While the situation remains fluid and the COVID-19 situation has affected year-on-year financial comparisons, a combination of our decisive management actions and supportive relationships with our government and local authority partners has contributed to positive pre-tax profit for the first half of the 2020/21 financial year. Governments and local authorities across the UK have demonstrated the importance they place on continuing public transport services by the sector-specific actions they have taken to support services during the COVID-19 pandemic and the significant investments they have planned to maximise the power of public transport to help the country and its communities.

We have restored our regional bus networks for communities across the UK to around 91% of prior year levels and have accommodated increased passenger volumes safely within the current restricted environment. At our contracted London bus business, we have continued our strong operating and financial performance and worked closely with Transport for London to rebuild services from the low points of lockdown in the spring.

Our Sheffield Supertram business has reinstated services and capacity to support the local economy and communities and we have worked in partnership with the region’s transport authority to secure government underpinning at this time for these essential tram links. We also continue to make positive progress in unwinding the affairs of our former train operating companies.

We have continued with measures to address and mitigate the impact of the COVID-19 pandemic on the Group. Those measures include: adjustments to our services to reflect changes in customer demand, social distancing requirements and consultation with local authorities; furloughing of employees, although most have now returned to work; freezing all but essential recruitment of staff; salary sacrifices by the Directors and other senior management; adjustments to fuel hedging to take account of changes to our services; planned capital expenditure reduced; accessing new liquidity and securing waivers of bank covenants; other targeted cost reductions (some of which give rise to the £2.8m of separately disclosed re-organisation costs for the half-year).

Financial results

In the half-year to 31 October 2020, revenue was £454.6m (H1 2020: £800.2m), reflecting the effect of COVID-related restrictions on short-term demand for our regional bus and tram services, in addition to the end of the East Midlands Trains franchise in August 2019. Adjusted total operating profit was £16.1m (H1 2020: £79.6m). The change in operating profit reflects the adverse effect of COVID-19 on the operating profit of the regional bus operations and the end of the East Midlands and West Coast rail franchises in the prior year. While COVID-19 has significantly affected the profitability of our regional bus business, we have grown the profitability of our London bus business over the past year or so. Unadjusted operating profit from continuing operations was £23.6m (H1 2020: £77.0m). Adjusted earnings per share were 0.1p (H1 2020: 10.0p), with the change including the reduction in adjusted operating profit partly offset by a lower taxation expense. Basic, unadjusted earnings per share were 0.8p (H1 2020: 9.8p) with the year-on-year reduction principally reflecting the adverse effect of COVID-19 on our operations and the expiry of rail franchises.

Dividend

Given the continuing uncertainties caused by the impact of COVID-19, we are not planning an interim dividend in respect of the six months ended 31 October 2020. We recognise the importance of dividends to many shareholders and it is our ambition to resume dividend payments in due course when supported by appropriate profit and cash flow generation, relative to our net debt and pension liabilities.

Business strategy

Despite the effect of the COVID-19 situation, our longer term strategy is largely unchanged and we are focused on three core objectives:

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

Outlook

This year, we are marking 40 years of proudly serving our communities and connecting people and places since Stagecoach was founded in 1980. Stagecoach's fundamental strengths of strong leadership, customer focus, innovation, devolved management, stakeholder engagement and partnership working, mean we are well placed to navigate our way through the current challenging environment.

We are in discussions with the UK Department for Transport and other bus operators about a transitional framework for the delivery of regional bus services, which would provide a bridge from the current COVID-affected arrangements to longer-term commercial sustainability.

We are progressing work on a new long-term sustainability strategy, building on the significant progress we have made over the past 10 years. This includes consideration of our future vehicle procurement strategy as part of our ambition to operate a zero-emissions bus fleet by 2035. We are also pleased to have had our London Stock Exchange Green Economy Mark and MSCI ESG "A" rating reaffirmed in 2020.

Our outlook for the remainder of the year ending 1 May 2021 is unchanged from when we published our trading update in October. Looking ahead, our public transport connections have a critical role to play in delivering a green recovery, renewing our economy, supporting our communities, and improving the health and wellbeing of the country.

Car use in the UK, as a percentage of pre-COVID levels, is currently significantly ahead of public transport use. Car trips in Great Britain during October 2020 were 80% to 90% of pre-COVID levels despite continuing restrictions at that time. That indicates a continuing propensity for travel but a preference in the short-term for car, reflecting government messaging discouraging public transport use and people seeking to minimise their contact with others during the COVID-19 pandemic. People make bus and tram journeys for a diverse range of purposes that remain central to their lives: work, education, leisure, shopping, meeting family and friends, healthcare, and other reasons. As we emerge from the pandemic, we anticipate strong support from government in pursuing our shared objective to drive modal shift from car to public transport. That, combined with the evidence of a continuing propensity for travel, further contracts wins in London and the potential for international diversification, leaves us positive on the long-term outlook for the Group.

Summary of financial results

Revenue, split by segment, is summarised below:

REVENUE	H1 2021 £m	H1 2020 £m	Growth %
UK Bus (regional operations)	**325.5**	535.1	(39.2)%
UK Bus (London)	**126.5**	120.6	4.9%
UK Rail	**2.8**	146.3	(98.1)%
Intra-Group revenue	**(0.2)**	(1.8)	
Group revenue	**454.6**	800.2	

Operating profit, split by segment, is summarised below:

OPERATING PROFIT	H1 2021 £m	H1 2021 % margin	H1 2020 £m	H1 2020 % margin
UK Bus (regional operations)	**9.1**	**2.8%**	57.1	10.7%
UK Bus (London)	**9.2**	**7.3%**	5.1	4.2%
UK Rail	**2.6**	**92.9%**	11.6	7.9%
Group overheads	**(4.6)**		(6.1)	
Restructuring costs	**(0.1)**		(0.4)	
Operating profit before separately disclosed items	**16.2**		67.3	
Joint ventures – share of (loss)/profit after tax				
Virgin Rail Group	**0.1**		10.8	
Citylink	**(0.2)**		1.5	
Total operating profit before separately disclosed items	**16.1**		79.6	
Non-software intangible asset amortisation	**-**		(0.2)	
Other separately disclosed items	**7.5**		(2.4)	
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	**23.6**		77.0	

Strategic and operating review

Strategic background

Our transport services are part of the solution to the challenges of climate change, levelling up and social inclusion.

We have made further progress in the first half of 2020/21 in the delivery of our business strategy and objectives. We are progressing our change programme to deliver a more agile and efficient business. We have also taken steps to protect the long-term sustainability of the business and the employment we support directly, in our supply chain, and across the wider economy.

While COVID-19 has affected the timeline of some elements of our strategy, we are continuing to explore opportunities to grow and diversify. This includes new commercial products, exploring potential partnerships and maximising the value of our significant estate. We are also progressing new opportunities overseas and are pleased to be shortlisted for several bus contracts in Sweden and Dubai.

We welcome the renewed focus on the importance of bus services by the UK Government and devolved administrations in Scotland and Wales. We are engaging with the Department for Transport around the planned National Bus Strategy for England. In its recent Spending Review, the UK Government announced further positive investment in bus recovery measures and greener bus fleets.

Our continuing focus remains on providing safe, sustainable, high-quality and good value connections for our customers and we were pleased Stagecoach East Scotland recently won Scotland's Public Transport Operator of the Year award for the second year running.

Strategic objectives and initiatives

Maximise our core business' potential

UK Bus (regional operations)

Our UK Bus (regional operations) business continues to deliver critical links in communities across the UK, supporting the economic health of towns and cities. We are now operating vehicle mileage of around 91% of prior year levels. Customer demand for our regional bus services hit its lowest point around mid-April 2020, during the first UK-wide COVID-19 lockdown, when our commercial sales were as low as 12% of the prior year levels.

From around mid-May 2020, we saw a steady recovery in customer demand with our commercial sales flattening out at a little under 60% of the prior year levels through September and early October. In the early part of October, we saw commercial sales at around 57% of the prior year and passenger journeys at around 51%.

As the COVID-related restrictions began to tighten in various parts of the UK from later in October, we saw a sustained softening in demand for the first time since mid-May. Most recently, our commercial sales are at around 54% of the prior year and passenger journeys are at around 47%.

We are grateful for the measures put in place by the respective governments in England, Scotland and Wales and our local authority partners to protect the continuity of bus services throughout this period. In August, the UK Department for Transport confirmed that payments for the provision of these essential services by regional bus operators in England would continue until no longer required. These COVID-19 Bus Services Support Grant Restart payments are continuing, with an eight-week notice period. The Scottish and Welsh Governments have also extended the periods covered by COVID-related payments for continuing bus services.

Stagecoach has put a range of measures in place to help customers feel safe and confident in using its services. All our bus, tram and coach services have been accredited with Visit Britain's "We're Good to Go" official mark, recognising the work carried out to meet government and industry COVID-19 guidelines and the processes in place to maintain cleanliness and aid social distancing. The comprehensive regime includes daily deep cleans and contactless payments, in addition to the mandatory use of face coverings.

Since March, we have worked to reduce costs in light of the effects of the COVID-19 pandemic on the business, and to ensure the business is efficient and agile when emerging from the COVID-19 period. We have identified around £17m of annualised cost savings to date across the Group's entire operations. We have already implemented most of those, and we continue to seek further savings. In addition, and notwithstanding the actions we took to reduce our 2020/21 planned capital expenditure, we continue to invest in making our business more efficient and effective. Ongoing initiatives include expanding the functionality of our Green Road connected vehicle technology, enhancing our driver risk management system, the roll-out of real-time passenger counting technology, a new advanced route planning and scheduling system, a new enterprise asset management system and investment in human resources systems.

In August 2020, we launched a new customer rewards scheme with special offers right across the UK in the leisure sector, including visitor attractions, places to eat out and hotels. Stagecoach Rewards provides exclusive discounts to our bus customers and will help support those local businesses in the communities we serve.

Building on the collaborative working during the COVID-19 pandemic, Stagecoach and the wider bus sector is working on a framework with the Department for Transport to ensure bus networks successfully bridge from the current arrangements to long-term commercial sustainability. This Recovery Partnership approach would be put in place when social distancing requirements end, a significant pro public transport message is communicated by Government, and passenger numbers have recovered significantly. Bus operators are in constructive discussions with the Department for Transport about these proposals, and we are committed to playing our part in ensuring a positive roadmap to delivering a long-term sustainable bus sector.

Greater Manchester Combined Authority is currently undertaking a consultation regarding the re-evaluation of its previously announced bus reform proposals in light of the COVID-19 pandemic. The pandemic has had a significant impact on all public transport networks across the country, regardless of how these systems are structured. We believe the best way forward is to build on the strong collaborative working between operators, national and local government during the pandemic to put in place new short-term Recovery Partnerships, followed by similar joint working to deliver the best and most commercially sustainable bus networks for communities for the long-term.

London bus operations

We are pleased with the continued strong operational and financial performance of our London bus business. We continue to work collaboratively with Transport for London in response to the COVID-19 situation, and contract payments are now at normal levels with full service restored.

Rail

We continue to make positive progress in unwinding the affairs of our former train operating companies. Similar to our local regional bus businesses, our ongoing Sheffield Supertram business is receiving government payments for continuing the essential tram services it provides.

Other UK initiatives

We are continuing to seek out new opportunities to diversify the business and create new markets. In July, we launched our Stagecoach Solutions one-stop-shop to help businesses, the education sector and event organisers. Stagecoach Solutions offers a range of tailored transport solutions. The new product offer, which builds on our core bus services, is designed to respond to the "new normal" and meet the need for flexible mobility services. Stagecoach Solutions offers tailored shuttle buses, education bus services, on demand services and simple corporate travel. It also includes our long established rail replacement business and offers travel support for major events and festivals. Organisations can access services via a dedicated website, stagecoachsolutions.com.

Aberdeen City Council and the University of Kent are among the first organisations to sign up to our newly developed, digital and direct corporate sales platform through a bespoke corporate app. We are looking to focus on business parks and major employers in rapidly growing cities with constrained parking, particularly those with a growing emphasis on demonstrating they are responsible employers. There is also an opportunity to deliver ready-made solutions in areas that may be investigating the introduction of workplace charging levies. We are pleased to have agreed a significant ticketing initiative with NHS Scotland, which employs around 140,000 people at several hundred sites.

We are also exploring potential partnerships and initiatives to maximise the value of our significant estate, including the potential for our extensive depot footprint across the UK as part of logistics networks.

<u>Manage change through our people and technology</u>

People initiatives

At this challenging time, we are focusing our People team resources on our welfare and wellbeing support for our employees, including progressing our employee engagement and recognition programmes. We are also continuing to deliver our industry-leading driver and engineering apprenticeship programmes, as well as planning for the future with further steps to ensure we are an even more agile and customer-focused business.

Simpler ticketing

Stagecoach plans to pilot fare capping using contactless tap-in/tap-off ticketing on bus services in Peterborough in 2021. People making multiple journeys in a day or week would have their payment capped no matter how many journeys they make. We developed a technical solution with our technology partner earlier this year and we now plan to deliver a customer proposition when COVID-19 restrictions are sufficiently relaxed and there is clarity on market conditions.

Across Scotland, we will introduce a new simplified fares structure in January 2021, offering a range of value for money travel opportunities.

Green fleet development

We have set an aspiration for our bus fleet to be 100% zero-emissions by 2035.

Stagecoach is continuing to lead the deployment of cleaner technologies, including hydrogen, electric and hybrid electric buses, having invested more than £1billion in around 7,000 new greener vehicles in the past decade. In September, the Scottish Government awarded £1.15m to the Group to help deliver more than 60 cleaner buses in local communities in East Scotland. We are also continuing to engage with Transport Scotland and the relevant local authorities around the introduction of Low Emission Zones (LEZs) to improve air quality in Glasgow, Edinburgh, Dundee and Aberdeen between February 2022 and May 2022.

A study by Centre for Cities earlier this year suggested that air pollution was the UK's largest environmental risk to public health, producing the equivalent of 40,000 deaths a year nationally. Modal shift of journeys from car to public transport, as well as investment in greener vehicles, can make a meaningful, positive difference to air quality and health.

Grow by diversifying

As part of our diversification strategy, we are progressing targeted, value-adding opportunities in overseas markets where we see relatively low political/regulatory risk, contracts that offer an appropriate risk-reward balance, and geographies with positive demographics and economic outlook. We were disappointed to be recently informed that our bids for four bus contracts in the Skåne Municipality in the south of Sweden were unsuccessful. We are, however, continuing with shortlisted bids for two other bus contracts in Skåne. We are shortlisted for two contracts in the Gothenburg region, with lengths of 10 years and 8.5 years respectively. They involve the operation of around 140 buses, including electric vehicles, from June 2022, and final bids are to be submitted in early 2021. Separately, we are also actively exploring potential bus and long distance coach contracts in the United Arab Emirates.

Financial Review

UK Bus (regional operations)

Summary
• Modest operating profit with revenue and journey numbers adversely affected by COVID-19 • Strengthened relationship with government, through partnership working in response to COVID-19 • Payments from government and local authority partners for essential services • Positive long-term drivers for the business

Financial performance

The financial performance of the UK Bus (regional operations) segment for the half-year ended 31 October 2020 is summarised below:

	H1 2021 £m	H1 2020 £m	Change
Revenue	**325.5**	535.1	(39.2)%
Like-for-like* revenue	**325.3**	535.1	(39.2)%
Operating profit*	**9.1**	57.1	(84.1)%
Operating margin*	**2.8%**	10.7%	(790)bp

Our UK Bus (regional operations) business has been significantly affected by the substantial fall in passenger demand for public transport in response to the COVID-19 pandemic. Nevertheless, the business reported an operating profit for the half-year ended 31 October 2020, with government payments for essential local bus services designed to ensure those services operate at a break-even level. The payments from government, which cover the majority of our regional bus operations, include amounts in respect of an allocation of finance costs and overheads. The positive regional bus operating profit should therefore be considered in conjunction with Group overheads and net finance costs, which are separately included in the consolidated income statement.

The reported operating profit for the half-year ended 31 October 2020, also reflects some COVID-related income from government bodies in respect of the prior year to 2 May 2020. The Department for Transport has now concluded its review of the Group's COVID-19 Bus Services Support Grant ("CBSSG") claims for the twelve weeks from 17 March 2020 to 8 June 2020, without material adjustment to the amount claimed by the Group. That, and similar reviews of other COVID-related payments, has resulted in an increase in the amount of the payments in respect of prior periods over which we consider there to be sufficient certainty to permit their recognition as income.

Like-for-like revenue decline moderated over the six month period, as passenger demand recovered as some COVID-related restrictions were relaxed. The significant increase in commercial revenue and customer journeys since May 2020 is despite continuing COVID-related restrictions on our vehicles' capacity to support social distancing, the requirement for passengers to wear face coverings and other COVID-related restrictions.

Like-for-like vehicle miles operated in the first half of the year were 25.0% lower than in the equivalent period last year. Like-for-like revenue per vehicle mile reduced 19.0% and like-for-like revenue per journey increased 60.2%. The reduction in revenue per mile reflects that the COVID-related fall in year-on-year revenue exceeds the year-on-year reduction in vehicle mileage, with government grant payments for continuing bus services. Revenue per mile can be thought of as the sum of (a) operating profit per mile and (b) operating costs and other operating income per mile. COVID-related grant income is not included within revenue. It is reported within operating income, which has resulted in lower operating costs and other operating income per mile than in the equivalent prior year period. Operating profit per mile is also lower as the government payments for bus services are designed to deliver a break-even position on the relevant services. The significant increase in revenue per journey is largely attributable to the continuation of concessionary revenue payments at close to pre-COVID revenue rates despite the suppressed concessionary journey numbers throughout the six months.

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

	H1 2021 £m	H1 2020 £m	Change %
Commercial on and off bus revenue			
- Megabus	**2.2**	14.2	(84.5)%
- other	**129.9**	320.6	(59.5)%
Concessionary revenue	**125.6**	128.5	(2.3)%
Commercial & concessionary revenue	**257.7**	463.3	(44.4)%
Tendered and school revenue	**51.2**	50.2	2.0%
Contract and other revenue	**16.4**	21.6	(24.1)%
Like-for-like revenue	**325.3**	535.1	(39.2)%

Commercial revenue was significantly impacted by a fall in customer demand in response to COVID-19. At the start of the half-year period, commercial sales across our companies were at around 15% of prior year levels. Over the course of the period, passenger demand gradually increased as some COVID-related restrictions were relaxed, with commercial sales returning to around 60% of the prior year levels. Passenger demand has softened in recent weeks but is starting to grow again, and commercial sales are now at around 54% of the prior year level, which we believe is attributable to the changing pattern of COVID-19 restrictions across the country.

* See definitions in note 20 to the condensed financial statements.

The substantial fall year-on-year in megabus revenue partly reflects our decision to suspend megabus services in England and Wales with effect from 5 April. The Department for Transport COVID-related payments for bus services do not cover inter-city coach operations. We have since resumed some services to help reconnect people across the UK.

The decline in revenue receivable from public authorities in respect of concessionary revenue has been more modest, with that revenue generally continuing at around pre-COVID levels despite reductions in vehicle mileage and patronage.

The increase in tendered and school revenue reflects a wider trend of smaller operators exiting the market, resulting in further market consolidation. We continue to work with local authorities to maximise the value for local communities from the financial support councils can provide for socially desirable transport services.

The reduction in contract and other revenue is partly attributable to reduced rail replacement work on the East Midlands railway and Sheffield Supertram networks. We have continued to operate some profitable contract services for private sector organisations and those are excluded from the government COVID-19 regimes for local bus services.

Outlook

Our outlook for the year ending 1 May 2021 is unchanged from when we announced our full year results in July 2020. The continuing uncertainty of the COVID-19 situation and the UK's recovery makes it more difficult to predict our medium-term financial performance.

We are grateful for the measures put in place by the respective governments in England, Scotland and Wales, and by our local authority partners, to support the continuity of local bus services. In August, the Department for Transport confirmed that payments for the provision of these essential services by regional bus operators in England would continue until no longer required. These COVID-19 Bus Services Support Grant Restart payments are continuing, with an eight-week notice period. The COVID-19 Support Grant ("CSG") payments for continuing bus services in Scotland have now been extended to cover the period to 17 January 2021. In Wales, funding has been confirmed for the Bus Emergency Scheme ("BES") for the period to 31 March 2021.

We anticipate that it will take some time for demand for our regional bus services to return to pre-COVID levels, with lockdowns – local and national – impacting on the speed of that recovery. We are therefore planning for a number of scenarios, and are continuing to review our cost base across a range of scenarios.

At the same time, we see positive drivers for the business from a renewed societal focus on health, wellbeing and the environment. We have strengthened our relationship with national and local authority partners in working together through the pandemic to deliver the bus services our customers want. We continue to believe that with partnership working, the delivery of bus services can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

UK Bus (London)

Summary
• Continuation of strong operational and financial performance • Collaborative approach with Transport for London to adjust services in response to COVID-19 • New contract wins • Expecting 2020/21 profitability to be broadly consistent with prior year

Financial performance

The financial performance of the UK Bus (London) business for the half-year ended 31 October 2020 is summarised below:

	H1 2021 £m	H1 2020 £m	Change
Revenue and like-for-like revenue	**126.5**	120.6	4.9%
Operating profit	**9.2**	5.1	80.4%
Operating margin	**7.3%**	4.2%	310bp

We are pleased with the continued strong operational and financial performance of our London business. As anticipated, operating profit has increased relative to the equivalent period in the prior year, reflecting the benefit of operating the new contracts that we secured in 2019/20.

The increase in revenue reflects the operation of these new contracts, partly offset by the reductions in vehicle mileage we agreed with Transport for London in response to the COVID-19 situation. We agreed with Transport for London that the contract payments we receive from it would be reduced by the amount of savings in variable costs achieved because of operating less mileage.

The movement in operating margin was as follows:

Operating margin – H1 2020	4.2%
Change in:	
Other operating income	1.6%
Fuel costs	1.1%
Quality Incentive Contract income	0.5%
Other	(0.1)%
Operating margin – H1 2021	7.3%

The main changes in the operating margin shown above are:

- Other operating income has increased, reflecting grant income recognised under the Coronavirus Job Retention Scheme for employees furloughed as we reduced contract mileage at the request of Transport for London and to protect the wellbeing of more vulnerable employees.
- Fuel costs have decreased as a proportion of revenue, due to lower hedged prices and better fuel efficiency, largely arising from reduced traffic levels on our routes and vehicle fleet changes.
- Quality Incentive Contract income has increased £0.8m year-on-year reflecting improved performance against quality targets.

Outlook

We have worked collaboratively with Transport for London throughout the COVID-19 pandemic, and contract payments are now at normal levels with full service restored. We have agreed changes with Transport for London on how payments of Quality Incentive Contract income are determined this year. We have also agreed how contract price adjustments are determined on an ongoing basis. Taking account of those changes, we expect that profitability in 2020/21 will be broadly consistent with the prior year financial performance.

We have been encouraged by further contract wins in recent weeks, which will add to our operations in 2021/22.

We note the additional funding provided by the Department for Transport to support the continuation of essential Transport for London services through to March 2021. There are good prospects for the London business and we will maintain our discipline in bidding for new contracts as well as focusing on strong operational delivery.

UK Rail

Summary
• 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 the UK Rail business for the half-year ended 31 October 2020 is summarised below:

	H1 2021 £m	H1 2020 £m	Change
Revenue	**2.8**	146.3	(98.1)%
Like-for-like revenue	**2.7**	7.8	(65.4)%
Operating profit	**2.6**	11.6	(77.6)%
Operating margin	**92.9%**	7.9%	8,500bp

The reported revenue for the prior year period includes revenue at the East Midlands Trains franchise that ended in August 2019. The substantial fall in reported revenue reflects the end of that franchise.

The like-for-like revenue represents the ongoing Sheffield Supertram business, with the year-on-year reduction principally reflecting the effect of the COVID-19 situation on passenger demand.

The operating profit for the half-year to 31 October 2020 principally reflects positive progress in concluding matters in relation to our former involvement in the UK train operating market. The reported profit also includes the costs of our commercial and business development team, the majority of whose work is on unwinding our former rail franchises and evaluating future opportunities.

Outlook

Our Sheffield Supertram business is receiving payments from government to ensure the continuation of tram services and support their critical role in getting key workers to work as well as ensuring people can access medical care, food and other essentials.

We continue to hold an onerous contract provision, albeit at a reduced amount, for the estimated net costs of fulfilling our contractual obligations at Sheffield Supertram.

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

Virgin Rail Group

Summary
• Positive progress on concluding contractual matters on West Coast franchise

Financial performance

The financial performance of the Group's Virgin Rail joint venture for the half-year ended 31 October 2020 is summarised below:

49% share:	**H1 2021 £m**	H1 2020 £m
Revenue and like-for-like revenue	**-**	316.5
Operating profit	**0.2**	13.0
Net finance income	**-**	0.3
Taxation	**(0.1)**	(2.5)
Profit after tax	**0.1**	10.8
Operating margin	**-**	4.1%

Virgin Rail Group's West Coast franchise ran until 8 December 2019. Virgin and we remain focused on concluding contractual matters associated with that franchise, and we have made positive progress in recent months.

Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items ("adjusted EBITDA") amounted to £74.2m (H1 2020: £137.4m). Adjusted EBITDA can be reconciled to the financial statements as follows:

	H1 2021 £m	H1 2020 £m	Year to 31 Oct 2020 £m
Total operating profit	**23.6**	77.0	33.8
Separately disclosed items (see note 5 to the condensed financial statements)	**(7.5)**	2.6	22.4
Software amortisation	**2.0**	2.2	4.3
Depreciation	**54.1**	53.1	110.2
Non-separately disclosed Impairment losses	**2.0**	-	2.3
Add back joint venture finance income & tax	**-**	2.5	1.1
Adjusted EBITDA	**74.2**	137.4	174.1

The year-on-year decrease in adjusted EBITDA principally reflects the substantial fall in passenger demand for public transport in response to the COVID-19 pandemic.

Depreciation and software amortisation of £56.1m is broadly in line with the £55.3m for the equivalent prior year period.

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 5 to the condensed financial statements and further explain them below.

Non-software intangible asset amortisation

We separately disclose non-software intangible asset amortisation because analysts have told us that they find separate disclosure helpful, a number of our peers separately disclose such costs and the costs generally arise from business acquisitions and/or contract wins.
Non-software amortisation for the half-year ended 31 October 2020 amounted to £Nil (H1 2020: £0.2m).

Re-organisation costs

As part of our response to the COVID-19 situation, the Group has embarked on a programme to deliver a more agile and efficient business. As part of this programme, we have reshaped our cost base by reducing the size of our back-office activities. The restructuring costs, net of related grant income receivable, associated with those changes amounted to £2.8m in the half-year ended 31 October 2020.

Reassessment of onerous contract provision

An expense of £16.5m was separately disclosed for the year ended 2 May 2020 in respect of impairment losses and onerous contract provisions. As part of that, an onerous contract provision was recorded as at 2 May 2020 in respect of the Sheffield Supertram concession. Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive have confirmed their intention to make further COVID-related payments to our Sheffield Supertram business to allow us to continue running essential services. We have recalculated the onerous contract provision, reflecting the benefit of these payments in a revised forecast for the business, and recorded a provision release of £3.6m in the half-year ended 31 October 2020 in relation to the proportion of the provision as at 2 May 2020 that we no longer expect to be utilised.

Discontinued fuel hedges

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

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement expense for that, and for subsequent movements in the fair value of fuel derivatives that are not accounted for as hedges, has been presented as a separately disclosed item, resulting in a loss of £0.2m recognised in the half-year ended 31 October 2020.

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

Change in 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 £4.5m as at 2 May 2020. We estimated the carrying value of the instrument to be £2.0m as at 31 October 2020, resulting in a loss of £2.5m recognised in finance costs in the half-year ended 31 October 2020.

Tax

The net effect of separately disclosed items from continuing and discontinued operations was a pre-tax profit of £5.0m (H1 2020: loss of £1.3m). The separately disclosed tax charge of £0.9m (H1 2020: credit of £0.1m) for the half-year ended 31 October 2020 reflects the tax effect of the pre-tax separately disclosed items.

Net finance costs

Net finance costs, excluding separately disclosed items, for the half-year ended 31 October 2020 were £15.7m (H1 2020: £13.0m) and are further analysed below. The increase in net finance costs is principally due to the higher pensions finance charges arising from the increased pension deficit, in addition to higher interest on increased borrowings.

	H1 2021 £m	H1 2020 £m
Finance costs		
Interest payable and facility costs on bank loans, overdrafts and trade finance	**1.4**	0.6
Lease interest payable	**1.3**	1.4
Interest payable and other finance costs on bonds	**8.4**	8.4
Interest payable on Covid Corporate Financing Facility commercial paper	**0.8**	-
Unwinding of discount on provisions	**0.8**	0.6
Interest expense on defined benefit pension schemes	**3.4**	2.5
	16.1	13.5
Finance income		
Interest receivable on cash and money market deposits	**(0.4)**	(0.5)
Net finance costs, excluding separately disclosed items ("adjusted net finance costs")	**15.7**	13.0

Taxation

The effective tax rate for the half-year ended 31 October 2020, excluding separately disclosed items, was 25.0% (H1 2020: 19.3%). The increase in the effective rate is principally a function of the low amounts of both the pre-tax profit and the tax expense for the half-year ended 31 October 2020, reflecting the effects of the COVID-19 situation. The tax charge on profit from continuing operations can be analysed as follows:

Half-year to 31 October 2020	Pre-tax profit £m	Tax £m	Rate %
Excluding separately disclosed items	0.4	(0.1)	25.0%
Separately disclosed items	5.0	(0.9)	
Reported in income statement	**5.4**	**(1.0)**	**18.5%**

Cash flows and net debt

The actions we have taken during the COVID-19 situation to protect liquidity and cash flow are reflected in the reduction in consolidated net debt in the half-year ended 31 October 2020 and our continuing, strong available liquidity.

Net cash from operating activities before tax for the half-year ended 31 October 2020 was £81.3m (H1 2020: £69.9m) and can be further analysed as follows:

	H1 2021 £m	H1 2020 £m
EBITDA of Group companies before separately disclosed items	**74.3**	122.6
Cash effect of current period separately disclosed items	**(1.9)**	(2.4)
Loss/(gain) on disposal of property, plant and equipment	**0.6**	(1.6)
Share based payment movements	**0.5**	(0.2)
Working capital movements	**26.3**	(40.9)
Net interest paid	**(18.5)**	(17.5)
Dividends from joint ventures	**-**	9.9
Net cash flows from operating activities before taxation	**81.3**	69.9

Net debt (as analysed in note 16 to the condensed financial statements) decreased from £352.1m at 2 May 2020 to £310.8m at 31 October 2020. The movement in net debt was:

Half-year to 31 October 2020	£m
Net cash flows from operating activities before taxation	81.3
Tax received	2.1
Investing activities	(40.9)
Other	(1.2)
Movement in net debt in the half-year	41.3
Opening net debt	(352.1)
Closing net debt	(310.8)

Even after including the significant COVID-related payments received from government, EBITDA and cash flows from operating activities were adversely affected by COVID-19 in the half-year to 31 October 2020 with significantly reduced demand for our regional bus services. However, our decisions to reduce planned capital expenditure and suspend dividend payments, together with active management of working capital, have assisted us in maintaining strong available liquidity and reducing net debt over the half-year to 31 October 2020. We would expect to see some increase in net debt over the second half of the year to 1 May 2021, partly reflecting the anticipated part settlement of the net train operating company liabilities explained below.

By the half-year end date of 31 October 2020, 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 31 October 2020, the consolidated net liabilities included net liabilities (excluding cash) of £98.5m (2 May 2020: £101.0m) in respect of such items. Accordingly, if all items were settled at their 31 October 2020 carrying values, consolidated net debt would increase by that amount. Consolidated net debt plus outstanding train operating company net liabilities as at 31 October 2020 was £409.3m (2 May 2020: £453.1m)

In addition, the Group receives bus sector COVID-related grant payments on account that are subject to reconciliation and “true up” from time to time by the applicable government authorities. As at 31 October 2020, the Group has net deferred income of £16.3m (2 May 2020: net receivables of £4.3m) recorded in its consolidated balance sheet, being the net amount of receivables held by some Group companies and deferred income balances held by other Group companies. The net £20.6m working capital inflow from those payments in the six months is included in the overall £26.3m working capital inflow within the net cash from operating activities before taxation. We expect the net deferred income balance of £16.3m to unwind over the six months to 1 May 2021.

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

	H1 2021 £m	H1 2020 £m
UK Bus (regional operations)	**29.5**	52.8
UK Bus (London)	**9.7**	4.7
UK Rail	**-**	(3.4)
Net capital expenditure	**39.2**	54.1

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

	H1 2021 £m	H1 2020 £m
Cash flow from:		
- Purchase of property, plant and equipment	**31.7**	54.9
- Disposal of property, plant and equipment	**-**	(8.4)
Increase in net debt from new leases in period	**7.5**	7.6
Net capital expenditure	**39.2**	54.1

In addition to the amounts shown in the table above, the impact of purchases of intangible assets was £0.9m (H1 2020: £1.9m). No (H1 2020: £0.1m) cash was received from disposals of intangible assets.

Financial position and liquidity

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

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

- We have available liquidity of over £850m, and monitor our liquidity and cash flow daily.
- In June 2020, we secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our core £325m bank facilities. Those waivers cover the years ending 31 October 2020 and 1 May 2021 and in November 2020, we secured waivers for the year ending 30 October 2021. As things stand, the next testing of those covenants will be in respect of the year ending 30 April 2022. As an alternative to the covenant tests, the Group has agreed with the banks to maintain a minimum level of available liquidity.
- Notwithstanding the covenant waivers, we would nevertheless have complied with the covenants for the year to 31 October 2020.
- The ratio of net debt at 31 October 2020 to adjusted EBTIDA for the year ended 31 October 2020 was 1.8 times (year ended 26 October 2019: 1.4 times).
- Adjusted EBITDA for the half-year ended 31 October 2020 was 4.7 times (H1 2020: 10.8 times) adjusted net finance charges (including our share of joint venture net finance income).
- Two major credit rating agencies – S&P and Moody's – continue to assign investment grade credit ratings to the Group, with rating outlooks at negative.

As at 7 December 2020, our consolidated liquidity position was as follows:

	£m
Cash balances and money market deposits*	**457.8**
Undrawn, committed headroom under bank facilities expiring March 2025	**276.4**
Undrawn, committed headroom under bank facilities expiring October 2021	**140.0**
Available liquidity	**874.2**
Less: net train operating company liabilities	**(98.3)**
Adjusted liquidity	**775.9**
Less: facilities expiring October 2021	**(140.0)**
Adjusted liquidity, excluding facilities expiring October 2021	**635.9**

* Excludes (i) foreign currency cash balances, (ii) petty cash balances, (iii) cash in transit and (iv) cash pledged as collateral in respect of liabilities for loan notes

Financial position of the Group

Net liabilities

Net liabilities at 31 October 2020 were £117.2m (2 May 2020: £130.2m). The decrease in the net liabilities reflects the actuarial gains on defined benefit pension schemes, gains on cash flow hedges and the profit for the half-year ended 31 October 2020.

Retirement benefits

The reported net liabilities of £117.2m (2 May 2020: £130.2m), that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £404.9m (2 May 2020: £413.1m), and associated deferred tax assets of £76.9m (2 May 2020: £78.5m).

The Group recognised pre-tax actuarial gains of £6.3m in the half-year ended 31 October 2020 (H1 2020: losses of £87.5m) on Group defined benefit schemes.

The discount rate used to determine pension scheme liabilities as at 31 October 2020 was 1.6%, in line with the discount rate applied as at 2 May 2020, but significantly below prior year discount rates.

The trustees are progressing with the 2020 triennial valuation of our main defined benefit pension scheme, assessing the impact of recent events, but also recognising that the pension benefits payable reflect long-term obligations and investment and funding assumptions. We expect the funding deficit to be substantially lower than the £400.2m (included in the Group total of £404.9m) determined on an accounting basis as at 31 October 2020. We expect that the trustees will conclude the triennial valuation early in 2021, taking into account a range of factors including making judgments on long-term investment returns and seeking to look past current COVID-related uncertainties. At this stage, we would not expect the funding deficit on the main scheme to be less than £100m, and it may lead to an increase in employer contributions over the medium to long-term.

We have seen significant movements in the value of investments and bond yields (which inform the discount rate used to determine the pension liabilities for the financial statements) partly because of the COVID-19 pandemic. Given the continuing uncertainty resulting from COVID-19, there remains a risk of further significant market movements that could result in significant changes in the amount of our net retirement benefit liabilities reported in the financial statements. We will continue to look at pensions funding over the longer term and encourage the trustees of the relevant schemes to maintain a long-term perspective on pensions funding.

Related parties

Note 19 to the condensed financial statements provides details of significant transactions between the Group and related parties.

Principal risks and uncertainties

Like most businesses, there is a range of risks and uncertainties facing the Group. We give a brief summary 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 11 to 15 of the Group's 2020 Annual Report set out specific risks and uncertainties in more detail.

The matters summarised below are not 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. In assessing the Group's likely financial performance for the second half of the current financial year, these risks and uncertainties should be considered in addition to the matters referred to regarding seasonality in note 2 to the condensed financial statements, and the comments made later under the heading "Outlook".

- Major event such as a serious accident – there is a risk that the Group is involved (directly or indirectly) in a major operational incident.
- Economy – the economic environment in the geographic areas in which the Group operates affects the demand for the Group's services. The ongoing effects of the COVID-19 situation and the negotiation of the terms of the UK leaving the European Union may lead to continuing economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pensions, financial instruments and other balances. UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff. A weaker economy may also increase the risk of the Group's contingent liabilities, particularly those in relation to its former North American business, crystallising.
- Terrorism – there is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident.
- Changing customer habits - There is a risk that changes in people's working patterns, shopping habits and/or other preferences affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. It is likely that COVID-19 will accelerate trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram, there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.
- Pension scheme funding – the Group participates in a number of defined benefit pension schemes, and there is a risk that the cash contributions required increase or decrease due to changes in factors such as regulatory approach, investment performance, discount rates and life expectancies. As explained above in the section entitled "Retirement benefits", given the continuing uncertainty resulting from COVID-19, there remains a risk of further significant market movements that could result in significant changes in the amount of our net retirement benefit liabilities reported in the financial statements.
- Insurance and claims environment – there is a risk that the cost to the Group of settling claims against it is significantly higher or lower than expected.
- Regulatory changes and availability of public funding – there is a risk that changes to the regulatory environment or changes to the availability of public funding could affect the Group's prospects. New legislation introduced and planned in the UK could see the introduction of franchised bus networks in some areas, which could affect our bus operations. The extent to which COVID-related payments from government continue will affect the Group's future profitability and cash flow.
- People and culture - The 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 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.
- 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.
- 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. In previous years, we have engaged our auditors to perform a review of the interim financial report for the first half of the financial year. A review of interim financial information by the auditors is substantially less in scope than an audit and does not provide the level of assurance of an audit. We consulted with major shareholders on whether to engage the auditors to perform a review of the interim financial report for the half-year ended 31 October 2020. We and shareholders recognise the importance of reporting the interim financial information on a timely basis. To help ensure that we published the interim financial information at a similar time to previous years, and recognising that an interim review does not provide the level of assurance of an audit in any event, we decided not to engage the auditors to perform a review of the interim financial report. The financial statements for the year ending 1 May 2021 will be subject to audit as usual.

Use of non-GAAP measures

Our reported interim financial information is prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006. In measuring our 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 31 October 2020. Although the COVID-19 situation has increased the level of uncertainty facing the Group, we have not identified a material uncertainty regarding the Group's ability to continue as a going concern for at least the next 12 months. Further detail of our going concern assessment is explained in note 1 to the condensed financial statements.

Outlook

Travel in the UK has already recovered significantly since the lows seen in the spring of this year. While car travel has recovered by more than bus travel, that reflects government messaging discouraging public transport use, temporary constraints on bus capacity to enable social distancing and people seeking to minimise their physical interactions with others during the COVID-19 situation. We have been encouraged by the significant recovery in demand for our bus services since May 2020, even while those factors have applied.
With that evidence of people's continued propensity to travel in the UK, we remain optimistic of rebuilding our bus patronage as the UK emerges from COVID-19. At the right time, we expect government messaging to switch to actively promoting public transport use. We also expect COVID-related restrictions to be removed in due course. That and government policy to drive our shared objective of modal shift of journeys from car to public transport sets a positive long-term outlook for buses in the UK.

Furthermore, we are encouraged by the engagement with the UK Government on transitional "Recovery Partnerships" for regional bus services to bridge from the current arrangements to longer term commercial sustainability. These would help protect bus services as passenger demand and bus operators' profitability recover.

In the contracted London bus market, we are pleased to have won further contracts in recent weeks. We believe we can build on our current good operational and financial performance, and continue our role in the capital's critical public transport network.

While we expect our business to remain largely UK-focused for the time being, we continue to explore and bid for interesting opportunities elsewhere. These opportunities have potential to add further value to the Group.

Overall, while it is difficult to predict the precise pace and timing of recovery over coming months, we continue to see a positive long-term future for the Group.

Martin Griffiths
Chief Executive
9 December 2020

Responsibility Statement

We confirm that to the best of our knowledge:

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

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

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

By order of and on behalf of the Board

Martin Griffiths
Chief Executive
9 December 2020

Ross Paterson
Finance Director
9 December 2020

Cautionary statement

The preceding interim management report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. The interim management report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic, regulatory and business circumstances occurring from time to time in the 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 Half-year to 31 October 2020 Performance excluding separately disclosed items £m	Separately disclosed items (note 5) £m	Results for the period £m	Unaudited Half-year to 26 October 2019 Performance excluding separately disclosed items £m	Separately disclosed items (note 5) £m	Results for the period £m
CONTINUING OPERATIONS							
Revenue	3(a)	**454.6**	**-**	**454.6**	800.2	-	800.2
Operating costs and other operating income		**(438.4)**	**7.5**	**(430.9)**	(732.9)	(2.6)	(735.5)
Operating profit of Group companies	3(b)	**16.2**	**7.5**	**23.7**	67.3	(2.6)	64.7
Share of (loss)/profit of joint ventures after finance costs, finance income and taxation	3(c)	**(0.1)**	**-**	**(0.1)**	12.3	-	12.3
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	3(b)	**16.1**	**7.5**	**23.6**	79.6	(2.6)	77.0
Finance costs		**(16.1)**	**(2.5)**	**(18.6)**	(13.5)	-	(13.5)
Finance income		**0.4**	**-**	**0.4**	0.5	1.9	2.4
Profit before taxation		**0.4**	**5.0**	**5.4**	66.6	(0.7)	65.9
Taxation		**(0.1)**	**(0.9)**	**(1.0)**	(10.6)	0.1	(10.5)
Profit from continuing operations		**0.3**	**4.1**	**4.4**	56.0	(0.6)	55.4
DISCONTINUED OPERATIONS							
Loss after taxation for the period from discontinued operations	4	**-**	**-**	**-**	-	(0.6)	(0.6)
TOTAL OPERATIONS							
Total profit for the period, all attributable to equity holders of the parent		**0.3**	**4.1**	**4.4**	56.0	(1.2)	54.8
EARNINGS/(LOSS) PER SHARE							
Continuing operations							
- Adjusted basic/Basic	7	**0.1p**		**0.8p**	10.0p		9.9p
- Adjusted diluted/Diluted	7	**0.1p**		**0.8p**	9.9p		9.8p
Discontinued operations							
- Adjusted basic/Basic	7	**-**		**-**	-		(0.1)p
- Adjusted diluted/Diluted	7	**-**		**-**	-		(0.1)p
Total operations							
- Adjusted basic/Basic	7	**0.1p**		**0.8p**	10.0p		9.8p
- Adjusted diluted/Diluted	7	**0.1p**		**0.8p**	9.9p		9.7p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Half-year to 31 October 2020 £m	Unaudited Half-year to 26 October 2019 £m
Profit for the period	**4.4**	54.8
Items that may be reclassified to profit or loss		
Continuing operations		
Cash flow hedges:		
- Net fair value losses on cash flow hedges	**(2.9)**	(12.4)
- Reclassified and reported in profit for the period	**6.6**	(7.1)
- Share of other comprehensive expense on joint ventures' cash flow hedges	**-**	(0.3)
- Tax effect of cash flow hedges	**(0.7)**	3.6
Total items that may be reclassified to profit or loss	**3.0**	(16.2)
Items that will not be reclassified to profit or loss		
Continuing operations		
Actuarial gains/(losses) on Group defined benefit pension schemes	**6.3**	(87.5)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	**(1.2)**	14.8
Share of actuarial gains on joint ventures' defined benefit schemes, net of tax	**-**	6.1
Total items that will not be reclassified to profit or loss	**5.1**	(66.6)
Other comprehensive income/(expense) for the period	**8.1**	(82.8)
Total comprehensive income/(expense) for the period, all attributable to equity holders of the parent	**12.5**	(28.0)

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

	Notes	**Unaudited As at 31 October 2020 £m**	Audited As at 2 May 2020 £m
ASSETS			
Non-current assets			
Goodwill		**51.9**	51.9
Other intangible assets	8	**8.4**	9.5
Property, plant and equipment	9	**880.3**	914.9
Interests in joint ventures	10	**16.2**	16.3
Deferred tax asset		**29.9**	33.3
Other receivables		**23.0**	24.8
		1,009.7	1,050.7
Current assets			
Assets held for sale		**1.4**	-
Inventories		**8.6**	8.8
Trade and other receivables		**100.4**	106.4
Derivative instruments at fair value		**-**	2.9
Cash and cash equivalents		**482.4**	348.3
		592.8	466.4
Total assets	3(d)	**1,602.5**	1,517.1
LIABILITIES			
Current liabilities			
Trade and other payables		**319.5**	303.7
Current tax liabilities		**12.6**	11.0
Borrowings		**339.5**	42.5
Derivative instruments at fair value		**27.6**	38.6
Provisions	17	**49.5**	51.9
		748.7	447.7
Non-current liabilities			
Other payables		**9.6**	10.0
Borrowings		**455.1**	667.5
Derivative instruments at fair value		**21.1**	26.6
Provisions	17	**80.3**	82.4
Retirement benefit obligations	12	**404.9**	413.1
		971.0	1,199.6
Total liabilities	3(d)	**1,719.7**	1,647.3
Net liabilities	3(d)	**(117.2)**	(130.2)
EQUITY			
Ordinary share capital	13	**3.2**	3.2
Share premium account		**8.4**	8.4
Retained earnings		**(450.1)**	(460.1)
Capital redemption reserve		**422.8**	422.8
Own shares		**(69.6)**	(69.6)
Cash flow hedging reserve		**(31.9)**	(34.9)
Total equity, all attributable to the parent		**(117.2)**	(130.2)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Cash flow hedging reserve £m	Total equity £m
Balance at 2 May 2020		3.2	8.4	(460.1)	422.8	(69.6)	(34.9)	**(130.2)**
Profit for the period		-	-	4.4	-	-	-	**4.4**
Other comprehensive income net of tax		-	-	5.1	-	-	3.0	**8.1**
Total comprehensive income		**-**	**-**	**9.5**	**-**	**-**	**3.0**	**12.5**
Credit in relation to equity-settled share based payments		-	-	0.5	-	-	-	**0.5**
Balance at 31 October 2020		**3.2**	**8.4**	**(450.1)**	**422.8**	**(69.6)**	**(31.9)**	**(117.2)**
Balance at 27 April 2019		3.2	8.4	(285.4)	422.8	(39.4)	18.8	**128.4**
Profit for the period		-	-	54.8	-	-	-	**54.8**
Other comprehensive expense net of tax		-	-	(66.9)	-	-	(15.9)	**(82.8)**
Total comprehensive expense		**-**	**-**	**(12.1)**	**-**	**-**	**(15.9)**	**(28.0)**
Ordinary shares purchased into treasury		-	-	-	-	(30.2)	-	**(30.2)**
Cash paid to settle share based payments originally intended to be equity-settled		-	-	(0.4)	-	-	-	**(0.4)**
Credit in relation to equity-settled share based payments		-	-	0.2	-	-	-	**0.2**
Dividends paid on ordinary shares	6	-	-	(21.7)	-	-	-	**(21.7)**
Balance at 26 October 2019		**3.2**	**8.4**	**(319.4)**	**422.8**	**(69.6)**	**2.9**	**48.3**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Unaudited Half-year to 31 October 2020 £m**	Unaudited Half-year to 26 October 2019 £m
Cash flows from operating activities			
Cash generated by operations	14	**99.8**	77.5
Interest paid		**(18.9)**	(18.0)
Interest received		**0.4**	0.5
Dividends received from joint ventures		**-**	9.9
Net cash flows from operating activities before tax		**81.3**	69.9
Tax received/(paid)		**2.1**	(8.9)
Net cash from operating activities after tax		**83.4**	61.0
Cash flows from investing activities			
Cash outflow associated with disposals of subsidiaries in prior years		**(0.8)**	(3.1)
Purchase of property, plant and equipment		**(31.7)**	(54.9)
Disposal of property, plant and equipment		**-**	8.4
Purchase of intangible assets		**(0.9)**	(1.9)
Disposal of intangible assets		**-**	0.1
Net cash outflow from investing activities		**(33.4)**	(51.4)
Cash flows from financing activities			
Purchase of own ordinary shares into treasury		**-**	(30.2)
Repayments of principal portion of lease debt		**(14.4)**	(13.7)
Drawdown of other borrowings		**298.5**	-
Repayment of other borrowings		**(200.0)**	(0.1)
Dividends paid on ordinary shares	6	**-**	(21.7)
Net cash flow from financing activities		**84.1**	(65.7)
Net increase/(decrease) in cash and cash equivalents		**134.1**	(56.1)
Cash and cash equivalents at beginning of period		**348.3**	170.4
Cash and cash equivalents at end of period		**482.4**	114.3

For the purposes of reporting "cash and cash equivalents" in the consolidated cash flow statement and the consolidated balance sheet, cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash amounts include balances in respect of an offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. The reported amount of cash in the consolidated balance sheet includes the net balance on these offset accounts, comprising both positive bank balances and bank overdrafts.

International Accounting Standard 7, *Statement of Cash Flows*, states that investments will normally qualify as cash equivalents only if the maturity, at acquisition, is less than three months. The Group's cash equivalents can include deposits with well-rated financial institutions with a maturity, at acquisition, of up to twelve months but only where the Group considers that any "break cost" in converting the deposits to cash in advance of their maturity is insignificant.

Cash equivalents include investments in certain money market funds. The Group's investments in money market funds can generally be converted to cash with less than one days' notice and the risk of day-to-day changes in the value of the investments is considered to be insignificant.

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 31 October 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 2 May 2020, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Except to the extent described below, the accounting policies and methods of computation applied in the consolidated interim financial information are the same as those of the annual financial statements for the year ended 2 May 2020, as described on pages 103 to 117 of the Group's 2020 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 31 October 2020. The comparative figures for the half-year ended 26 October 2019 include the results for all segments for the 26 weeks ended 26 October 2019.

This condensed consolidated interim financial information for the half-year ended 31 October 2020 has not been audited or reviewed by the auditors. The comparative financial information for the half-year ended 26 October 2019 was reviewed by the auditors but has not been audited. The comparative financial information presented in this announcement for the year ended 2 May 2020 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 2 May 2020 were approved by the Board of Directors on 22 July 2020. They received an unqualified audit report from the auditors, did not contain an emphasis of matter paragraph, did not contain a statement under section 498(2) or (3) of the Companies Act 2006 and have been filed with the Registrar of Companies.

The Board of Directors approved this announcement, including the condensed consolidated interim financial information, on 9 December 2020. This announcement will be available on the Group's website at http://www.stagecoachgroup.com/investors/financial-analysis/reports/.

(b) Discontinued operations

The Group disposed of its North America segment on 16 April 2019. The segment is therefore presented as discontinued operations.

Note 4 provides details of discontinued operations.

(c) New accounting standards adopted during the period

A number of amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net liabilities or results of the Group.

(d) Going concern

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

The Board considered the liquidity position in the Group's financial forecasts, recognising the challenges around reliably estimating and forecasting the effects of COVID-19 on our regional bus business. The key areas of forecasting uncertainty include:

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

1 BASIS OF PREPARATION (CONTINUED)

(d) Going concern (continued)

(i) Going concern assessment (continued)
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 for the six months to 1 May 2021 is 95% of pre-COVID levels, reducing to 90% of pre-COVID levels in the year ending 30 April 2022. It also assumes that regional bus commercial revenue returns to 60% of pre-COVID levels by 1 May 2021, increasing to 85% of pre-COVID levels in the year ending 30 April 2022 reflecting the assumed return in patronage as the country emerges from the pandemic. Concessionary revenue for the six months ended 1 May 2021 is forecast at 95% of pre-COVID levels, reducing to 85% of pre-COVID levels in the year ending 30 April 2022. During the pandemic, governments have confirmed additional COVID-related measures to support the continuity of bus services. Our base case forecasts assume these additional measures continue until 31 March 2021, consistent with the revised end date for the Coronavirus Job Retention Scheme. We do see potential for government to extend support beyond that to support the continuity of bus services and/or to foster the return of economic activity. In particular, that support may take the form of Recovery Partnerships, involving an agreement between bus operators and local transport authorities to work together to deliver a new post-COVID bus network.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue and vehicle mileage over the forecast period, in addition to more cautious assumptions around levels of government support measures. The range of downside scenarios considered cover:
- commercial revenue at between 55% and 60% of pre-COVID levels by 1 May 2021;
- commercial revenue at between 75% and 85% of pre-COVID levels in the year ending 30 April 2022;
- concessionary revenue at between 70% and 85% of pre-COVID levels in the year ending 30 April 2022;
- vehicle mileage at between 85% and 95% of pre-COVID levels by 1 May 2021 and in the year ending 30 April 2022;
- additional COVID-related government measures ending between January 2021 and March 2021.
- certain contingent liabilities, including in respect of our former North America business, crystallising as actual liabilities.

(ii) Mitigating actions
As explained in the “Financial position and liquidity” section of this report, we have secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our £325m of committed bank facilities entered into in March 2020. The waivers cover the years ending 31 October 2020, 1 May 2021 and 30 October 2021. Notwithstanding the covenant waivers, we would nevertheless have complied with the covenants for the year to 31 October 2020. As things stand, the next testing of those covenants will be in respect of the year ending 30 April 2022. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity. The minimum liquidity thresholds are £400m as at 31 October 2020 and £150m (plus the amount of any commercial paper outstanding under the Covid Corporate Financing Facility) as at 1 May 2021 and 30 October 2021. 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 liquidity thresholds.

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

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment: further extensions to the period of time covered by COVID-19 Bus Services Support Grant Restart beyond March 2021; issuing new share capital for cash; asset sale and leasebacks; and obtaining further covenant waivers and utilising the £140m facilities (expiring in October 2021) that are excluded in the going concern assessment.

(iii) Liquidity headroom
Under all of the modelled scenarios, positive liquidity headroom exists throughout the going concern period and the Group remains in compliance with the minimum liquidity thresholds it has agreed with banks. In the most severe of the downside scenarios modelled (the reverse stress test scenario), liquidity headroom exists and the minimum liquidity thresholds are achieved throughout the going concern period after taking account of controllable, mitigating actions.

Liquidity headroom in the modelled scenarios excludes the £300m of commercial paper issued under the Bank of England’s Covid Corporate Financing Facility (as it is assumed this will be repaid in February and March 2021) and the £140m loan facility (expiring October 2021). The available liquidity comprises the Group’s undrawn committed facilities having a maturity date of 2025, and cash balances.

(iv) Going concern conclusion
Accordingly, the condensed consolidated interim financial information for the half-year ended 31 October 2020 has been prepared on a going concern basis. In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated interim financial information, with no material uncertainties identified. The Directors have a reasonable expectation that the Group will continue to operate as a going concern for at least 12 months from the date of this announcement.

2 SEASONALITY

The developing COVID-19 situation could affect the phasing of the Group's revenue and profit for the year ending 1 May 2021.

The expiry of the Group's East Midlands Trains franchise in August 2019 and the expiry of Virgin Rail Group's West Coast franchise in December 2019 affected the phasing of the Group's profit in the year ending 2 May 2020 with higher profits being recorded during the half-year ended 26 October 2019. The COVID-19 pandemic had a significant impact on trading in the later part of the year ended 2 May 2020, with a significant reduction in revenue and profit over that period.

3 SEGMENTAL ANALYSIS

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

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

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

The basis of segmentation and the basis on which segment profit is measured are consistent with the Group's last annual financial statements for the year ended 2 May 2020.

The Group has interests in two active joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus (regional operations). The results of these joint ventures are shown separately in note 3(c).

(a) Revenue

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

Almost all of the revenue of the UK Bus (London) segment is receivable from Transport for London. As at 31 October 2020, the Group had receivables from Transport for London of £4.8m (2 May 2020: £9.6m). Notwithstanding reports of Transport for London's financial pressures, the Group does not consider those receivables impaired.

Revenue, from continuing operations, split by class and segment, was as follows:

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

	Unaudited				
	Half-year to 26 October 2019				
	Commercial passenger revenue £m	Concessionary revenue £m	Tendered & school revenue £m	Contract & other revenue £m	Total £m
UK Bus (regional operations)	334.8	128.5	50.2	21.6	535.1
UK Bus (London)	0.1	-	-	120.5	120.6
Total bus operations	334.9	128.5	50.2	142.1	655.7
UK Rail	129.0	-	-	17.3	146.3
Total Group revenue	463.9	128.5	50.2	159.4	802.0
Intra-Group revenue – UK Bus (regional operations)	-	-	-	(1.8)	(1.8)
Reported Group revenue	463.9	128.5	50.2	157.6	800.2

3 SEGMENTAL ANALYSIS (CONTINUED)

(b) Operating profit

Operating profit, from continuing operations, split by segment, was as follows:

	Unaudited			Unaudited		
	Half-year to 31 October 2020			Half-year to 26 October 2019		
	Performance excluding separately disclosed items £m	Separately disclosed items (note 5) £m	Results for the period £m	Performance excluding separately disclosed items £m	Separately disclosed items (note 5) £m	Results for the period £m
UK Bus (regional operations)	**9.1**	**4.2**	**13.3**	57.1	(1.0)	56.1
UK Bus (London)	**9.2**	**-**	**9.2**	5.1	-	5.1
Total bus operations	**18.3**	**4.2**	**22.5**	62.2	(1.0)	61.2
UK Rail	**2.6**	**3.6**	**6.2**	11.6	(0.8)	10.8
	20.9	**7.8**	**28.7**	73.8	(1.8)	72.0
Group overheads	**(4.6)**	**(0.3)**	**(4.9)**	(6.1)	(0.8)	(6.9)
Restructuring costs	**(0.1)**	**-**	**(0.1)**	(0.4)	-	(0.4)
Total operating profit of Group companies	**16.2**	**7.5**	**23.7**	67.3	(2.6)	64.7
Share of joint ventures' (loss)/profit after finance costs, finance income and taxation	**(0.1)**	**-**	**(0.1)**	12.3	-	12.3
Total operating profit: Group operating profit and share of joint ventures' (loss)/profit after taxation	**16.1**	**7.5**	**23.6**	79.6	(2.6)	77.0

(c) Joint ventures

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

	Unaudited	Unaudited
	Half-year to 31 October 2020 £m	Half-year to 26 October 2019 £m
Virgin Rail Group (UK Rail)		
Operating profit	**0.2**	13.0
Finance income (net)	**-**	0.3
Taxation	**(0.1)**	(2.5)
	0.1	10.8
Citylink (UK Bus, regional operations)		
Operating (loss)/profit	**(0.3)**	1.8
Taxation	**0.1**	(0.3)
	(0.2)	1.5
Share of (loss)/profit of joint ventures after finance costs, finance income and taxation	**(0.1)**	12.3

(d) Gross assets and liabilities

Assets and liabilities split by segment were as follows:

	Unaudited			Audited		
	As at 31 October 2020			As at 2 May 2020		
	Gross assets £m	**Gross liabilities £m**	**Net assets/ (liabilities) £m**	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**907.7**	**(517.0)**	**390.7**	949.0	(490.3)	458.7
UK Bus (London)	**127.0**	**(219.1)**	**(92.1)**	128.5	(225.9)	(97.4)
UK Rail	**4.2**	**(124.6)**	**(120.4)**	5.1	(138.4)	(133.3)
	1,038.9	**(860.7)**	**178.2**	1,082.6	(854.6)	228.0
Central functions	**35.1**	**(51.8)**	**(16.7)**	36.6	(71.7)	(35.1)
Joint ventures	**16.2**	**-**	**16.2**	16.3	-	16.3
Borrowings and cash	**482.4**	**(794.6)**	**(312.2)**	348.3	(710.0)	(361.7)
Taxation	**29.9**	**(12.6)**	**17.3**	33.3	(11.0)	22.3
Total	**1,602.5**	**(1,719.7)**	**(117.2)**	1,517.1	(1,647.3)	(130.2)

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

4 DISCONTINUED OPERATIONS

The results for the North American business are presented as discontinued operations, and were as follows:

	Unaudited			Unaudited		
	Half-year to 31 October 2020			Half-year to 26 October 2019		
	Performance excluding separately disclosed items £m	Separately disclosed items (see below) £m	Results for the period £m	Performance excluding separately disclosed items £m	Separately disclosed items (see below) £m	Results for the period £m
Loss on disposal of North American business	**-**	**-**	**-**	-	(0.6)	(0.6)

The sale of the North American business was concluded in April 2019. The prior year loss on disposal of the North America business represents the settlement of outstanding claims and liabilities in relation to the sale of the business,

5 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 in respect of continuing operations shown in the columns headed "Separately disclosed items" on the face of the consolidated income statement can be further analysed as follows:

	Unaudited	Unaudited
	Half-year to 31 October 2020 £m	Half-year to 26 October 2019 £m
CONTINUING OPERATIONS		
Operating costs and other operating income		
Non-software intangible asset amortisation	**-**	(0.2)
Re-organisation costs	**(2.8)**	(2.4)
Release from onerous contract provision	**3.6**	-
Discontinuation of fuel hedge accounting	**6.7**	-
	7.5	(2.6)
Finance (costs)/income		
Change in fair value of Deferred Payment Instrument	**(2.5)**	1.9
Separately disclosed items before taxation	**5.0**	(0.7)
Taxation effect	**(0.9)**	0.1
Separately disclosed items after taxation	**4.1**	(0.6)

(b) Re-organisation costs

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

In April 2019, there were two significant events relevant to the Group's overall strategy: the sale of the Group's North America Division and the UK Department for Transport's decision to disqualify the bids that the Group was involved in for new UK rail franchises. In light of those, the Group subsequently reshaped its management structure and reduced overheads to reflect the reduced scope of the business. The re-organisation costs associated with those changes amounted to £2.4m in the half-year ended 26 October 2019.

5 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(c) Release from onerous contract provision

In the second half of the year ended 2 May 2020 and taking account of the effects of the COVID–19 situation, the Group assessed its assets for impairment and reviewed for onerous contracts. Based on that review, a separately disclosed expense of £16.5m was recorded for the year ended 2 May 2020.

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. In estimating that onerous contract provision as at 2 May 2020, COVID-related payments to the Group's Sheffield Supertram business from the Department for Transport and South Yorkshire Passenger Transport Executive were only taken account of to the extent they were confirmed on or prior to 2 May 2020. Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to Sheffield Supertram. We have re-assessed the amount of the onerous contract provision as at 31 October 2020, taking account of the further COVID-related payments and other developments that affect the estimated net cost of fulfilling the contractual obligations. That re-assessment resulted in a £3.6m reduction in the level of the provision, with the reduction credited to the consolidated income statement for the half-year ended 31 October 2020 and presented as a separately disclosed item.

The estimate of the Supertram onerous contract provision includes anticipated Light Rail Revenue Grant ("LRRG") income in respect of the period through to 18 January 2021. The Department for Transport has indicated further potential LRRG payments may be available for the period to 31 March 2021 but that remains subject to its further review. If LRRG were to continue on the current basis through to 31 March 2021, the Group estimates that the required onerous contract provision would reduce by £1.6m. LRRG or similar funding beyond 31 March would further reduce the required provision.

The estimate of the Supertram onerous contract provision involves estimation uncertainty, particularly in relation to forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts used to estimate the provision as at 31 October 2020 assume that underlying passenger revenue from 2 May 2021, until the end of the Supertram concession in March 2024, is around 85% of the pre-COVID forecasts for that period. Underlying passenger revenue has been normalised to take account of changes in the timing of infrastructure work on the tram system. If total forecast revenue from 2 May 2021 was increased by 10%, the onerous contract provision as at 31 October 2020 would be £4.9m lower and if it was decreased by 10%, the provision would be £4.9m 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 four 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 31 October 2020.

(d) Discontinuation of fuel hedge accounting

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

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

In the half-year ended 31 October 2020, the fair value of those discontinued hedges (net of related offsetting derivatives) moved in favour of the bank counterparties and accordingly, a charge of £0.2m is reported in the consolidated income statement for the half-year ended 31 October 2020 and presented as a separately disclosed item. As the discontinued hedges cover periods up until April 2021, there should be no amounts to be reported as separately disclosed items in respect of those hedges beyond the current year to 1 May 2021.

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

Amounts retained in the cash flow hedging reserve for fuel consumption that was still expected to occur are transferred to profit in the usual manner and are not reported as separately disclosed items.

5 SEPARATELY DISCLOSED ITEMS (CONTINUED)

(e) 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 £4.5m as at 2 May 2020. At 31 October 2020, the carrying value of the instrument was estimated to be £2.0m, resulting in a loss of £2.5m being recognised as finance costs in the half-year ended 31 October 2020, compared to a gain of £1.9m recognised as finance income in the half-year ended 26 October 2019.

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.

6 DIVIDENDS

Dividends on ordinary shares are shown below.

	Unaudited	Unaudited	Audited	**Unaudited**	Unaudited	Audited
	Half-year to 31 October 2020 pence per share	Half-year to 26 October 2019 pence per share	Year to 2 May 2020 pence per share	**Half-year to 31 October 2020 £m**	Half-year to 26 October 2019 £m	Year to 2 May 2020 £m
Amounts recognised as distributions						
Dividends on ordinary shares:						
Final dividend in respect of the previous year	**-**	3.9	3.9	**-**	21.7	21.7
Interim dividend in respect of the current year	**-**	-	3.8	**-**	-	20.9
Amounts recognised as distributions to equity holders	**-**	3.9	7.7	**-**	21.7	42.6
Dividends declared or proposed but neither paid nor included as liabilities in the financial statements						
Dividends on ordinary shares:						
Interim dividend in respect of the current year	**-**	3.8	-	**-**	20.9	-
	-	3.8	-	**-**	20.9	-

The Board has declared no interim dividend in respect of the six months to 31 October 2020.

7 EARNINGS PER SHARE

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

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

	Unaudited	Unaudited
	Half-year to 31 October 2020 No. of shares Million	Half-year to 26 October 2019 No. of shares Million
Basic weighted average number of ordinary shares, excluding treasury shares	**550.4**	560.7
Dilutive ordinary shares		
- Restricted Share Plan	**0.1**	-
- Long Term Incentive Plan	**-**	2.1
- Executive Participation Plan	**2.8**	2.9
Diluted weighted average number of ordinary shares	**553.3**	565.7

7 EARNINGS PER SHARE (CONTINUED)

Adjusted EPS is calculated by adding back separately disclosed items (after taking account of taxation) as shown on the consolidated income statement. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The reconciliation of net profit for the basic EPS calculation to net profit for the adjusted EPS calculation is shown below.

	Unaudited Half-year to 31 October 2020			Unaudited Half-year to 26 October 2019		
	Continuing operations £m	**Discontinued operations £m**	**Total of all operations £m**	Continuing operations £m	Discontinued operations £m	Total of all operations £m
Profit attributable to equity holders of the parent for basic EPS calculation	**4.4**	**-**	**4.4**	55.4	(0.6)	54.8
Non-software intangible asset amortisation (note 5)	**-**	**-**	**-**	0.2	-	0.2
Other separately disclosed items before tax (notes 4 and 5)	**(5.0)**	**-**	**(5.0)**	0.5	0.6	1.1
Tax effect of separately disclosed items (note 5)	**0.9**	**-**	**0.9**	(0.1)	-	(0.1)
Profit for adjusted EPS calculation	**0.3**	**-**	**0.3**	56.0	-	56.0

8 OTHER INTANGIBLE ASSETS

The movements in other intangible assets were as follows:

	Unaudited Half-year to 31 October 2020 £m	Unaudited Half-year to 26 October 2019 £m	Audited Year to 2 May 2020 £m
Cost at beginning of period	**33.8**	34.3	34.3
Additions	**0.9**	1.9	5.5
Disposals	**-**	(5.6)	(6.0)
Cost at end of period	**34.7**	30.6	33.8
Accumulated amortisation at beginning of period	**(24.3)**	(24.6)	(24.6)
Amortisation charged to income statement	**(2.0)**	(2.4)	(5.2)
Disposals	**-**	5.5	5.5
Accumulated amortisation at end of period	**(26.3)**	(21.5)	(24.3)
Net book value at beginning of period	**9.5**	9.7	9.7
Net book value at end of period	**8.4**	9.1	9.5

9 PROPERTY, PLANT AND EQUIPMENT

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

	Unaudited Half-year to 31 October 2020 £m	Unaudited Half-year to 26 October 2019 £m	Audited Year to 2 May 2020 £m
Cost at beginning of period	**1,688.3**	1,666.7	1,666.7
Additions – purchased assets	**16.0**	26.8	91.7
Additions – right-of-use assets	**7.5**	7.6	15.9
Acquired through business combinations	**-**	-	2.9
Disposals	**(10.4)**	(64.4)	(88.9)
Transferred to assets held for sale	**(1.9)**	-	-
Cost at end of period	**1,699.5**	1,636.7	1,688.3
Depreciation at beginning of period	**(773.4)**	(744.6)	(744.6)
Depreciation charged to income statement	**(54.1)**	(53.1)	(109.2)
Impairment charged to income statement	**(2.0)**	-	(0.8)
Disposals	**9.8**	57.6	81.2
Transferred to assets held for sale	**0.5**	-	-
Depreciation at end of period	**(819.2)**	(740.1)	(773.4)
Net book value at beginning of period	**914.9**	922.1	922.1
Net book value at end of period	**880.3**	896.6	914.9

The carrying value of the Group's right-of-use assets at 31 October 2020 is £73.6m (2 May 2020: £95.6m).

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the half-year ended 31 October 2020, the Group identified three of its sites that each met the conditions for an asset to be classified as held for sale. Those assets have accordingly been reclassified from property, plant and equipment and are presented as assets held for sale within current assets in the consolidated balance sheet as at 31 October 2020. Immediately prior to reclassifying the assets, impairment was measured and an impairment loss of £0.6m was recognised in respect of one of the sites.

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

10 INTERESTS IN JOINT VENTURES

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

	Unaudited Half-year to 31 October 2020 £m	Unaudited Half-year to 26 October 2019 £m	Audited Year to 2 May 2020 £m
Net book value at beginning of period	**16.3**	19.9	19.9
Share of recognised (loss)/profit	**(0.1)**	12.3	17.6
Share of actuarial gains on defined benefit pension schemes, net of tax	**-**	6.1	6.3
Share of other comprehensive expense on cash flow hedges, net of tax	**-**	(0.3)	(0.2)
Dividends received in cash	**-**	(9.9)	(27.3)
Net book value at end of period	**16.2**	28.1	16.3

A loan payable to joint venture, Scottish Citylink Coaches Limited, of £1.7m (2 May 2020: £1.7m) and a loan payable to Virgin Rail Group of £11.0m (2 May 2020: £11.0m) are included within current liabilities under the caption “Trade and other payables”.

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 2 May 2020. There have been no material changes in any of the Group’s significant financial risk management policies since 2 May 2020.

Liquidity risk

In May 2020, the Group issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England’s Covid Corporate Financing Facility. £300m is contractually payable by the Group during February and March 2021, although the Group might then have the option to issue up to a further £300m under the facility for up to a duration of one year. There have been no other material changes since 2 May 2020 in the contractual undiscounted cash outflows for financial liabilities.

Fair value estimation

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

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

11 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 31 October 2020.

	Unaudited		
	Level 2 £m	**Level 3 £m**	**Total £m**
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	**2.0**	**2.0**
Other debtors – embedded derivative	**1.3**	**-**	**1.3**
Total assets	**1.3**	**2.0**	**3.3**
Liabilities			
Financial derivatives	**(48.7)**	**-**	**(48.7)**

The following table represents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 2 May 2020.

	Audited		
	Level 2 £m	Level 3 £m	Total £m
Assets			
Deferred Payment Instrument from disposal of subsidiaries	-	4.5	4.5
Financial derivatives	2.9	-	2.9
Other debtors – embedded derivative	5.8	-	5.8
Total assets	8.7	4.5	13.2
Liabilities			
Financial derivatives	(65.2)	-	(65.2)

There were no transfers between levels during the half-year ended 31 October 2020.

The Level 2 assets shown in the above tables comprise financial derivatives and embedded 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 terms of the embedded derivatives mirror those of certain of the financial derivatives. Accordingly, the fair value of each embedded derivative is determined with reference to the corresponding financial derivative.

The embedded derivatives and the corresponding financial derivatives are accounted for at fair value through profit or loss. The aggregate net effect of these items on the profit for the half-year ended 31 October 2020 was £Nil (half-year ended 26 October 2019: £Nil).

As explained in note 5(d), the Group discontinued hedge accounting for certain financial derivatives during the year ended 2 May 2020 - those derivatives are now accounted for at fair value through profit or loss. The Group applies relevant hedge accounting to other financial derivatives outstanding as at 31 October 2020. All designated hedge relationships were effective under IFRS 9.

The consideration for the sale of the North American business in April 2019 included a Deferred Payment Instrument of US$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 October 2024 or (b) in part, after distributions of US$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. As a result, the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £2.0m as at 31 October 2020 (2 May 2020: £4.5m).

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

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

11 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

No specific assumptions have been made regarding climate change in valuing the Deferred Payment Instrument. While climate change does present both opportunities and risks to the North America business, we do not consider that climate change considerations materially affect the fair value of the instrument as at 31 October 2020, taking account of the approximate remaining four-year term of the instrument.

The key sensitivity within the valuation of the Deferred Payment Instrument relates to the projected ongoing cashflows of the business sold. Adjusting the cashflows by +/-US$1m (£0.8m) per annum over the forecast period would result in an adjustment of +/-US$1.1m (£0.9m) to the carrying value of the asset as at 31 October 2020 (2 May 2020: +/-US$1.8m (£1.4m)).

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

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

	Carrying value		Fair value	
	31 October 2020 Unaudited £m	2 May 2020 Audited £m	**31 October 2020 Unaudited £m**	2 May 2020 Audited £m
Financial assets				
Financial assets measured at fair value through profit or loss				
– Non-current assets				
– Other receivables – Deferred Payment Instrument	**2.0**	4.5	**2.0**	4.5
– Current assets				
– Other receivables – embedded derivative	**1.3**	5.8	**1.3**	5.8
Financial assets measured at amortised cost				
– Non-current assets				
– Other receivables	**21.0**	20.3	**21.0**	20.3
– Current assets				
– Accrued income	**26.0**	22.5	**26.0**	22.5
– Trade receivables, net of impairment	**22.0**	21.4	**22.0**	21.4
– Other receivables	**4.9**	3.9	**4.9**	3.9
– Cash and cash equivalents	**482.4**	348.3	**482.4**	348.3
Total financial assets	**559.6**	426.7	**559.6**	426.7
Financial liabilities measured at amortised cost				
– Non-current liabilities				
– Borrowings	**(455.1)**	(667.5)	**(462.3)**	(663.1)
– Current liabilities				
– Trade payables	**(20.1)**	(25.4)	**(20.1)**	(25.4)
– Accruals	**(194.4)**	(178.4)	**(194.4)**	(178.4)
– Loans from joint ventures	**(12.7)**	(12.7)	**(12.7)**	(12.7)
– Borrowings	**(339.5)**	(42.5)	**(339.5)**	(42.5)
Total financial liabilities	**(1,021.8)**	(926.5)	**(1,029.0)**	(922.1)
Net financial liabilities	**(462.2)**	(499.8)	**(469.4)**	(495.4)

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

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

- The determination of the fair value of the Deferred Payment Instrument is described earlier in this note 11.
- The carrying value of cash and cash equivalents, accrued income, trade receivables, and other receivables (excluding the Deferred Payment Instrument and the embedded derivative) is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of the embedded derivative is its fair value determined with reference to the fair value of offsetting financial derivatives as confirmed by the applicable counterparty banks.
- The carrying value of trade payables, accruals and loans from joint ventures is considered a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price at the balance sheet date.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 ("IFRS 7"), Financial Instruments: Disclosure, does not require the disclosure of fair values for leases.
- The fair value of other borrowings on which interest is payable at floating rates, and the fair value of short-term commercial paper, is not considered materially different from the carrying value.

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
- A number of UK Local Government Pension Schemes ("LGPS").

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

(b) Gross pension scheme assets and obligations

The gross pension scheme assets and the present value of the schemes' obligations as at 31 October 2020 were as follows:

	Unaudited				
	Funded schemes				
	SPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
Fair value of scheme assets	1,287.6	355.4	20.4	-	1,663.4
Present value of obligations	(1,687.8)	(318.5)	(21.0)	(2.6)	(2,029.9)
	(400.2)	36.9	(0.6)	(2.6)	(366.5)
Asset ceiling	-	(38.4)	-	-	(38.4)
Pension liability before tax	(400.2)	(1.5)	(0.6)	(2.6)	(404.9)

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

The movements for the half-year ended 31 October 2020 in the net pre-tax retirement benefit liabilities recognised in the balance sheet were as follows:

Unaudited	SPS £m	LGPS £m	Other £m	Unfunded plans £m	Total £m
Liability at beginning of period	(404.1)	(2.3)	(3.9)	(2.8)	(413.1)
Current service cost	(2.4)	(0.6)	(0.9)	-	(3.9)
Past service credit	-	-	0.2	-	0.2
Administration costs	(0.4)	-	-	-	(0.4)
Net interest expense	(3.3)	-	(0.1)	-	(3.4)
Employers' contributions	3.1	1.1	5.0	0.2	9.4
Recognised in the consolidated statement of comprehensive income	6.9	0.3	(0.9)	-	6.3
Liability at end of period	(400.2)	(1.5)	(0.6)	(2.6)	(404.9)

12 RETIREMENT BENEFITS (CONTINUED)

(d) Scheme valuations

The latest actuarial valuations of the two sections of SPS were completed as at 30 April 2017. The combined deficit across the two sections on the Trustees' technical provisions basis was £19.1m, comprising scheme assets of £1,398.3m less benefit obligations of £1,417.4m. The weighted average discount rate applied in determining the value of those benefit obligations was 4.5%. The discount rate reflects the asset allocation of SPS and its strong track record of investment returns. The trustees are progressing with the 2020 triennial valuation of SPS, assessing the impact of recent events, but also recognising that the pension benefits payable reflect long-term obligations and investment/funding assumptions. We expect the funding deficit to be substantially lower than the £400.2m (included in the Group total of £404.9m) determined on an accounting basis as at 31 October 2020. Currently, we envisage that the SPS funding deficit is unlikely to be less than £100m, which may lead to an increase in employer contributions over the medium to long-term.

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%.

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

13 ORDINARY SHARE CAPITAL

At 31 October 2020, there were 576,099,960 ordinary shares in issue (2 May 2020: 576,099,960). This figure includes 25,221,213 (2 May 2020: 25,912,949) 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 31 October 2020 £m	Unaudited Half-year to 26 October 2019 £m
Operating profit of Group companies	**23.7**	64.7
Separately disclosed items	**(7.5)**	2.6
Depreciation	**54.1**	53.1
Software amortisation	**2.0**	2.2
Impairment of property, plant and equipment	**2.0**	-
EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA from Group companies")	**74.3**	122.6
Cash effect of current period separately disclosed items	**(1.9)**	(2.4)
Loss/(gain) on disposal of property, plant and equipment	**0.6**	(1.6)
Share based payment movements	**0.5**	(0.2)
Operating cashflows before working capital movements	**73.5**	118.4
Decrease in inventories	**0.2**	4.2
Decrease in receivables	**0.4**	34.0
Increase/(decrease) in payables	**33.2**	(79.9)
(Decrease)/increase in provisions	**(2.2)**	3.3
Differences between employer contributions and pension expense in operating profit	**(5.3)**	(2.5)
Cash generated by operations	**99.8**	77.5

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:

	Notes	**Unaudited Half-year to 31 October 2020 £m**	Unaudited Half-year to 26 October 2019 £m
Increase/(decrease) in cash and cash equivalents		**134.1**	(56.1)
Cash flow from movement in borrowings		**(84.1)**	13.8
		50.0	(42.3)
Recognition of lease liabilities on adoption of IFRS 16		**-**	(89.0)
New leases in period		**(7.5)**	(7.6)
Other movements		**(1.2)**	(0.4)
Decrease/(increase) in net debt		**41.3**	(139.3)
Net debt at beginning of period	16	**(352.1)**	(253.3)
Net debt at end of period	16	**(310.8)**	(392.6)

16 NET DEBT AND CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The Group considers its liabilities arising from financing activities to be those items included within borrowings shown on the consolidated balance sheet. The table below summarises the changes in liabilities arising from financing activities.

The table below also summarises the changes in cash and cash equivalents, and net debt (as defined in note 20).

Unaudited: Half-year ended 31 October 2020	Opening £m	Cashflows £m	New leases £m	Charged to income statement/ other £m	Closing £m
Liabilities arising from financing activities					
Borrowings					
Lease liabilities	(85.8)	14.4	(7.5)	-	(78.9)
Bank loans and loan notes	(217.5)	200.0	-	-	(17.5)
Covid Corporate Financing Facility	-	(298.5)	-	(0.8)	(299.3)
Bonds					
- Principal	(400.0)	-	-	-	(400.0)
- Unamortised costs & discount on issue	2.9	-	-	(0.4)	2.5
Gross debt	(700.4)	(84.1)	(7.5)	(1.2)	(793.2)
Accrued interest on bonds	(9.6)	16.0	-	(8.0)	(1.6)
Effect of fair value hedges on carrying value of borrowings	-	-	-	0.2	0.2
Total liabilities arising from financing activities	(710.0)	(68.1)	(7.5)	(9.0)	(794.6)
Cash and cash equivalents					
Cash and cash equivalents – pledged as collateral	17.5	-	-	-	17.5
Cash and cash equivalents – other	330.8	134.1	-	-	464.9
Total cash and cash equivalents	348.3	134.1	-	-	482.4
Net debt (total gross debt shown above less total cash and cash equivalents shown above)	(352.1)	50.0	(7.5)	(1.2)	(310.8)

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

	Unaudited As at 31 October 2020 £m	Audited As at 2 May 2020 £m
Current liabilities: borrowings	339.5	42.5
Non-current liabilities: borrowings	455.1	667.5
Total liabilities arising from financing activities	794.6	710.0

16 NET DEBT AND CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

The cash collateral balance as at 31 October 2020 of £17.5m (2 May 2020: £17.5m) comprises balances held in respect of loan notes of £17.5m (2 May 2020: £17.5m).

By the half-year end date of 31 October 2020, all of the major rail franchises previously operated by Group subsidiaries had ended. The settlement of train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 31 October 2020, the consolidated net liabilities included £98.5m (2 May 2020: £101.0m) of net liabilities in respect of such items. Accordingly, if all such items were settled at their 31 October 2020 carrying values, consolidated net debt would increase by that amount. Consolidated net debt plus those outstanding train operating company net liabilities as at 31 October 2020 was £409.3m (2 May 2020: £453.1m).

17 PROVISIONS

The Group's provisions at each of 2 May 2020 and 31 October 2020 principally relate to claims provisions for estimated liabilities on incurred incidents up to the balance sheet date.

The total claims provision of £112.3m (2 May 2020: £106.8m) has increased during the half-year, reflecting the latest assessment of the required provision for claims on major incidents. This provision contains £20.8m (2 May 2020: £20.2m) 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.

18 COMMITMENTS AND CONTINGENCIES

(i) *Capital commitments*

Capital commitments contracted for the purchase of property, plant and equipment but not provided for at 31 October 2020 were £28.1m (2 May 2020: £35.6m).

(ii) *Legal actions*

On 27 February 2019, class action proceedings were 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. The prospective claimant representative has applied to the CAT for a collective proceedings order, which, if it were granted, would allow his claim to proceed to a full trial. 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. It is alleged that SSWT and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for Transport for London ("TfL") Travelcard holders wishing to travel outside TfL fare zones. The proposed 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. SSWT is arguing against the granting of a collective proceedings order ("CPO"). The CPO hearing has been scheduled for March 2021 by the CAT. The Supreme Court's decision in Merricks v Mastercard will clarify the test to be applied by the CAT in determining whether a collective proceedings order should be granted or denied. That case was heard in May 2020 and the judgement is now awaited. No provision is held as at 31 October 2020 (2 May 2020: £Nil) 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.

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

The Group sold its North American business in April 2019. The Group provided indemnities for specified representations made in connection with the sale, under which the Purchaser can, in certain circumstances, make claims against the Group. Except for matters for which liabilities are recorded in the consolidated balance sheet, no claims have been notified to the Group or are expected by the Group under those indemnities. In addition, the Group has the following contingent liabilities in respect of its former North American business:

18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

- The North American business receives claims in respect of traffic incidents and employee incidents. It protects against the cost of such claims through third party insurance policies. An element of the claims is not insured because of the "excess" or "deductible" on insurance policies (the "Uninsured Element"). The North America business is liable for costs of settling the Uninsured Element of claims. In the event that the business was unable to meet its liabilities for claims then the insurers would be responsible for meeting those liabilities for the Uninsured Element of claims. To protect themselves against that risk (being, essentially the credit risk of the North America business), the insurers demand collateral typically in the form of letters of credit and guarantees. In connection with the sale of the North America business, the Group agreed to continue to arrange the letters of credit required by the insurers in respect of claims principally relating to periods covered by the Group's ownership of the North American business. The Group indemnifies the banks that issue those letters of credit against any losses suffered by the banks. The Group has also provided continuing guarantees to the insurers in respect of claims relating to such periods. As at 31 October 2020, the North America business had provided for around £49.1m in respect of claims to which the letters of credit and Stagecoach Group guarantees would apply and for which no liability is reflected in the consolidated balance sheet (2 May 2020: £59.2m).

19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the half-year ended 31 October 2020 are provided below, except for those relating to the remuneration of the Directors and management.

(i) *Virgin Rail Group Holdings Limited*

Two of the Group's directors are non-executive directors of the Group's joint venture, Virgin Rail Group Holdings Limited. During the half-year ended 31 October 2020, the Group earned fees of £0.1m (half-year ended 26 October 2019: £0.1m) from Virgin Rail Group Holdings Limited in this regard. As at 31 October 2020, the Group had an immaterial (2 May 2020: £Nil) receivable from Virgin Rail Group Holdings Limited in respect of this. In addition, the Group net sold £0.5m in the half-year ended 31 October 2020 (half-year ended 26 October 2019: net purchased £1.1m) from the group headed by Virgin Rail Group Holdings Limited and as at 31 October 2020 had an immaterial (2 May 2020: £Nil) payable in this respect. In addition, Virgin Rail Group Holdings Limited advanced the Company a loan of £11.0m in the year to 2 May 2020, of which £11.0m was outstanding as at 31 October 2020 (2 May 2020: £11.0m). During the half-year ended 31 October 2020, the interest paid on the loan was £Nil (half-year ended 26 October 2019: £Nil) and the amount of accrued interest outstanding as at 31 October 2020 was £0.1m (2 May 2020: immaterial).

(ii) *Pension Schemes*

Details of contributions made to pension schemes are contained in note 12.

(iii) *Scottish Citylink Coaches Limited*

A non-interest bearing loan of £1.7m (2 May 2020: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 31 October 2020. The Group earned £6.5m in the half-year ended 31 October 2020 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (half-year ended 26 October 2019: £11.2m). The Group also collected revenue of £2.4m on behalf of Scottish Citylink Coaches Limited in the half-year ended 31 October 2020 (half-year ended 26 October 2019: £9.5m). As at 31 October 2020, the Group had a net £4.3m receivable (2 May 2020: £Nil) from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(iv) *East Coast Main Line Company Limited*

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

In the half-year ended 31 October 2020, other Group companies earned £0.1m from East Coast Main Line Company Limited in respect of the provision of certain services (half-year ended 26 October 2019: £0.3m). Other Group companies had a net receivable balance of £0.1m from East Coast Main Line Company Limited as at 31 October 2020 (2 May 2020: £Nil). In addition, East Coast Main Line Company Limited advanced the Company a loan of £30.0m in the year to 2 May 2020, of which £30.0m was outstanding as at 31 October 2020 (2 May 2020: £30.0m). During the half-year ended 31 October 2020, the interest paid on the loan was immaterial (half-year ended 26 October 2019: £Nil) and the amount of accrued interest outstanding as at 31 October 2020 was immaterial (2 May 2020: immaterial).

19 RELATED PARTY TRANSACTIONS (CONTINUED)

(v) *Alexander Dennis Limited*

Until May 2019, when they sold their holdings, Sir Brian Souter (Non-Executive Director) and Dame Ann Gloag (Non-Executive Director until 31 December 2019) collectively held, via companies that they control, 55.1% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director until 31 December 2019) was a director of its holding company until 3 January 2019) controlled a further 33.2% of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Dame Ann Gloag or Sir Ewan Brown was a director of Alexander Dennis Limited nor did they have any involvement in the management of Alexander Dennis Limited. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the period from 28 April 2019 to 28 May 2019, the date at which Alexander Dennis ceased to be a related party, the Group purchased £5.0m of vehicles from Alexander Dennis Limited and £1.5m of spare parts and other services.

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 31 October 2020 and for comparative amounts shown in this document for prior periods.

Adjusted earnings per share

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

For the half-year ended 31 October 2020 and the comparative prior year period, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance excluding separately disclosed items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 7 to the condensed financial statements.

Basic earnings per share and adjusted earnings per share are also separately reported for each of the continuing operations and the discontinued operations. Details of how these are calculated are also provided in note 7.

Like-for-like amounts

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

Like-for-like revenue growth for the half-year ended 31 October 2020 is calculated by comparing the revenue for the current and comparative periods, each adjusted as described above. The revenue of each continuing 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 31 October 2020			
		Reported revenue	Exclude effect of acquisitions	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	325.5	(0.2)	-	325.3
UK Rail	£m	2.8	-	(0.1)	2.7

		Unaudited		
		Half-year to 26 October 2019		
		Reported revenue	Exclude expired rail franchises	Like-for-like revenue
UK Rail	£m	146.3	(138.5)	7.8

20 DEFINITIONS (CONTINUED)

(a) Alternative performance measures (continued)

Liquidity
References to liquidity mean the aggregate amount of cash and cash equivalents, money market deposits and undrawn committed headroom under bank facilities. Adjusted liquidity adjusts liquidity for items such as net train operating liabilities and headroom under shorter term facilities, as shown on page 13 of this document.

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

Operating profit (or loss) for a particular business unit or segment within the Group refers to profit (or loss) before net finance income/costs, taxation, separately disclosed items and restructuring costs. The operating profit (or loss) for each continuing 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 continuing 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 31 October 2020, and the comparative prior year period, to the financial statements is shown on page 10 of this document.

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 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 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, which also reconciles net debt to the net borrowings (cash and cash equivalents less borrowings) shown on the face of the consolidated balance sheet.

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

The components of net debt are shown in note 16 to the condensed financial statements, which also reconciles net debt to the net borrowings (cash and cash equivalents less borrowings) shown on the face of the consolidated balance sheet.

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

20 DEFINITIONS (CONTINUED)

(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 5(e)).

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.