

6 December 2006

Stagecoach Group plc - Interim results for the six months ended 31 October 2006

Business highlights

- Strong set of results for six months ended 31 October 2006
- UK Bus: partnerships and innovation driving revenue and passenger growth
- “Bus operator of the year” in the UK for second year running
- Rail: further revenue growth and excellent operational performance
- North America: operating profit* and margin* up
- 10-year South Western rail franchise secured
- Disposal of London bus operations in August 2006 for c.£265m
- Shortlisted for East Midlands rail franchise; Virgin Rail Group shortlisted for New CrossCountry rail franchise

Financial highlights

- Proposal to return no less than £400m of funds to shareholders by 30 June 2007
- Revenue from continuing businesses⁺ up 10.0%
- 7.4% increase in earnings per share*
- Interim dividend up 9.1% at 1.2 pence

Six months ended 31 October	Results excluding intangible asset expenses and exceptional items		Reported results	
	2006	2005	2006	2005
Revenue from continuing operations (£m)	752.1	653.3	752.1	653.3
Total operating profit (£m)	80.7	68.5	101.5	55.3
Profit before taxation (£m)	77.4	57.9	97.3	40.7
Earnings per share (pence)	5.8	5.4	18.9	4.1
Interim dividend (pence)	1.2	1.1	1.2	1.1

Commenting on the results, Stagecoach Chief Executive, Brian Souter said: “Our management expertise and commitment to innovation, investment, targeted marketing and strong partnerships have driven excellent organic growth in our UK and North American bus operations.

“We are delighted to have secured a significant revenue stream for the next decade following our successful bid for the South Western rail franchise, and we are encouraged by the potential to develop our rail portfolio. The Group is also focused on developing compelling bids for the East Midlands franchise and, with our joint venture partner, Virgin, for the New CrossCountry franchise.

“I believe we are well-positioned to create further shareholder value and we are confident in the prospects for the rest of the financial year.”

**Enquiries to: Martin Griffiths, Stagecoach Group +44 (0) 1738 442111
Steven Stewart, Stagecoach Group +44 (0) 1738 442111 or +44 (0) 7764 774680
John Kiely, Smithfield +44 (0) 20 7360 4900**

* excluding intangible asset expenses and exceptional items (refer to definition of exceptional items contained in note 4 to the interim financial information)

⁺ excluding acquisitions of Glenvale and Traction

Chairman's statement

I am pleased to report that Stagecoach Group has achieved another strong set of results and has delivered further growth in its bus and rail operations in the UK and North America.

We have developed a winning combination of innovation, investment, operational expertise, strong marketing and effective partnerships with key stakeholders that has resulted in the Group attracting more passengers to our high quality public transport services. This combined with our focus on managing our overall cost base has delivered further growth in profit.

Trading across the Group was strong with revenue for the six months ended 31 October 2006 at £752.1m (2005: £653.3m). Total operating profit (before intangible asset expenses and exceptional items) was £80.7m (2005: £68.5m). Earnings per share before intangible asset expenses and exceptional items were up 7.4% at 5.8p (2005: 5.4p).

The Group's results include net exceptional gains before taxation of £155.9m, principally arising from the profit on the sale of the Group's London bus operations to Macquarie Bank Limited, which was completed in August 2006. As a result, basic earnings per share increased sharply from 4.1p to 18.9p.

Stagecoach is pursuing a successful growth strategy in its UK bus operations, capitalising on its industry leadership and entrepreneurial flair, and the UK Bus division is continuing to perform strongly.

Trading in the Group's North American operations was also strong, reflecting a continuing focus on revenue growth and close management of controllable costs.

In UK Rail, both South West Trains and the Group's joint venture with Virgin, Virgin Rail Group, experienced significant passenger volume and revenue growth. The award of the new 10-year South Western franchise provides the Group with a substantial long-term revenue stream in the UK rail market. Our management team is focused on delivering the opportunities and commitments presented by the new franchise. VRG has made further progress in its negotiations with the Department for Transport over new long-term commercial terms for the West Coast franchise and is close to finalising an agreement. We are delighted that the Group has been short-listed for the East Midlands rail franchise and that Virgin Rail Group has been invited to tender for the New CrossCountry franchise.

Reflecting the strong performance of the Group and confidence in its future prospects, the Board of Directors has declared an interim dividend of 1.2p per share (2005: 1.1p), a 9.1% increase. The interim dividend is payable on 7 March 2007 to shareholders on the register at 9 February 2007. Based on continued strong cash flows and profits, we will look to continue to increase the dividend per share each year.

At 31 October 2006, the Group had net funds of £140.9m compared to net debt of £135.9m at 30 April 2006, being a reduction in net debt of £276.8m. This reduction is expected to partially reverse in the second half of the financial year as a result of the settlement of £59.9m of accruals held at 31 October 2006 in relation to South West Trains' revenue and profit share arrangements. We believe that by adjusting the mix of equity and debt in the business, the Group can lower its overall cost of capital and generate further shareholder value. With this in mind the Board proposes to return no less than £400m of funds to shareholders in order to achieve a more efficient capital structure. The Group has also reached agreement in principle with pension scheme trustees for plans to make a further one-off cash contribution of up to £50m to the Stagecoach Group Pension Scheme as part of an agreed funding plan.

In May 2006, we announced the appointment of Sir George Mathewson to the Stagecoach Board as a Non-Executive Director. Russell Walls retired from the Board at the 2006 AGM and Janet Morgan has replaced Russell as the senior independent Non-Executive Director. The Group also intends to recruit a further independent Non-Executive Director.

I would like to pay tribute to the continued hard work of our employees, whose commitment to first-class customer service is playing a key role in growing our business and attracting more people to our transport services.

As a Group, we will continue to innovate, invest and develop strong partnerships across our businesses. We believe we are well placed to benefit from further opportunities for growth in our bus operations and the expansion of our rail portfolio, both of which can deliver increased value to our shareholders.

Stagecoach has made a promising start to the second half of its financial year and current trading of the Group remains in line with our expectations.

Robert Speirs
Chairman

6 December 2006

Chief Executive's review

Overview

Stagecoach has delivered an excellent performance in the first six months of the financial year. We have developed strong working relationships with our transport partners in the public sector. Coupled with market-leading innovation, strong management, effective cost control, and investment in the future of our business, significant numbers of new passengers are being attracted to our high quality bus and rail services.

Revenue by division (excluding the discontinued London bus and New Zealand operations) is summarised below:

REVENUE	6 months to 31 October 2006	6 months to 31 October 2005	Currency	6 months to 31 October 2006	6 months to 31 October 2005	Growth %
	£m	£m		Local currency (m)		
Continuing Group operations						
UK Bus excluding prior year acquisitions	298.6	270.1	£	298.6	270.1	10.6
North America	135.7	130.8	US\$	253.5	235.4	7.7
UK Rail	276.8	245.6	£	276.8	245.6	12.7
Acquisitions made in prior year						
UK Bus - Glenvale	10.7	6.8	£	10.7	6.8	57.4
UK Bus - Traction	30.3	Nil	£	30.3	Nil	n/a
Total Group revenue	752.1	653.3				

Operating profit by division (excluding the discontinued London bus and New Zealand operations) is summarised below:

OPERATING PROFIT	6 months to 31 October 2006		6 months to 31 October 2005		Currency	6 months to 31 October 2006	6 months to 31 October 2005
	£m	% of revenue	£m	% of revenue		Local currency (m)	
Continuing Group operations							
UK Bus excluding prior year acquisitions	33.6	11.3	30.3	11.2	£	33.6	30.3
North America	16.7	12.3	15.7	12.0	US\$	31.2	28.3
UK Rail	31.4	11.3	24.4	9.9	£	31.4	24.4
Group overheads	(5.2)		(5.0)				
Restructuring costs	(0.7)		(0.6)				
	75.8		64.8				
Acquisitions made in prior year							
UK Bus - Glenvale	(0.6)	(5.6)	(0.8)	(11.8)	£	(0.6)	(0.8)
UK Bus - Traction	1.1	3.6	Nil	n/a	£	1.1	Nil
Joint ventures and associates							
Virgin Rail Group	3.7		4.5				
Citylink	0.7		Nil				
Total operating profit before intangible asset expenses and exceptional items	80.7		68.5				
Intangible asset expenses	(7.5)		(13.2)				
Exceptional items	28.3		Nil				
Total operating profit	101.5		55.3				

UK Bus

Stagecoach operates around 7,000 buses in nearly 100 towns and cities across the UK, from the Highlands of Scotland to south-west England. We have substantial operations in a number of key cities, including Manchester, Liverpool, Newcastle, Sheffield, Hull, Oxford and Cambridge.

Revenue from our continuing UK Bus operations, excluding the prior year acquisitions of Glenvale and Traction, was up 10.6% to £298.6m, compared to £270.1m in the prior year. Operating profit*, excluding the prior year acquisitions of Glenvale and Traction, was £33.6m (2005: £30.3m). Operating margin was up at 11.3%, compared to 11.2% in 2005, despite the impact of ongoing cost pressures, particularly in relation to fuel.

We delivered further revenue and organic passenger growth at our UK Bus Division in the first half of the year. For the second year running, our West Scotland business has been awarded Bus Operator of the Year as a result of our high quality of service and strong performance in attracting more passengers.

Our expanded telemarketing unit at our headquarters in Perth has been extremely successful in attracting new customers on to our buses. We have developed dedicated route branding for a range of new and existing services, which has also proved effective in raising the profile of public transport. Significant growth has been achieved through our strong partnerships with local authorities and Kickstart pump-priming initiatives. Additional passenger growth has resulted from the concessionary fares schemes funded by the Department for Transport ("DfT"), Scottish Executive, and Welsh Assembly in England, Scotland and Wales. Overall, like-for-like passenger volumes in the six months are estimated to be 6.1% higher than the previous year, including the impact of the new concessionary fares schemes.

The integration of Glenvale Transport Limited and Traction Group Limited, the regional bus operations we acquired last year, is progressing well. Revenue for the six months ended 31 October 2006 for these businesses was £41.0m (2005: £6.8m) and the operating profit was £0.5m (2005: operating loss of £0.8m).

We have been pleased with the continuing growth in revenue at our market-leading budget travel service, megabus.com, which offers low-cost inter-city travel between nearly 40 locations in the UK. megabus.com's financial performance continues to improve as average fares and load factors increase. The Group is excited by the future prospects for megabus.com and is investing more than £11m in a fleet of 45 new state-of-the-art coaches. The new 15-metre vehicles - the longest coaches in Britain - will be delivered from February next year, with the full order completed by the end of May 2007.

Stagecoach is also continuing to invest heavily in its local bus fleets and during 2006 has placed £50m of orders with four vehicle manufacturers for more than 460 new buses across the UK. Vehicle manufacturers Alexander Dennis, Optare, Plaxton and Volvo are supplying a total of 13 single-deckers, 160 double-deckers, 165 midi-buses, 95 minibuses and 31 coaches by the end of February 2007.

In August 2006, Stagecoach completed the sale of its London bus operations to Macquarie Bank Limited for approximately £265m in cash, resulting in a consolidated gain on disposal of £127.9m. Stagecoach London comprised two companies that provided bus services on routes within and from London, principally under contract from Transport for London. The London bus operations have been a highly successful part of Stagecoach's UK Bus division since 1994. After assessing Macquarie's offer and the prospects for the London bus operations, the Board concluded that the disposal was in the best interests of shareholders. The sale of the London bus business will allow the UK Bus division to focus on its successful growth strategy outside London. The Group's results

* References to the operating margin, profit or loss of a particular division in the Chief Executive's review refer to operating margin, profit or loss before restructuring costs, intangible asset expenses and exceptional items. Further details of the divisional split of operating profit can be found in Note 6 to the interim financial information contained in this announcement.

for the six months ended 31 October 2006 include profit after tax (before the exceptional gain on disposal) from the discontinued London bus operations of £4.0m for the period up until disposal (six months ended 31 October 2005: £7.3m).

North America

We operate 2,400 vehicles in the United States, covering the states of New York, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, Illinois and Wisconsin. In Canada, we serve the provinces of Ontario and Quebec, running around 500 vehicles. Our businesses include commuter services, tour and charter, sightseeing and school bus operations.

North American trading was strong, despite ongoing fuel and insurance cost pressures. Revenue for the six months to 31 October 2006 was up 7.7% at US\$253.5m (2005: US\$235.4m). On a like-for-like basis, excluding closed businesses, constant currency revenue was up by 10.8%. Operating profit was US\$31.2m (2005: US\$28.3m), resulting in an operating margin of 12.3%, compared to 12.0% the previous year. Converted to sterling, revenue for the six months to 31 October 2006 was £135.7m (2005: £130.8m). Operating profit for the six months was £16.7m (2005: £15.7m). Excluding the North American megabus.com operations, which reported revenue of US\$2.2m and an operating loss of US\$1.0m for the six months, the operating margin was up from 12.0% to 12.8%.

In the United States, we continue to experience strong revenue growth in our sightseeing, charter, contract, commuter and scheduled services. Sightseeing revenue has benefited from the introduction of enhanced products and extended advertising to increase our penetration in this market. We have achieved an exceptionally high renewal rate for contract services, while there has been solid growth in our charter business, with forward bookings up on the same period last year. We are also pleased with the progress of megabus.com, our budget inter-city coach service, which links a number of key cities in the Midwestern United States. In Canada, charter revenue remains strong and scheduled service operations have also performed well.

We continue to evaluate each of the individual business units in North America to ensure that capital and assets are deployed where they can earn the greatest returns. During the six months to 31 October 2006, two business units located in New York State were closed and vehicles were redeployed.

Rail

We operate two wholly owned UK heavy rail franchises – South West Trains and Island Line - and Sheffield Supertram.

Revenue from our UK Rail subsidiaries for the six months to 31 October 2006 was up by 12.7% to £276.8m (2005: £245.6m), which includes some recovery from the impact of the terrorist bombings in London in July 2005. Operating profit increased to £31.4m (2005: £24.4m), giving an operating margin of 11.3% (2005: 9.9%).

South West Trains' operational performance is amongst the best achieved by train operating companies in London and the South East, with more than 90% of trains arriving on time (punctuality measured on the basis of the DfT's Passenger Performance Measure, "PPM").

Management focus on customer service has resulted in a further increase in passenger satisfaction at South West Trains, particularly in terms of punctuality and reliability. The most recent National Passenger Survey results show that 83% of customers are satisfied with the service they are receiving – five points higher than the London and South East average - and we are working hard to improve further.

More than half of a new fleet of 17 Desiro Class 450 trains are now in passenger service and the remainder are expected to be in operation by the end of 2006, providing a total of 4,500 extra peak time seats. We are also ahead of schedule with a £67m partnership project to refurbish the 91 unit

Class 455 fleet operating on suburban routes. Passengers are also benefiting from a £6m ticket vending machine project to make purchasing easier and 259 new ticket machines will be installed by the end of 2006.

Revenue growth is being supported by a series of marketing campaigns, including promotions on advance purchase and group saver tickets. megatrains.com, our budget rail product, continues to grow and around 150,000 bookings have now been made via the web-based service.

We were delighted at the decision by the DfT to award Stagecoach the new South Western rail franchise. The 10-year franchise will run from 4 February 2007. We submitted a high-quality, innovative and value-for-money bid, and we are already working hard to ensure we deliver for passengers, Government and our shareholders. We look forward to building on the success we have achieved over the past decade by delivering a comprehensive package of train, station and security investments, further improved operational performance, increased capacity, state-of-the-art ticketing options and a range of other customer benefits. We are confident that our exciting ideas for the franchise will unlock the opportunity to attract new passengers to rail travel.

Stagecoach Group has also been shortlisted for the new East Midlands rail franchise and Virgin Rail Group ("VRG"), in which Stagecoach Group has a 49% shareholding, is one of four shortlisted bidders for the New CrossCountry franchise. Both franchises will commence in November 2007. We look forward to working closely with local stakeholders and the DfT during the franchising process to maximise the opportunities for growth from these rail networks.

Joint ventures

Virgin Rail Group

Our joint venture with Virgin, Virgin Rail Group ("VRG"), in which Stagecoach has a 49% share, operates the West Coast and CrossCountry rail franchises.

Our share of VRG's profit after tax for the six-month period amounted to £9.2m (2005: £4.5m). This includes an exceptional credit of £5.5m in relation to the gain on disposal of Trainline recorded by VRG. Our share of operating profit, excluding the exceptional credit, was £3.9m (2005: £6.1m), our share of finance income was £1.6m (2005: £0.8m) and our share of taxation charges was £1.8m (2005: £2.4m).

VRG has made further progress in its negotiations with the Department for Transport over new long-term commercial terms for the West Coast franchise and is close to finalising an agreement. The final terms are expected to be approved shortly, resulting in a sustainable agreement in the long-term interest of passengers, taxpayers and shareholders.

Passenger volumes continued to grow on West Coast and operational performance also improved further. Some 90% of Virgin West Coast customers are now satisfied with their travel experience. Punctuality on West Coast (measured on the basis of PPM) has increased by around 12% over the last two years to 87.1% reflecting positive management action to improve operational performance.

VRG has been invited to tender for the New CrossCountry franchise, which runs from November 2007. The number of passenger journeys on Virgin CrossCountry is now double that of 1994 and operational PPM score has further improved with punctuality now at 83.1%. Passengers on both CrossCountry and West Coast are benefiting from a £2billion fleet of the UK's only tilting trains with enhanced levels of safety and performance as well as lower emissions. The improved service has helped improve customer service and 84% of passengers are satisfied with the service at Virgin CrossCountry. Building on these achievements, management is focused on developing a powerful and value-for-money bid that will further enhance CrossCountry's position as one of Britain's premier rail businesses.

Scottish Citylink

Stagecoach has a joint venture with transport group ComfortDelGro to operate certain megabus.com and all Scottish Citylink coach services, making it the leading provider of express coach services in Scotland. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited ("Citylink") and ComfortDelGro owns the remaining 65% shareholding.

Our share of Citylink's profit after tax for the six months to 31 October 2006 was £0.7m. This result reflects the fact that the business is seasonally strongest over the summer period. Citylink has achieved significant passenger growth on its inter-city coach service - in addition to new journeys under the Scottish Executive's national concessionary travel scheme - as a result of better connections, faster services and low fares.

The Competition Commission ruled in October 2006 that parts of the Scottish Citylink and megabus.com operations should be split and is currently consulting on the divestment of some services. The joint venture has a small proportion of the public transport market in Scotland and we are deeply concerned at the decision. We believe it will work against the interests of customers, and we are continuing to discuss potential solutions with the Commission.

Depreciation and intangible asset expenses

Earnings before interest, taxation, depreciation, intangible asset expenses and exceptional items from continuing businesses (pre-exceptional EBITDA) amounted to £113.5m (2005: £98.5m). Depreciation from continuing businesses for the period increased from £28.4m to £32.2m. The income statement charge for intangible assets decreased from £13.2m to £7.5m. This reduction of £5.7m principally reflects the £8.1m decrease in the goodwill charge for Virgin Rail Group, which totalled £2.5m (2005: £10.6m) for the six months. The reduced goodwill charge for Virgin Rail Group reflects acceleration of goodwill charges in previous years due to the status of negotiations on VRG's franchises.

Rail bid costs

Rail bid costs of £8.0m (2005: £6.9m) were expensed in the six month period in arriving at the UK Rail operating profit of £31.4m (2005: £24.4m). The latest costs were principally in relation to our bids on the South Western and East Midlands rail franchises.

Exceptional items

Net exceptional gains before taxation of £155.9m (2005: loss of £4.0m) were recognised in the six-month period. These comprised a gain of £127.9m on the disposal of the Group's London bus operations, a non-cash gain of £22.8m relating to a past service pensions adjustment on the Stagecoach Group Pension Scheme, a £5.5m gain being our share of VRG's gain on the disposal of its investment in Trainline Holdings Limited and £0.5m of other losses relating to disposed operations. Also, a small gain of £0.2m (2005: loss of £0.2m) was recognised on the sale of properties.

A tax charge of £6.4m (2005: credit of £1.7m) was recognised in respect of exceptional items resulting in a net exceptional gain after tax of £149.5m (2005: loss of £2.3m).

Net finance costs

Net finance costs from continuing operations decreased from £10.6m to £3.3m as a result of a lower average net debt during the period principally as a result of the disposal of our London bus business. The ratio of pre-exceptional EBITDA from continuing Group businesses to net finance charges was 32.9 times for the six months ended 31 October 2006 (2005: 8.7 times), reflecting the reduced finance costs.

Taxation

Including the tax charge that is presented as a component of the share of profit from joint ventures but excluding any tax in relation to the discontinued London bus and New Zealand operations, the tax charge for the year of £25.6m (2005: £9.2m) represents an effective tax rate of 25.7% (2005: 21.3%). The equivalent effective tax rate before intangible asset expenses and exceptional items is 26.0% (2005: 19.9%).

The above tax charge is reconciled to the total tax charge of £23.4m (2005: £6.8m) analysed in note 7 to the interim financial information by the reclassification of the tax of £2.2m (2005: £2.4m) in respect of joint ventures.

Earnings per share

Overall, earnings per share before intangible asset expenses and exceptional items increased 7.4% to 5.8p, from 5.4p in the prior year reflecting the strong performance at each of our core divisions. Basic earnings per share increased sharply from 4.1p to 18.9p.

Shares in issue

The weighted average number of ordinary shares used to calculate basic earnings per share for the six months ended 31 October 2006 was 1,090.0m (2005: 1,068.2m). The number of ordinary shares ranking for dividend at 31 October 2006 was 1,092.2m (30 April 2006: 1,088.3m), with a further 6.5m (2005: 5.3m) ordinary shares held by employee trusts and not ranking for dividend.

Net assets

Net assets at 31 October 2006 were £385.2m (30 April 2006: £211.6m) with the increase principally reflecting the strong results for the six months, which include the gain on the sale of the London bus business.

Retirement benefit obligations

The reported net assets of £385.2m (30 April 2006: £211.6m) are after taking account of net liabilities for retirement benefit obligations of £144.3m (30 April 2006: £222.2m) and the related deferred tax assets of £40.9m (30 April 2006: £64.3m). Of the total pre-tax retirement benefit obligations, £103.3m (30 April 2006: £176.3m) relates to the main Group scheme, Stagecoach Group Pension Scheme ("SGPS").

During the period we have made significant progress working in close consultation with our employees, trade union representatives and the scheme trustees to protect the accrued benefits of the SGPS for the current members. We agreed with the trustees to retain the final salary section of the SGPS for current members although this is now closed to new entrants (other than those employees currently serving out a waiting period). We also agreed a number of benefit and contribution changes considered necessary to retain the scheme and to protect accrued pension benefits. These changes included increases in the main employee contribution rate from 6.5% to 9.0% and an increase in the employer cash contribution rate from 9.25% to 12.8% of pensionable salaries. In addition, increases in pensionable salaries are to be capped at 3.5% per annum.

The benefit and contribution changes along with a one-off contribution of £57.0m and the impact from the sale of our London operations have helped to reduce the pre-tax deficit on the SGPS from £176.3m at 30 April 2006 to £103.3m at 31 October 2006.

Net debt

IFRS does not explicitly define net debt. The Group will therefore continue to use the definition of net debt contained under UK GAAP.

Net debt decreased from £135.9m at 30 April 2006 to net funds of £140.9m at 31 October 2006. This reflects the sale of our London bus business as well as the benefit of ongoing cash generation from our core operations. In the second half of the year, £59.9m of accruals held at 31 October 2006 in relation to revenue and profit share arrangements in respect of South West Trains will be paid in cash.

Net cash from operating activities for the six months ended 31 October 2006 was £99.4m (2005: £120.2m) and can be further analysed as follows:

	6 months to 31 October 2006	6 months to 31 October 2005
	£m	£m
EBITDA of Group companies before exceptionals:		
- continuing	108.5	92.4
- discontinued	7.7	20.1
Loss on disposal of property, plant & equipment	0.1	0.2
Share based payment expense	0.9	1.1
South West Trains revenue/profit share accrued in period but not yet paid	43.0	27.8
Other working capital movements	(3.9)	(8.2)
Net interest paid	(4.0)	(12.5)
Dividends from joint ventures	7.7	Nil
Net cash from operating activities before excess pension contributions	160.0	120.9
Pension contributions in excess of pension costs	(60.6)	(0.7)
Net cash from operating activities	99.4	120.2

Excluding the additional pension contributions shown in the table above, net cash from operating activities rose 32.3% from £120.9m to £160.0m, highlighting the strong cash generative nature of the Group.

The net impact of purchases of property, plant and equipment for the six months on net debt was £54.3m (2005: £44.8m). This primarily related to expenditure on passenger service vehicles, and comprised cash outflows of £22.1m (2005: £39.1m) and new hire purchase debt of £32.2m (2005: £5.7m). In addition, £1.1m (2005: £2.8m) cash was received from disposals of property, plant and equipment.

We recognise that as a result of the Group's continued strong cash generation and the disposal of its bus operations in New Zealand and London, the Group has the potential to raise significantly more debt. Having taken account of the Group's anticipated funding needs and investment opportunities, the Board has separately announced today that it proposes to return no less than £400m of value to shareholders.

Disposals

On 30 August 2006, the Group completed the disposal of its entire London bus business to Macquarie Bank Limited. The cash consideration received for the disposal was £264.7m. After transaction costs, the disposal resulted in a net gain of £127.9m.

The proceeds and gain are both higher than previously estimated as a result of finalising the cash due and the net assets as at Completion. Work is continuing on the formal Completion Accounts and any further adjustments required will be reflected in the full-year financial statements to 30 April 2007.

Fuel hedging

The Group's UK Bus and North American bus operations consume the equivalent of 1.6m barrels of diesel fuel per annum. As a result, the Group's profits are exposed to the movement in the underlying price of crude oil, which is the major driver of diesel prices. The Group manages the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby derivatives are used to fix or collar the variable unit cost of a percentage of anticipated fuel consumption. If the Group had no hedging in place, a movement of US\$10 in the price of a barrel of crude oil would affect the Group's fuel costs by approximately US\$16m.

The fuel hedging levels are summarised below:

	6 months to 31 October 2006	6 months to 30 April 2007	Year to 30 April 2008	Year to 30 April 2009
<u>Proportion of forecast fuel consumption hedged:</u>				
- Hedged by fixed price fuel swaps	20%	19%	Nil	Nil
- Hedged by fuel collars	76%	77%	52%	45%
- Crude equivalent fixed swap price per barrel	\$50	\$60	N/a	N/a
- Crude equivalent floor/cap per barrel	\$54/\$83	\$54/\$83	\$54/\$83	\$54/\$83
- Average actual/estimated forward price per barrel	\$68	\$63	\$67	\$68

Seasonality

The Group's North American bus operations have historically reported higher operating profits in recent years for the first half of the financial year (i.e. the six months ended 31 October) than for the second half. This is because leisure customers drive an element of the revenue with demand being at its strongest in the summer months. On the other hand, the UK Bus operations in recent years have reported higher operating profits in the second half of the financial year.

The operating profit earned by the Group's rail division is expected to reduce when the current South West Trains and Island Line franchises end in February 2007. The profits from the new South Western franchise are expected to be below that of the current franchise and this will impact the seasonality of profits for the current financial year.

Like most businesses, there are a range of risks and uncertainties facing the Group and the principal risks and uncertainties are described in the Group's Annual Report for the year ended 30 April 2006. In assessing the Group's likely financial performance for the second half of current financial year, these risks and uncertainties should be considered in addition to the matters referred to above.

Current Trading and Outlook

We believe our strategy of focusing on bus operations with organic growth potential and targeting new rail franchise opportunities can deliver further value to shareholders. The Group has achieved another good performance in the first six months of the year and I am pleased to report that current trading remains in line with our expectations.

Brian Souter
Chief Executive

6 December 2006

CONSOLIDATED INCOME STATEMENT

		Unaudited					Audited	
		6 months to 31 October 2006			6 months to 31 October 2005			
		Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the period	Performance pre intangibles and exceptional items	Intangibles and exceptional items (note 4)	Results for the period	Year to 30 April 2006
Notes		£m	£m	£m	£m	£m	£m	£m
CONTINUING OPERATIONS								
Revenue	6(A)	752.1	Nil	752.1	653.3	Nil	653.3	1,343.9
Operating costs		(809.4)	17.8	(791.6)	(690.5)	(2.6)	(693.1)	(1,429.6)
Other operating income	5	133.6	Nil	133.6	101.2	Nil	101.2	205.7
Operating profit of Group companies	6(B)	76.3	17.8	94.1	64.0	(2.6)	61.4	120.0
Share of profit/(loss) of joint ventures after finance income and taxation	6(C)	4.4	3.0	7.4	4.5	(10.6)	(6.1)	(7.5)
Total operating profit: Group and share of joint ventures and associates	6(B)	80.7	20.8	101.5	68.5	(13.2)	55.3	112.5
Gain/(loss) on sale of properties	4	Nil	0.2	0.2	Nil	(0.2)	(0.2)	0.8
Loss on disposed operations and sale of investments	4	Nil	(1.1)	(1.1)	Nil	(3.8)	(3.8)	(5.9)
Profit before interest and taxation		80.7	19.9	100.6	68.5	(17.2)	51.3	107.4
Finance costs		(9.8)	Nil	(9.8)	(13.0)	Nil	(13.0)	(23.6)
Finance income		6.5	Nil	6.5	2.4	Nil	2.4	7.7
Profit before taxation		77.4	19.9	97.3	57.9	(17.2)	40.7	91.5
Taxation	7	(18.5)	(4.9)	(23.4)	(9.6)	2.8	(6.8)	(20.3)
Profit for the period from continuing operations		58.9	15.0	73.9	48.3	(14.4)	33.9	71.2
DISCONTINUED OPERATIONS								
Profit for the period from discontinued operations	9	4.0	128.5	132.5	9.7	Nil	9.7	44.2
TOTAL OPERATIONS								
Profit after taxation for the period attributable to equity shareholders of the parent		62.9	143.5	206.4	58.0	(14.4)	43.6	115.4
Earnings per share from continuing and discontinued operations								
- Adjusted/Basic	10	5.8p		18.9p	5.4p		4.1p	10.7p
- Diluted	10	5.7p		18.8p	5.3p		4.0p	10.6p
Earnings per share from continuing operations								
- Adjusted/Basic	10	5.4p		6.8p	4.5p		3.2p	6.6p
- Diluted	10	5.3p		6.7p	4.4p		3.1p	6.5p
Dividends per ordinary share								
- Interim	8			1.2p			1.1p	1.1p
- Final				-			-	2.6p

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

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited		Audited
		As at 31 October 2006 £m	As at 31 October 2005 As restated £m	As at 30 April 2006 £m
ASSETS				
Non-current assets				
Goodwill		94.4	109.4	100.1
Other intangible assets		12.3	7.8	17.3
Property, plant and equipment		609.5	711.6	708.8
Interests in joint ventures	11	51.7	47.0	52.0
Interest in associate		1.0	2.0	1.0
Financial assets: Available for sale and other investments		4.3	5.0	4.2
Deferred tax asset		8.4	4.3	8.4
Other receivables		1.3	5.1	1.6
		782.9	892.2	893.4
Current assets				
Inventories		12.6	14.1	13.2
Trade and other receivables		179.7	181.4	179.9
Financial assets: Derivative instruments at fair value		0.6	11.0	3.7
Cash and cash equivalents		479.1	157.7	198.5
		672.0	364.2	395.3
Total assets		1,454.9	1,256.4	1,288.7
LIABILITIES				
Current liabilities				
Trade and other payables		375.7	358.3	341.3
Current tax liabilities		38.4	30.4	29.0
Financial liabilities: Borrowings		83.0	135.8	66.3
Financial liabilities: Derivative instruments at fair value		2.4	2.1	2.8
Provisions		58.0	49.9	63.2
		557.5	576.5	502.6
Non-current liabilities				
Other payables		10.1	8.2	9.2
Financial liabilities: Borrowings		274.2	260.0	291.2
Financial liabilities: Derivative instruments at fair value		7.0	Nil	Nil
Deferred tax liabilities		6.6	3.4	5.2
Provisions		70.0	48.3	46.7
Retirement benefit obligations	16	144.3	220.2	222.2
		512.2	540.1	574.5
Total liabilities		1,069.7	1,116.6	1,077.1
Net assets		385.2	139.8	211.6
EQUITY				
Ordinary share capital	12	6.9	6.8	6.9
Share premium account		177.8	166.7	174.8
Retained earnings		(32.4)	(289.0)	(212.1)
Capital redemption reserve		243.0	243.0	243.0
Own shares		(7.6)	(6.1)	(6.1)
Translation reserve		4.2	7.9	4.0
Available for sale reserve		2.0	1.7	1.9
Cash flow hedging reserve		(8.7)	8.8	(0.8)
Total equity (attributable to equity holders of the parent)		385.2	139.8	211.6

The retained earnings deficit of £32.4m (2005: £289.0m) is the consolidated position. The holding company's distributable reserves as at 31 October 2006 under UK GAAP were £273.8m (2005: £287.6m).

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Unaudited		Audited
	6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Income and expense recognised directly in equity			
Foreign exchange differences on translation of foreign operations (net of hedging)	0.2	4.8	4.7
Actuarial gains on Group defined benefit pension schemes	Nil	Nil	13.9
Share of actuarial gains on joint ventures' defined benefit pension schemes	Nil	Nil	5.2
Net fair value (losses)/gains on cash flow hedges	(7.9)	10.9	9.2
Net fair value gains on available for sale investments	0.1	1.7	1.9
	(7.6)	17.4	34.9
Transfers to the income statement			
Foreign exchange differences on disposal of foreign operations	Nil	Nil	(3.9)
Cash flow hedges reclassified and reported in profit for the period	Nil	(9.4)	(17.3)
	Nil	(9.4)	(21.2)
Tax on items taken directly to or transferred from equity			
Tax on foreign exchange differences on translation of foreign operations (net of hedging)	Nil	Nil	(0.2)
Tax effect of actuarial gains on Group defined benefit pension schemes	Nil	Nil	(4.2)
Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes	Nil	Nil	(1.5)
Tax effect of share based payments	0.8	Nil	2.9
	0.8	Nil	(3.0)
	(6.8)	8.0	10.7
Net (expense)/income not recognised in income statement			
Profit for the financial period attributable to equity shareholders of the parent	206.4	43.6	115.4
Total recognised income and expense for the period attributable to equity shareholders of the parent	199.6	51.6	126.1
Effect of changes in accounting policy:			
Balances recognised on the adoption of IAS 32 and IAS 39, net of taxation	n/a	(7.7)	(7.7)

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Unaudited		Audited
		6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Cash flows from operating activities				
Cash generated from operations	13	99.4	120.2	203.0
Tax paid		(11.4)	(14.0)	(27.5)
Net cash from operating activities		88.0	106.2	175.5
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		(0.1)	(2.0)	(27.7)
Disposals and closures of subsidiaries and other businesses, net of cash disposed of	9	260.4	4.0	104.4
Purchases of property, plant and equipment		(22.1)	(39.1)	(91.9)
Disposals of property, plant and equipment		1.1	2.8	8.2
Purchase of intangible assets		(0.1)	(0.3)	(0.6)
Purchase of other investments		(0.2)	(1.5)	(2.8)
Disposal of other investments		0.2	0.6	0.6
Movement in loans to joint ventures		3.3	Nil	0.3
Purchase of investments in joint ventures		Nil	Nil	(0.4)
Net cash inflow/(outflow) from investing activities		242.5	(35.5)	(9.9)
Cash flows from financing activities				
Issue of shares		3.0	3.3	7.0
Redemption of 'B' shares		Nil	(13.9)	(13.9)
Investment in own ordinary shares by employee share ownership trusts		(1.9)	Nil	Nil
Sale of own ordinary shares by employee share ownership trusts		0.4	0.7	0.7
Repayments of hire purchase and lease finance		(18.6)	(11.3)	(35.1)
Proceeds of sale and leaseback transaction		Nil	Nil	49.5
Repayment of borrowings		(1.0)	(3.3)	(73.9)
Dividends paid on ordinary shares	8	(28.4)	(24.6)	(36.6)
Sale of tokens		2.2	2.6	7.4
Redemption of tokens		(5.0)	(6.2)	(11.4)
Net cash used in financing activities		(49.3)	(52.7)	(106.3)
Net increase in cash and cash equivalents		281.2	18.0	59.3
Cash and cash equivalents at the beginning of the period		198.3	138.5	138.5
Exchange rate effects		(0.4)	0.8	0.5
Cash and cash equivalents at the end of the period		479.1	157.3	198.3
Cash and cash equivalents at the end of the period comprises:				
Cash and cash equivalents included within Current Assets		479.1	157.7	198.5
Bank overdrafts included within Financial Liabilities: Borrowings		Nil	(0.4)	(0.2)
		479.1	157.3	198.3

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED EQUITY

	Unaudited		Audited
	6 months to 31 October 2006 £m	6 months to 31 October 2005 As restated £m	Year to 30 April 2006 £m
Profit for the financial period	206.4	43.6	115.4
Equity dividends	(28.4)	(24.6)	(36.6)
	178.0	19.0	78.8
Other recognised income and expense relating to the period			
- Foreign exchange differences on translation of foreign operations (net of hedging)	0.2	4.8	4.7
- Actuarial gains on Group defined benefit pension schemes	Nil	Nil	13.9
- Share of actuarial gains on joint ventures' defined benefit pension schemes	Nil	Nil	5.2
- Net fair value (losses)/ gains on cash flow hedges	(7.9)	10.9	9.2
- Net fair value gains on available for sale investments	0.1	1.7	1.9
- Foreign exchange differences on disposal of foreign operations	Nil	Nil	(3.9)
- Cash flow hedges reclassified and reported in profit for the period	Nil	(9.4)	(17.3)
- Tax on foreign exchange differences on translation of foreign operations	Nil	Nil	(0.2)
- Tax effect of actuarial gains on Group defined benefit pension schemes	Nil	Nil	(4.2)
- Tax effect of share of actuarial gains on joint ventures' defined benefit pension schemes	Nil	Nil	(1.5)
- Tax effect of share based payments	0.8	Nil	2.9
- Balances recognised on the adoption of IAS 32 and IAS 39, net of taxation	n/a	(7.7)	(7.7)
Credit in relation to share based payments	0.9	1.1	2.2
Arising on new ordinary share issues	3.0	3.3	11.5
Own ordinary shares purchased	(1.9)	Nil	Nil
Own ordinary shares sold	0.4	0.7	0.7
Net increase in equity	173.6	24.4	96.2
Equity at the start of the period	211.6	115.4	115.4
Equity at the end of the period	385.2	139.8	211.6

NOTES

1 BASIS OF PREPARATION

The financial information contained within this report, and which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement, the Reconciliation of Movements in Consolidated Equity and in each case, related notes, has been prepared in accordance with the Listing Rules of the Financial Services Authority. The financial information has been prepared using the principal accounting policies used to prepare the Group's 2006 Annual Report as described on pages 41 to 48 of that report which can be found on the Stagecoach Group website at <http://www.stagecoachgroup.com/scg/ir/finanalysis/reports/>.

The Group has chosen not to adopt IAS 34 'Interim Financial Statements' in preparing the financial information.

The financial information for the six months ended 31 October 2006 has not been audited, nor has the comparative financial information for the six months ended 31 October 2005 but they have both been reviewed by the auditors. The comparative financial information presented in this announcement for the year ended 30 April 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and does not reflect all of the information contained in the Company's annual financial statements. The annual financial statements for the year ended 30 April 2006 received an unqualified audit report and have been filed with the Registrar of Companies.

The Board of Directors approved this announcement on 6 December 2006.

2 PRIOR PERIOD ADJUSTMENTS

The comparatives for the six months ended 31 October 2005 have been restated. This restatement reflects the removal of an intangible asset that had been previously recognised as at 31 October 2005 in relation to Virgin Rail Group ("VRG"), which represented the right to operate both the West Coast and CrossCountry franchises. This results in a decrease of £6.0m to the net assets previously reported at 31 October 2005. The restatement has no impact on the profit previously reported for the six months ended 31 October 2005. This change had already been effected in the Stagecoach results for the year ended 30 April 2006 and, as mentioned in the 2006 Annual Report, resulted from further analysis undertaken by VRG and its auditors with respect to the application of IFRS to the contractual arrangements in respect of VRG's franchises.

In addition, provisions as at 31 October 2005 have been restated to separately classify the current and non-current elements. This change has no impact on previously reported net assets or profits.

3 FOREIGN CURRENCIES

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

	6 months to 31 October 2006	6 months to 31 October 2005	Year to 30 April 2006
US Dollar			
Period end rate	1.9073	1.7703	1.8176
Average rate	1.8687	1.7989	1.7751
Canadian Dollar			
Period end rate	2.1370	2.0881	2.0368
Average rate	2.0914	2.1836	2.1079
New Zealand Dollar			
Period end rate – (2006 is at date of disposal)	n/a	2.5295	2.4606
Average rate – (2006 is average up to date of disposal)	n/a	2.5706	2.5641

4 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET EXPENSES

Unlike UK GAAP, there is no definition of “exceptional items” in IFRS. Where applicable, the Group intends to continue to highlight amounts before intangible asset expenses and exceptional items as well as clearly reporting the results in accordance with IFRS. This is intended to enable the users of the financial statements to determine more readily the impact of intangible asset expenses and exceptional items on the results of the Group. For this purpose, “exceptional items” are items which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to present fairly the financial performance of the Group.

The items shown in the column headed “Intangibles and exceptional items” on the face of the consolidated income statement for the six months ended 31 October 2006 can be further analysed as follows:

	Unaudited		
	6 months to 31 October 2006		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Past service adjustment – pension scheme	22.8	-	22.8
Amortisation of intangible assets	-	(5.0)	(5.0)
	22.8	(5.0)	17.8
Share of profit of joint ventures			
Gain on sale of VRG’s investment in Trainline	5.5	-	5.5
Goodwill charged on investment in joint ventures	-	(2.5)	(2.5)
	5.5	(2.5)	3.0
Gain on sale of properties	0.2	-	0.2
Loss in respect of other disposed and closed operations	(1.1)	-	(1.1)
Profit for the period from discontinued operations			
Gain on sale of London bus business (note 9)	127.9	-	127.9
Gain on sale of New Zealand operations (note 9)	0.6	-	0.6
	128.5	-	128.5
Intangible asset expenses and exceptional items	155.9	(7.5)	148.4
Tax effect	(6.4)	1.5	(4.9)
Intangible asset expenses and exceptional items after taxation	149.5	(6.0)	143.5

4 EXCEPTIONAL ITEMS AND INTANGIBLE ASSET EXPENSES (CONTINUED)

The items shown in the column headed "Intangibles and exceptional items" on the face of the consolidated income statement for the prior year six months ended 31 October 2005 can be further analysed as follows:

	Unaudited		
	6 months to 31 October 2005		
	Exceptional items	Intangible asset expenses	Intangibles and exceptional items
	£m	£m	£m
Operating costs			
Amortisation of intangible assets	-	(2.6)	(2.6)
Share of loss of joint ventures			
Goodwill charged on investment in joint ventures	-	(10.6)	(10.6)
Loss on sale of properties	(0.2)	-	(0.2)
Loss in respect of other disposed and closed operations	(3.8)	-	(3.8)
Intangible asset expenses and exceptional items	(4.0)	(13.2)	(17.2)
Tax effect	1.7	1.1	2.8
Intangible asset expenses and exceptional items after taxation	(2.3)	(12.1)	(14.4)

5 OTHER OPERATING INCOME

	Unaudited		Audited
	6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Miscellaneous revenue	25.3	23.4	49.8
Rail liquidated damages	Nil	Nil	0.7
Rail franchise support, excluding incentive payments	87.5	56.4	111.1
Rail incentive payments	20.8	21.4	44.1
	133.6	101.2	205.7

In addition to the above, other operating income for continuing businesses, £1.1m (2005: £3.1m) was recognised in relation to miscellaneous revenue in relation to our disposed New Zealand and London bus businesses.

Miscellaneous revenue comprises revenue incidental to the Group's principal activity. It includes advertising income, maintenance income and property income.

Rail liquidated damages of £0.7m in the year to 30 April 2006 relate to amounts received by South West Trains for the late delivery and reliability of trains.

Rail franchise support is the gross amount of financial support receivable from the Department for Transport ("DfT"). Partly offsetting this, South West Trains recognised amounts payable to the DfT under revenue and profit share agreements totalling £43.0m (2005: £27.8m), which are included in operating costs.

Rail incentive payments comprise receipts from/payments to the DfT in respect of the operational performance of our rail companies measured against benchmarks set by the DfT. Payments are made to the DfT when performance is worse than the target benchmarks and conversely payments are received from the DfT when performance is better than the benchmarks.

6 SEGMENTAL ANALYSIS

The Group is managed, and reports internally, on a basis consistent with its three continuing business segments, which consist of UK Bus, North America and UK Rail. The Group's IFRS accounting policies are applied consistently, where appropriate to each segment.

The segmental information provided in this note is on the basis of three primary segments, and gives the details for both business segments and geographical segments as follows:

<u>Segment name</u>	<u>Business segment</u>	<u>Geographical segment</u>
UK Bus	Coach and bus operations	United Kingdom
North America	Coach and bus operations	North America
UK Rail	Rail operations	United Kingdom

UK Bus and North America provide coach and bus services while UK Rail provides rail services.

The Group's New Zealand operations that were formerly a separate segment were disposed of during the year ended 30 April 2006. Therefore there is no segment income statement information provided for the New Zealand operations.

Due to the nature of the services the Group provides, the primary and secondary segments coincide.

The Group's London bus operations were disposed of during the six months ended 31 October 2006. These operations were formerly part of the UK Bus segment but have been reclassified as "discontinued".

The Group has interests in two joint ventures: Virgin Rail Group that operates in UK Rail and Citylink that operates in UK Bus. The profits of these joint ventures are shown separately in note 6(C).

(A) REVENUE

Due to the nature of the Group's business, the origin and destination of revenue is the same in all cases.

No material part of each segment's revenue shown below relates to transactions with other segments.

	<u>Unaudited</u>		<u>Audited</u>
	6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Continuing operations			
UK Bus			
- Excluding acquisition impact	298.6	270.1	551.1
- 2005/06 acquisitions	41.0	6.8	38.5
North America	135.7	130.8	247.6
Total bus continuing operations	475.3	407.7	837.2
UK Rail	276.8	245.6	506.7
Group revenue	752.1	653.3	1,343.9

6 SEGMENTAL ANALYSIS (CONTINUED)

(B) OPERATING PROFIT

	Unaudited						Audited
	6 months to 31 October 2006			6 months to 31 October 2005			Year to 30 April 2006
	Performance pre intangibles and exceptional items	Intangibles and exceptional items	Results for the period	Performance pre intangibles and exceptional items	Intangibles and exceptional items	Results for the period	
Notes	£m	£m	£m	£m	£m	£m	
Continuing operations							
UK Bus							
- Excluding acquisition impact	33.6	22.8	56.4	30.3	Nil	30.3	65.0
- 2005/06 acquisitions	0.5	Nil	0.5	(0.8)	Nil	(0.8)	(1.9)
North America	16.7	Nil	16.7	15.7	Nil	15.7	16.9
Total bus continuing operations	50.8	22.8	73.6	45.2	Nil	45.2	80.0
UK Rail	31.4	Nil	31.4	24.4	Nil	24.4	58.9
Total continuing operations	82.2	22.8	105.0	69.6	Nil	69.6	138.9
Group overheads	(5.2)	Nil	(5.2)	(5.0)	Nil	(5.0)	(10.0)
Intangible asset amortisation	Nil	(5.0)	(5.0)	Nil	(2.6)	(2.6)	(7.4)
Redundancy/restructuring costs	(0.7)	Nil	(0.7)	(0.6)	Nil	(0.6)	(1.5)
Total operating profit of continuing Group companies	76.3	17.8	94.1	64.0	(2.6)	61.4	120.0
Share of profit/(loss) of joint ventures after finance charges and taxation 6(C)	4.4	3.0	7.4	4.5	(10.6)	(6.1)	(7.5)
Total operating profit: Group and share of joint ventures and associates	80.7	20.8	101.5	68.5	(13.2)	55.3	112.5

(C) JOINT VENTURES

	Unaudited						Audited
	6 months to 31 October 2006			6 months to 31 October 2005			Year to 30 April 2006
	Performance pre intangibles and exceptional items	Intangibles and exceptional items	Results for the period	Performance pre intangibles and exceptional items	Intangibles and exceptional items	Results for the period	
	£m	£m	£m	£m	£m	£m	
Continuing							
Virgin Rail Group (UK Rail)							
Operating profit	3.9	5.5	9.4	6.1	Nil	6.1	5.3
Finance income (net)	1.6	Nil	1.6	0.8	Nil	0.8	1.7
Taxation	(1.8)	Nil	(1.8)	(2.4)	Nil	(2.4)	(1.5)
	3.7	5.5	9.2	4.5	Nil	4.5	5.5
Citylink (UK Bus)							
Operating profit	1.1	Nil	1.1	Nil	Nil	Nil	0.1
Taxation	(0.4)	Nil	(0.4)	Nil	Nil	Nil	Nil
	0.7	Nil	0.7	Nil	Nil	Nil	0.1
Goodwill charged on investment in continuing joint ventures	Nil	(2.5)	(2.5)	Nil	(10.6)	(10.6)	(13.1)
Share of profit/(loss) of joint ventures after finance charges and taxation	4.4	3.0	7.4	4.5	(10.6)	(6.1)	(7.5)

7 TAXATION

The taxation charge comprises:

	Unaudited						Audited
	6 months to 31 October 2006			6 months to 31 October 2005			Year to 30 April 2006
	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the period £m	Performance pre intangibles and exceptional items £m	Intangibles and exceptional items £m	Results for the period £m	£m
Group companies - UK tax	(17.0)	(5.4)	(22.4)	(5.8)	0.4	(5.4)	(22.3)
- Overseas tax	(1.5)	0.5	(1.0)	(3.8)	2.4	(1.4)	2.0
	(18.5)	(4.9)	(23.4)	(9.6)	2.8	(6.8)	(20.3)

8 DIVIDENDS

	Unaudited		Audited
	6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Amounts recognised as distributions in the period			
<u>Dividends on ordinary shares</u>			
Final dividend paid of 2.3p per share for the year ended 30 April 2005	-	24.6	24.6
Interim dividend paid of 1.1p per share for the year ended 30 April 2006	-	-	12.0
Final dividend paid of 2.6p per share for the year ended 30 April 2006	28.4	-	-
Amounts recognised as distributions to equity holders in the period	28.4	24.6	36.6
Dividends proposed or declared but not paid or included as liabilities in the financial statements			
<u>Dividends on ordinary shares</u>			
Interim dividend declared of 1.1p per share for the year ended 30 April 2006	-	11.8	-
Final dividend proposed of 2.6p per share for the year ended 30 April 2006	-	-	28.4
Interim dividend declared of 1.2p per share for the year ending 30 April 2007	13.1	-	-
	13.1	11.8	28.4

The interim ordinary dividend of 1.2p per ordinary share was approved by the Board on 6 December 2006 and has not been included as a liability as at 31 October 2006. It is payable on 7 March 2007 to shareholders on the register at close of business of 9 February 2007.

The dividends proposed or declared and the actual dividends recognised as distributions differ slightly due to the number of shares at the balance sheet date being different to that of the record date.

9 DISCONTINUED OPERATIONS

The Group disposed of its London bus business during the six months ended 31 October 2006. The business was disposed of on 30 August 2006 to Macquarie Bank Limited. The Group also disposed of its New Zealand operations on 29 November 2005 to Infratil Limited and therefore the six month and year comparatives include the results of the New Zealand business as discontinued.

The results of the discontinued London bus and New Zealand operations, which have been included in the consolidated income statement, were as follows:

	Unaudited						Audited
	Six months to 31 October 2006 London £m	Six months to 31 October 2006 New Zealand £m	Six months to 31 October 2006 Total £m	Six months to 31 October 2005 London £m	Six months to 31 October 2005 New Zealand £m	Six months to 31 October 2005 Total £m	Year to 30 April 2006 Total £m
Revenue	76.1	Nil	76.1	111.0	28.7	139.7	262.0
Operating costs	(72.0)	Nil	(72.0)	(102.5)	(26.1)	(128.6)	(238.1)
Other operating income	1.1	Nil	1.1	2.2	0.9	3.1	5.2
Operating profit	5.2	Nil	5.2	10.7	3.5	14.2	29.1
Finance income/(costs) (net)	0.6	Nil	0.6	(0.1)	0.1	Nil	Nil
Taxation	(1.8)	Nil	(1.8)	(3.3)	(1.2)	(4.5)	(7.4)
Profit for the year before gain on disposal	4.0	Nil	4.0	7.3	2.4	9.7	21.7
Gain on disposal	127.9	0.6	128.5	Nil	Nil	Nil	22.5
Profit for the year from discontinued operations	131.9	0.6	132.5	7.3	2.4	9.7	44.2

A gain of £127.9m arose on the disposal of the London bus operations, being the proceeds from disposal less the carrying amount of the disposed business' net assets at the date of disposal. No tax arose as a result of this gain.

The gain of £0.6m relating to New Zealand in the six months ended 31 October 2006 arises from the release of a liability that was previously recorded for amounts potentially owing to the disposed business, which is now no longer payable.

Businesses disposed in the six months ended 31 October 2006 resulted in £13.2m of cash outflows from operating activities that included £30.0m of one-off pension contributions, £0.8m of cash outflows from investment activities and £9.6m of cash outflows from financing activities.

In respect of the businesses disposed of in the six months ended 31 October 2006, the net assets disposed of were as follows:

	London bus £m	Other £m	Total £m
Net assets disposed and accruals for future costs associated with the disposals	135.3	0.5	135.8
Profit/(loss) on disposal	127.9	(0.5)	127.4
Net consideration	263.2	Nil	263.2
Consideration received in the period	264.7	0.1	264.8
Costs of disposal	(1.5)	(0.1)	(1.6)
Net consideration received in the period	263.2	Nil	263.2
Net cash disposed of	(0.9)	Nil	(0.9)
Net cash inflow: disposals in the period	262.3	Nil	262.3
Net cash inflow: deferred consideration in respect of businesses disposed of in prior years	Nil	1.0	1.0
Net cash outflow in respect of liabilities of closed and disposed businesses	Nil	(2.9)	(2.9)
	262.3	(1.9)	260.4

10 EARNINGS PER SHARE

Earnings per ordinary share have been calculated by calculating the profit after taxation and non-equity dividends divided by the weighted average number of ordinary shares in issue during the period based on the following:

	Unaudited		Audited
	6 months to 31 October 2006	6 months to 31 October 2005	Year to 30 April 2006
Basic weighted average ordinary share capital (number of shares, million)	1,090.0	1,068.2	1,075.8
Dilutive ordinary shares			
- Executive Share Option Scheme	6.6	19.0	14.7
- Employee SAYE Scheme	1.0	0.8	0.8
- LTIP	1.8	Nil	Nil
Diluted weighted average ordinary share capital (number of shares, million)	1,099.4	1,088.0	1,091.3
	£m	£m	£m
Profit after taxation (for basic EPS calculation)	206.4	43.6	115.4
Intangible asset expenses (see note 4)	7.5	13.2	20.5
Exceptional items (see note 4)	(155.9)	4.0	(17.4)
Tax effect of intangible asset expenses and exceptional items (see note 4)	4.9	(2.8)	(5.0)
Profit for adjusted EPS calculation	62.9	58.0	113.5
	Earnings per share pence	Earnings per share pence	Earnings per share pence
Basic	18.9	4.1	10.7
Adjusted basic	5.8	5.4	10.6
Diluted	18.8	4.0	10.6
Adjusted diluted	5.7	5.3	10.4

10 EARNINGS PER SHARE (continued)

The basic and diluted earnings per share can be further analysed as follows:

	Unaudited					
	6 months to 31 October 2006			6 months to 31 October 2005		
	Earnings £m	Weighted average number of shares Million	Earnings per share pence	Earnings £m	Weighted average number of shares Million	Earnings per share pence
Basic						
- Continuing operations	73.9	1,090.0	6.8p	33.9	1,068.2	3.2p
- Discontinued operations	132.5	1,090.0	12.1p	9.7	1,068.2	0.9p
	206.4	1,090.0	18.9p	43.6	1,068.2	4.1p
Adjusted basic						
- Continuing operations	58.9	1,090.0	5.4p	48.3	1,068.2	4.5p
- Discontinued operations	4.0	1,090.0	0.4p	9.7	1,068.2	0.9p
	62.9	1,090.0	5.8p	58.0	1,068.2	5.4p
Diluted						
- Continuing operations	73.9	1,099.4	6.7p	33.9	1,088.0	3.1p
- Discontinued operations	132.5	1,099.4	12.1p	9.7	1,088.0	0.9p
	206.4	1,099.4	18.8p	43.6	1,088.0	4.0p
Adjusted diluted						
- Continuing operations	58.9	1,099.4	5.3p	48.3	1,088.0	4.4p
- Discontinued operations	4.0	1,099.4	0.4p	9.7	1,088.0	0.9p
	62.9	1,099.4	5.7p	58.0	1,088.0	5.3p

11 INVESTMENT IN JOINT VENTURES

	Unaudited 6 months to 31 October 2006 £m
Cost at 1 May 2006	79.8
Share of recognised profits	9.9
Dividends received	(7.7)
At 31 October 2006	82.0
Amounts written off at 1 May 2006	(27.8)
Goodwill charged to income statement during period	(2.5)
At 31 October 2006	(30.3)
Net book value, 1 May 2006	52.0
Net book value, 31 October 2006	51.7

12 CALLED UP SHARE CAPITAL

	As at 31 October 2006 £m	As at 30 April 2006 £m
Authorised		
1,456,666,666 (30 April 2006: 1,456,666,666) ordinary shares of 12/19 pence each	9.2	9.2
	<hr/>	
	2006	
	No of shares	£m
Allotted, called-up and fully-paid		
Ordinary shares of 12/19 pence each		
At 1 May 2006	1,093,600,313	6.9
Allotted under share option schemes	5,108,229	-
At 31 October 2006	1,098,708,542	6.9
	<hr/>	

The balance on the share capital account represents the aggregate nominal value of all ordinary shares in issue.

The Group operates two Employee Share Ownership Trusts: the Stagecoach Group Qualifying Employee Share Ownership Trust ("QUEST") and the Stagecoach Group Employee Benefit Trust ("EBT"). Shares held by these trusts are treated as a deduction from the shareholders' funds in the Group's financial statements. Other assets and liabilities of the trusts are consolidated in the Group's financial statements as if they were assets and liabilities of the Group. As at 31 October 2006, the QUEST held 706,440 (30 April 2006: 628,285) ordinary shares in the Company and the EBT held 5,825,879 (30 April 2006: 4,690,333) ordinary shares in the Company.

13 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited		Audited
	6 months to 31 October 2006 £m	6 months to 31 October 2005 £m	Year to 30 April 2006 £m
Operating profit of Group companies	94.1	61.4	120.0
Operating profit of discontinued operations	5.2	14.2	29.1
Adjustments for:			
Depreciation			
- continuing operations	32.2	28.4	61.0
- discontinued operations	2.5	5.9	10.7
Loss on disposal of property, plant and equipment	0.1	0.2	1.9
Amortisation of intangible assets	5.0	2.6	7.4
Share based payment expense			
- continuing operations	0.9	0.9	1.8
- discontinued operations	Nil	0.2	0.4
Operating cashflows before working capital	140.0	113.8	232.3
Increase in inventories	(0.2)	(1.1)	(0.9)
Increase in receivables	(19.3)	(6.7)	(24.4)
Increase in payables	60.7	31.4	14.9
(Decrease)/increase in provisions	(2.1)	(4.0)	6.8
Decrease in retirement benefit obligations	(83.4)	(0.7)	(6.3)
Cash generated by operations	95.7	132.7	222.4
Interest paid	(8.4)	(13.7)	(24.4)
Interest received	6.5	2.9	8.3
Interest element of hire purchase contracts and finance lease payments	(2.1)	(1.7)	(3.3)
Dividends received from joint ventures	7.7	Nil	Nil
Net cash flows from operating activities	99.4	120.2	203.0

During the period, the Group entered into hire purchase arrangements in respect of new assets with a total capital value at the inception of the contracts of £33.9m (31 October 2005: £6.0m). After taking account of deposits paid up-front, new hire purchase liabilities of £32.2m (31 October 2005: £5.7m) were recognised.

14 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	Unaudited		Audited
	6 months to 31 October 2006	6 months to 31 October 2005	Year to 30 April 2006
	£m	£m	£m
Increase in cash	281.2	18.0	59.3
Cash flow from movement in short-term borrowings	15.5	14.6	90.2
Cash flow from movement in long-term borrowings	4.1	Nil	(30.7)
	300.8	32.6	118.8
New hire purchase	(32.2)	(5.7)	(10.7)
Other movements	8.2	(11.1)	(8.5)
Borrowings acquired as part of business combinations	Nil	(10.1)	(20.9)
Decrease in net debt	276.8	5.7	78.7
Opening net debt (UK GAAP definition – see note 15)	(135.9)	(214.6)	(214.6)
Closing net funds/(debt) (UK GAAP definition – see note 15)	140.9	(208.9)	(135.9)

15 ANALYSIS OF NET (DEBT)/FUNDS

IFRS does not explicitly define “net debt/funds”. The analysis provided below therefore shows analysis of net debt/funds as UK GAAP defines it. The analysis below further shows the other items classified as borrowings in the consolidated balance sheet.

	Opening £m	Cashflows £m	New hire purchase £m	Foreign exchange movements £m	(Charged)/ credited to income statement £m	Closing £m
Cash	164.5	281.9	Nil	(0.4)	Nil	446.0
Cash collateral	33.8	(0.7)	Nil	Nil	Nil	33.1
Hire purchase and finance lease obligations	(101.5)	18.6	(32.2)	Nil	Nil	(115.1)
Bank loans and loan stock	(49.1)	1.0	Nil	0.5	Nil	(47.6)
Bonds	(183.6)	Nil	Nil	8.2	(0.1)	(175.5)
UK GAAP Net (Debt)/Funds	(135.9)	300.8	(32.2)	8.3	(0.1)	140.9
Accrued interest on bonds	(7.3)	8.3	Nil	(0.2)	(7.7)	(6.9)
Separate recognition of foreign exchange forward contract	0.1	Nil	Nil	0.5	Nil	0.6
Unamortised gain on early settlement of interest rate swaps	(15.9)	Nil	Nil	Nil	3.2	(12.7)
Net (borrowings)/funds	(159.0)	309.1	(32.2)	8.6	(4.6)	121.9

The net total of cash and cash collateral of £479.1m (30 April 2006: £198.3m) is classified in the balance sheet as £479.1m (30 April 2006: £198.5m) in cash and cash equivalents and £Nil (30 April 2006: £0.2m) as bank overdrafts within borrowings. The cash collateral balance as at 31 October 2006 of £33.1m (30 April 2006: £33.8m) comprises balances held in trust in respect of loan notes of £32.5m (30 April 2006: £33.0m) and North America restricted cash balances of £0.6m (30 April 2006: £0.8m). In addition, cash includes train operating company cash of £136.7m (30 April 2006: £89.2m). Under the terms of the franchise agreements, train operating companies can only distribute cash out of retained profits.

Had the Group’s rail franchises ended on 31 October 2006 consolidated net debt would have increased by £166.1m (30 April 2006: £122.7m) as a result of the train operating company cash of £136.7m (30 April 2006: £89.2m) and the repayment of inter-company loans of £35.2m (30 April 2006: £36.7m) offset by distributable reserves of £5.8m (30 April 2006: £3.2m). Note 17 gives details of other contingent liabilities that could become payable.

16 RETIREMENT BENEFIT OBLIGATIONS

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

- The Stagecoach Group Pension Scheme (“SGPS”);
- The South West Trains’ section of the Railways Pension Scheme (“RPS”);
- The Island Line section of the Railways Pension Scheme (“RPS”);
- A number of UK Local Government Pension Schemes (“LGPS”);
- The Yorkshire Traction Company Limited Pension Plan (“YTC”) and;
- The Strathtay Scottish Omnibuses Limited Pension and Life Assurance Scheme (“SSO”).

These schemes are devised in accordance with local employment terms and conditions. Each scheme is administered independently of the employers and the schemes’ assets are held in trusts that are managed by investment managers appointed by the schemes’ trustees.

The Directors believe that separate consideration should be given to RPS as the Group has no rights or obligations in respect of sections of the scheme following expiry of the franchises. Therefore, the liability recognised for these sections of RPS only represents that part of the net deficit of the sections that the employer is obliged to fund over the life of the franchise to which each section relates.

In addition, the Group contributes to a number of defined contribution schemes covering UK and non-UK employees.

The movement in the net pre-tax liabilities recognised in the balance sheet for the first six months ended 31 October 2006 were as follows:

	SGPS	RPS	LGPS	YTC	SSO	Other	Unfunded	Total
	£m	£m	£m	£m	£m	£m	Plans	£m
							£m	£m
At 1 May 2006	(176.3)	(6.1)	(23.6)	(9.2)	(2.9)	(0.5)	(3.6)	(222.2)
Current service cost	(11.9)	(7.8)	(2.1)	(0.8)	(0.3)	Nil	Nil	(22.9)
Past service adjustment	22.8	Nil	Nil	Nil	Nil	Nil	Nil	22.8
Defined contribution costs	Nil	Nil	Nil	Nil	Nil	(0.5)	Nil	(0.5)
Interest cost	(20.6)	(6.9)	(6.9)	(1.4)	(0.2)	Nil	Nil	(36.0)
Expected return on plan assets	22.8	9.7	8.9	1.6	0.2	Nil	Nil	43.2
Unwinding of franchise adjustment	Nil	0.2	Nil	Nil	Nil	Nil	Nil	0.2
One-off employers’ contributions	57.0	Nil	Nil	Nil	Nil	Nil	Nil	57.0
Other employers’ contributions	8.4	7.5	2.2	0.9	0.2	0.4	Nil	19.6
Disposal	(5.5)	Nil	Nil	Nil	Nil	Nil	Nil	(5.5)
At 31 October 2006	(103.3)	(3.4)	(21.5)	(8.9)	(3.0)	(0.6)	(3.6)	(144.3)

The related deferred tax on the liabilities is £40.9m (30 April 2006: £64.3m) resulting in post-tax retirement benefit obligations of £103.4m (30 April 2006: £157.9m).

The amounts shown in the above table include discontinued operations for the period for which they were part of the Group. In particular, the income statement items include the London bus business up until its disposal in August 2006.

17 CONTINGENT LIABILITIES

- (i) A performance bond backed by a bank facility for £44.3m (30 April 2006: £44.3m), a season ticket bond backed by a bank facility for £32.9m (30 April 2006: £33.7m) and a holding company guarantee of £15.7m (30 April 2006: £15.7m) have been provided to the UK's Department for Transport in support of the Group's franchise obligations at South West Trains Limited at 31 October 2006.

At 31 October 2006, a performance bond backed by a bank facility for £10.7m (30 April 2006: £Nil) and a holding company guarantee of £25.0m (30 April 2006: £Nil) have been provided to the UK's Department for Transport in support of the Group's franchise obligation in relation to the Stagecoach South Western Trains Limited obligations under the new South Western franchise which will commence on 4 February 2007.

These contingent liabilities are not expected to crystallise.

- (ii) The Group and its joint venture, Virgin Rail Group Holdings Limited, have in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements.
- (iii) Under UK Rail franchise agreements, the Group and its joint venture, Virgin Rail Group Holdings Limited, have agreed with the UK's Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises for future periods. Under these agreements, there is a requirement to comply with a number of obligations. Failure to comply with these obligations would be a breach of the relevant franchise.
- (iv) The Group and the Company are from time to time party to legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 31 October 2006, the accruals in the consolidated financial statements for such claims total £3.3m (30 April 2006: £4.4m).
- (v) The Group provides details of guarantees and other financial commitments in its Annual Report.

18 CAPITAL COMMITMENTS

Capital commitments are as follows:

	Unaudited		Audited
	As at	As at	As at
	31 October	31 October	30 April
	2006	2005	2006
	£m	£m	£m
Contracted for but not provided: for delivery in one year	39.2	29.0	55.4

19 RELATED PARTY TRANSACTIONS

Details of major related party transactions during the six months ended 31 October 2006 are provided below, except for those relating to the remuneration of the Directors and management.

(i) Loan to Virgin Rail Group Limited

At 30 April 2006, the Group had loan notes receivable of £3.3m from Virgin Rail Group Limited, which is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited. The Group holds approximately 49% of the share capital of Virgin Rail Group Holdings Limited and accounts for its investment in Virgin Rail Group Holdings Limited as an interest in a joint venture.

During the six months ended 31 October 2006, Virgin Rail Group Limited settled all of the outstanding loan notes together with all accrued interest. The Group earned interest of £0.1m on the loan notes in the period from 1 May 2006 to settlement (six months ended 31 October 2005: £0.2m.)

(ii) Virgin Rail Group Holdings Limited - Non-Executive Directors

Two of the Group's managers are non-executive directors of Virgin Rail Group Holdings Limited. During the six months ended 31 October 2006, the Group earned fees of £12,500 (six months ended 31 October 2005: £12,500) from Virgin Rail Group Holdings Limited in this regard.

(iii) ScotAirways Group Ltd

Until September 2006, Brian Souter (Chief Executive) and Ann Gloag (Non-Executive Director) controlled 93.8% of the shares of ScotAirways Group Ltd. Brian Souter was also Chairman of ScotAirways Group Ltd. Brian Souter and Ann Gloag disposed of their entire interests in ScotAirways Group Ltd in September 2006 and Brian Souter stepped down as Chairman at that time. ScotAirways Group Ltd therefore ceased to be a related party of the Group in September 2006.

During the period from 1 May 2006 to the time ScotAirways Group Ltd ceased to be a related party of the Group, the Group purchased airline flights from ScotAirways Group Ltd totalling £43,871 (six months ended 31 October 2005: £35,576).

(iv) Noble Grossart Limited

Ewan Brown (Non-Executive Director) is a former executive director and current non-executive director of Noble Grossart Limited that provided advisory services to the Group during the period. Total fees payable to Noble Grossart Limited in respect of the six months ended 31 October 2006 amounted to £10,000 (six months ended 31 October 2005: £10,050). At 31 October 2006, Noble Grossart Investments Limited, a subsidiary of Noble Grossart Limited, held 6,354,443 (30 April 2006: 6,354,443) ordinary shares in the Company, representing 0.6% (30 April 2006: 0.6%) of the Company's issued ordinary share capital.

19 RELATED PARTY TRANSACTIONS (CONTINUED)

(v) Alexander Dennis Limited

Brian Souter and Ann Gloag together control 39.3% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (see (iv) above) controls a further 29.5% of the shares and voting rights of Alexander Dennis Limited. None of Brian Souter, Ann Gloag or Ewan Brown is a director of Alexander Dennis Limited nor do they have any involvement in the management of Alexander Dennis Limited. Furthermore, they do not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the six months ended 31 October 2006, the Group purchased £24.7m (six months ended 31 October 2005: £20.1m) of vehicles from Alexander Dennis Limited and £2.5m (six months ended 31 October 2005: £1.6m) of spare parts and other services.

For new orders placed with Alexander Dennis Limited for vehicles, the Group has consulted with the UK Listing Authority and taken the appropriate measures to ensure that the transactions with Alexander Dennis Limited comply with the Listing Rules.

(vi) Pension Schemes

Details of contributions made to pension schemes are contained in note 16 to the interim financial information.

APPENDIX 1

**Stagecoach Group plc
Interim Report for the six months ended 31 October 2006**

Consolidated Income Statement For the six months to 31 October 2006	Unaudited 6 months to 31 Oct 2006 £m	Unaudited 6 months to 31 Oct 2005 £m	Audited Year to 30 April 2006 £m
CONTINUING OPERATIONS			
Revenue	752.1	653.3	1,343.9
Operating costs	(791.6)	(893.1)	(1,428.6)
Other operating income	133.6	101.2	205.7
Operating profit of Group companies	94.1	61.4	120.0
Share of profit/(loss) of joint ventures after finance income and taxation	7.4	(6.1)	(7.5)
Total operating profit: Group and share of joint ventures and associates	101.5	55.3	112.5
Gain/(loss) on sale of properties	0.2	(0.2)	0.8
Loss on disposed operations and sale of investments	(1.1)	(3.8)	(5.9)
Profit before interest and taxation	100.6	51.3	107.4
Finance costs	(9.8)	(13.0)	(23.6)
Finance income	6.5	2.4	7.7
Profit before taxation	97.3	40.7	91.5
Taxation	(23.4)	(6.8)	(20.3)
Profit for the period from continuing operations	73.9	33.9	71.2
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	132.5	9.7	44.2
TOTAL OPERATIONS			
Profit after taxation for the period attributable to equity shareholders of the parent	206.4	43.6	115.4
Earnings per share from continuing and discontinued operations			
- Adjusted (before intangible asset expenses and exceptional items)	5.8p	5.4p	10.6p
- Basic	18.9p	4.1p	10.7p
- Diluted	18.8p	4.0p	10.6p
Earnings per share from continuing operations			
- Adjusted (before intangible asset expenses and exceptional items)	5.4p	4.5p	8.5p
- Basic	6.8p	3.2p	6.6p
- Diluted	6.7p	3.1p	6.5p
Dividends per ordinary share			
- Interim	1.2p	1.1p	1.1p
- Final	-	-	2.6p

Consolidated Balance Sheet As at 31 October 2006	Unaudited 31 Oct 2006 £m	Unaudited 31 Oct 2005 As restated £m	Audited 30 April 2006 £m
ASSETS			
Non-current assets			
Goodwill	94.4	109.4	100.1
Other intangible assets	12.3	7.8	17.3
Property, plant and equipment	609.5	711.6	708.8
Interests in joint ventures	51.7	47.0	52.0
Interest in associate	1.0	2.0	1.0
Financial assets: Available for sale and other investments	4.3	5.0	4.2
Deferred tax asset	8.4	4.3	8.4
Other receivables	1.3	5.1	1.6
	782.9	892.2	893.4
Current assets			
Inventories	12.6	14.1	13.2
Trade and other receivables	179.7	181.4	179.9
Financial assets: Derivative instruments at fair value	0.6	11.0	3.7
Cash and cash equivalents	479.1	157.7	198.5
	672.0	364.2	395.3
Total assets	1,454.9	1,256.4	1,288.7
LIABILITIES			
Current liabilities			
Trade and other payables	375.7	358.3	341.3
Current tax liabilities	38.4	30.4	29.0
Financial liabilities: Borrowings	83.0	135.8	68.3
Financial liabilities: Derivative instruments at fair value	2.4	2.1	2.8
Provisions	58.0	49.9	63.2
	557.5	576.5	502.6
Non-current liabilities			
Other payables	10.1	8.2	9.2
Financial liabilities: Borrowings	274.2	260.0	291.2
Financial liabilities: Derivative instruments at fair value	7.0	Nil	Nil
Deferred tax liabilities	6.6	3.4	5.2
Provisions	70.0	48.3	46.7
Retirement benefit obligations	144.3	220.2	222.2
	512.2	540.1	574.5
Total liabilities	1,069.7	1,116.6	1,077.1
Net assets	385.2	139.8	211.6
EQUITY			
Ordinary share capital	6.9	6.8	6.9
Share premium account	177.8	166.7	174.8
Retained earnings	(32.4)	(289.0)	(212.1)
Capital redemption reserve	243.0	243.0	243.0
Own shares	(7.6)	(6.1)	(6.1)
Translation reserve	4.2	7.9	4.0
Available for sale reserve	2.0	1.7	1.9
Cash flow hedging reserve	(8.7)	8.8	(0.8)
Total equity (attributable to equity holders of the parent)	385.2	139.8	211.6

Consolidated Cash Flow Statement For the six months to 31 October 2006	Unaudited 6 months to 31 Oct 2006 £m	Unaudited 6 months to 31 Oct 2005 £m	Audited Year to 30 April 2006 £m
Cash flows from operating activities			
Cash generated from operations	99.4	120.2	203.0
Tax paid	(11.4)	(14.0)	(27.5)
Net cash from operating activities	88.0	106.2	175.5
Net cash inflow/(outflow) from investing activities	242.5	(35.5)	(9.9)
Net cash used in financing activities	(49.3)	(52.7)	(106.3)
Net increase in cash and cash equivalents	281.2	18.0	59.3
Cash and cash equivalents at the beginning of the period	198.3	138.5	138.5
Exchange rate effects	(0.4)	0.8	0.5
Cash and cash equivalents at the end of the period	479.1	157.3	198.3
Cash and cash equivalents at the end of the period comprises:			
Cash and cash equivalents included within Current Assets	479.1	157.7	198.5
Bank overdrafts included within Financial Liabilities: Borrowings	Nil	(0.4)	(0.2)
	479.1	157.3	198.3

Reconciliation of Movements in Consolidated Equity For the six months to 31 October 2006	Unaudited 6 months to 31 Oct 2006 £m	Unaudited 6 months to 31 Oct 2005 As restated £m	Audited Year to 30 April 2006 £m
Profit for the financial period	206.4	43.6	115.4
Equity dividends	(28.4)	(24.6)	(36.6)
	178.0	19.0	78.8
Other recognised income and expense relating to the period	(6.8)	0.3	3.0
Credit in relation to share based payments	0.9	1.1	2.2
Arising on new ordinary share issues	3.0	3.3	11.5
Own ordinary shares purchased	(1.9)	Nil	Nil
Own ordinary shares sold	0.4	0.7	0.7
Net increase in equity	173.6	24.4	96.2
Equity at the start of the period	211.6	115.4	115.4
Equity at the end of the period	385.2	139.8	211.6

Chairman's Statement

I am pleased to report that Stagecoach Group has achieved another strong set of results and has delivered further growth in its bus and rail operations in the UK and North America.

Trading across the Group was strong with revenue for the six months ended 31 October 2006 at £752.1m (2005: £653.3m). Total operating profit (before intangible asset expenses and exceptional items) was £80.7m (2005: £68.5m). Earnings per share before intangible asset expenses and exceptional items were up 7.4% at 5.8p (2005: 5.4p).

The Group's results include net exceptional gains before taxation of £155.9m, principally arising from the profit on the sale of the Group's London bus operations to Macquarie Bank Limited, which was completed in August 2006. As a result, basic earnings per share increased sharply from 4.1p to 18.9p.

Reflecting the strong performance of the Group and confidence in its future prospects, the Board of Directors has declared an interim dividend of 1.2p per share (2005: 1.1p), a 9.1% increase. The interim dividend is payable on 7 March 2007 to shareholders on the register at 9 February 2007. Based on continued strong cash flows and profits, we will look to continue to increase the dividend per share each year.

At 31 October 2006, the Group had net funds of £140.9m compared to net debt of £135.9m at 30 April 2006, being a reduction in net debt of £276.8m. This reduction is expected to partially reverse in the second half of the financial year as a result of the settlement of £59.9m of accruals held at 31 October 2006 in relation to South West Trains' revenue and profit share arrangements. We believe that by adjusting the mix of equity and debt in the business, the Group can lower its overall cost of capital and generate further shareholder value. With this in mind the Board proposes to return no less than £400m of funds to shareholders in order to achieve a more efficient capital structure. The Group has also reached agreement in principle with pension scheme trustees for plans to make a further one-off contribution of up to £50m to the Stagecoach Group Pension Scheme as part of an agreed funding plan.

As a Group, we will continue to innovate, invest and develop strong partnerships across our businesses. We believe we are well placed to benefit from further opportunities for organic growth in our bus operations and the expansion of our rail portfolio, both of which can deliver increased value to our shareholders.

Stagecoach has made a promising start to the second half of its financial year and current trading of the Group remains in line with our expectations.

Robert Speirs, Chairman
6 December 2006

Basis of preparation

The financial information contained within this report, and which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Reconciliation of Movements in Consolidated Equity, has been prepared in accordance with the Listing Rules of the Financial Services Authority. The financial information has been prepared using the principal accounting policies used to prepare the Group's 2006 Annual Report as described on pages 41 to 48 of that report which can be found on the Stagecoach Group website at <http://www.stagecoachgroup.com/scg/ir/financials/reports/>.

The Group has chosen not to adopt IAS 34 'Interim Financial Statements' in preparing the financial information.

The financial information for the six months ended 31 October 2006 has not been audited, nor has the comparative financial information for the six months ended 31 October 2005 but they have both been reviewed by the auditors. The comparative financial information presented in this announcement for the year ended 30 April 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and does not reflect all of the information contained in the Company's annual financial statements. The annual financial statements for the year ended 30 April 2006 received an unqualified audit report and have been filed with the Registrar of Companies.

Prior period adjustments

The comparatives for the six months ended 31 October 2005 have been restated. This restatement reflects the removal of an intangible asset that had been previously recognised as at 31 October 2005 in relation to Virgin Rail Group ("VRG"), which represented the right to operate both the West Coast and CrossCountry franchises. This results in a decrease of £6.0m to the net assets previously reported at 31 October 2005. The restatement has no impact on the profit previously reported for the six months ended 31 October 2005. This change had already been effected in the Stagecoach results for the year ended 30 April 2006 and, as mentioned in the 2006 Annual Report, resulted from further analysis undertaken by VRG and its auditors with respect to the application of IFRS to the contractual arrangements in respect of VRG's franchises.

In addition, provisions as at 31 October 2005 have been restated to separately classify the current and non-current elements. This change has no impact on previously reported net assets or profits.

Independent review report to Stagecoach Group plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 October 2006 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Reconciliation of Movements in Consolidated Equity. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in the basis of preparation.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2006.



PricewaterhouseCoopers LLP, Chartered Accountants, Glasgow
6 December 2006