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Overall

The financial results for the year ended 30 April 2002 reflect the challenges the Group has met in the markets in which we operate. Turnover for the year was £2,111.4m (2001 – £2,083.5m). Operating profit before goodwill amortisation and exceptional items was £166.6m (2001 – £198.9m). Adjusted earnings per share (before goodwill amortisation and exceptional items) fell from 7.5 pence to 6.3 pence.

Trading results

This decrease in operating profit and earnings per share largely reflects a decline in revenues earned at Coach USA following the events of September 11 and the effect of industrial action and increased costs at South West Trains. Total Group operating profit, after taking account of exceptional items and goodwill, was £96.5m (2001 – loss of £268.8m).

Joint ventures and associates

Our share of joint venture and associates' operating profits (before goodwill amortisation and exceptional items) was £18.5m compared to profits of £4.8m in the prior year reflecting Virgin Rail Group's return to profitability. In addition to Virgin Rail Group (profit £10.8m; 2001 – loss £2.8m), the results include our share of thetrainline.com's operating losses which was £4.4m (2001 – £5.7m), our share of profits in Road King of £12.9m (2001 – £13.8m) and our share of operating losses of £0.8m (2001 – £0.5m) from our other joint ventures and associates. No further exceptional marketing and development costs were incurred (2001 – £4.0m).

Restructuring costs

Restructuring costs of £6.6m (2001 – £7.8m) have been charged against operating profits, of which £4.9m relates to the restructuring at Coach USA, £1.5m relates to UK Bus and £0.2m relates to redundancy costs incurred in our other divisions.

Depreciation and amortisation

Total depreciation increased from £111.2m to £112.7m, reflecting continued capital investment and movements in the foreign exchange rates used to translate overseas depreciation charges. The annual goodwill amortisation charge was £50.5m compared to £68.2m in 2001, reflecting the fact that we recorded a goodwill impairment of £393.3m as at 30 April 2001.

Exceptional charges

Net exceptional charges before tax of £14.3m (2001 – £389.9m) were reported. These include charges of £19.6m associated with Coach USA committed business sales or closures and surplus vehicles, a gain of £6.0m on the disposal of our Portuguese bus operations, and a loss of £1.2m on the disposal of our interests in smaller operations in China and Australia. The results also include net property gains of £0.5m (2001 – £2.8m).

Finance charges

Net interest and financing charges decreased from £76.0m to £59.8m as a result of the favourable interest rate environment and gains on the repurchase of our bonds. EBITDA before exceptional items to interest cover was 4.7 times compared to 4.1 times in 2001.

Acquisitions

During the year the Group completed a number of smaller acquisitions in North America with a total enterprise value of £22.7m.

Disposals

We disposed of our Portuguese bus operations in June 2001 for a consideration of £10.8m together with the repayment of inter-company debt of £3.3m. In addition, the purchaser assumed debt in relation to the business of £1.9m and future bus purchase commitments of £1.8m. Operating profits of £0.2m were reported in respect of these operations in the period from 1 May 2001 to the date of disposal. The transaction resulted in a £6.0m gain on disposal.

We also disposed of smaller operations in North America, Australia and China during the year. The remainder of our Australian business was disposed of in June 2002.

As a result of these disposals, goodwill of £3.7m that was previously written off prior to the introduction of FRS 10, ''Goodwill and Intangible Assets'', has been written back from reserves to the profit and loss account during the year.

Taxation

We have implemented FRS 19, ''Deferred Tax'' for the year ended 30 April 2002, which replaces the previous UK practice of partial provisioning for deferred tax with full provisioning. The prior year accounts have been restated, resulting in a reduction of £88.6m to net assets as at 30 April 2001 and an increase in the tax charge for the current year of £8.4m. The reported tax charge of £15.0m represents an effective rate of 35.7% on the profit before tax for the year with the variation from a ''standard'' UK tax charge of 30% arising largely as a result of the impact of non-deductible goodwill and foreign tax differences. This is in line with our expectations.

Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items was 6.3 pence, compared to 7.5p in 2001. Basic earnings per share (taking account of all exceptional items and goodwill amortisation) was 2.1 pence, compared to last year's loss of 26.4 pence. The weighted average number of shares in issue during the year was 1,309.9m, (2001 – 1,341.7m). No shares were repurchased during the year to 30 April 2002. Shares in issue at the year-end were 1,320.9m.

The Group has authority to repurchase a further 131,878,154 shares. This authority expires at the 2002 Annual General Meeting and we will seek to renew the general authority to repurchase up to 10% of the issued share capital.

The total proposed dividend for the year is 2.6 pence (2001 – 3.8 pence). This represents dividend cover (before goodwill amortisation and exceptional items) of 2.4 times compared to 2.0 times in 2001.

Cash flows

Cash generation across the Group remained strong with free cash flows amounting to £184.3m. This compares to £228.1m last year. Free cash flow per share decreased from 17.0 pence to 14.1 pence.

At 30 April 2002 net cash balances were £150.0m, a decrease of £10.0m from 30 April 2001. The Group remains in a net borrowing position and surplus cash balances are used to repay debt where possible.

Capital Expenditure

Capital Expenditure for the year was:

	2002 £m	2001 £m
UK Bus	50.5	56.8
Coach USA	40.1	73.5
Overseas Bus	9.2	6.2
UK Rail	3.5	3.2
Discontinued – Prestwick Airport	Nil	2.1
Total	103.3	141.8

Treasury risk management

The main areas of financial risk associated with our businesses are managed by our centralised Group Treasury function. The Board regularly reviews these risks and approves the Group's treasury policy, which covers the management of these risks. Financial instruments are held to finance Group operations and to manage the financial risks associated with these operations. Derivative financial instruments are used to manage financial risk exposures and to achieve greater certainty of future costs. The use of financial instruments is restricted to financing and treasury management only.

Liquidity and funding

Our policy is to finance the Group through a mixture of bank and hire purchase debt, capital markets issues and retained earnings. Financing is generally raised centrally and on-lent to operating subsidiaries on commercial terms. As at 30 April 2002, the Group's committed credit facilities were £699.4m, £387.9m of which were utilised, including bank guarantees.

The Group's policy is to look at a variety of funding sources to minimise interest cost and to maintain access to funding. Group borrowings (after taking account of swaps and forward contracts) are denominated in the operational currencies of the Group. The maturity of borrowings as at 30 April 2002 is shown in note 19.

Interest rate risk management

To provide some certainty as to the level of interest cost, it is our policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative instruments are also used where appropriate to generate the desired interest rate profile. At 30 April 2002, 49% (30 April 2001 – 66%) of the Group's gross borrowings were covered by fixed and capped/floored interest rates.

Currency rate risk

The Group is exposed to limited transactional currency risk due to the small number of foreign currency transactions entered into by subsidiaries in currencies other than their functional currency. Where necessary, forward buying of currencies is carried out by the Group Treasury function.

The Group has overseas investments in Canada, the USA, New Zealand and Hong Kong. As the impact of US$ and HK$ exchange rate movements on operating profits is offset by foreign currency denominated interest and fuel costs, the Group does not seek to hedge the impact of exchange rate movements on reported profits. To minimise balance sheet translation exposure, the Group aims to hedge overseas acquisitions and operations through borrowings denominated in their functional currency or through the use of derivative financial instruments which convert sterling borrowings into borrowings of the functional currency, and through forward currency exchange contracts. It is Group policy to examine each overseas investment individually and adopt a strategy based on current and forecast political and economic climates. This policy aims to allow the Group to maintain a low cost of funds and to retain some potential for currency appreciation whilst partially hedging against currency depreciation.

Commodity price risk

The Group is exposed to commodity price risk through its fuel usage. It is Group policy to establish fixed price levels to hedge this exposure for up to four years and, where necessary, to enter into physical contracts or derivative agreements to achieve certainty in the short term as to fuel costs and to reduce the year on year fluctuations over the medium term. At 30 April 2002, we had fixed approximately 72% of the Group's estimated fuel usage to 30 April 2003.

Credit risk

It is our policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be unlikely.

Balance sheet

Net assets have decreased by 1.2% from £920.3m to £909.1m. Net debt at 30 April 2002 decreased by 1.4% to £774.6m compared to £785.7m as at 30 April 2001. Based on net assets of £909.1m and net debt of £774.6m, book gearing remains unchanged from the prior year level of 85%.

Reserves

A resolution was passed at an Extraordinary General Meeting in January 2002 to transfer £400m from the share premium reserve to another reserve. Court approval for this transfer and confirmation that this reserve constitutes a distributable reserve was received on 26 April 2002.

Accounting policies

The Group has implemented the transitional arrangements of FRS 17, "Retirement Benefits", and has provided the necessary disclosures in note 28 to the accounts. As noted above, FRS 19, "Deferred Tax", was also implemented during the year to 30 April 2002 as was UITF 34, "Pre-contract costs".

MARTIN GRIFFITHS

Finance Director