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Overall review

All of our divisions continue to trade profitably and we have achieved underlying growth in our core bus operations in the UK and in the Pacific Rim. Each of our businesses continues to generate operating cash flows. In the six months ended 31 October 2002, net debt reduced by £114.8m to £659.8m. We have over £250m of available cash and undrawn debt facilities. We are, and expect to remain, in compliance with all of our banking covenants. These factors provide the Group with continued financial flexibility.

Group turnover for the six months ended 31 October 2002 was £1,067.7m (2001 – £1,085.8m). Total operating profit (before goodwill amortisation and exceptional items) was £86.9m compared to £106.7m in the prior year. The decrease in operating profit largely reflects the difficult conditions at Coach USA, which have been impacted by a soft US economy, an increasingly competitive market, and rising insurance costs.

The segmentation of operating profit by division has been restated. Certain costs that were previously classified within 'Group overheads' have been applied to particular divisions. Total profits are unchanged but we believe the new presentation provides a better reflection of divisional profitability and reflects changes to the way management monitors financial performance.

Summary divisional results	Six months ended 31 October 2002			Six months ended 31 October 2001		
	Turnover £m	Operating profit £m	Operating margin %	Turnover £m	Restated Operating profit £m	Restated Operating margin %
UK Bus	293.8	31.1	10.6	282.4	31.1	11.0
Coach USA	334.2	15.8	4.7	373.6	35.1	9.4
Overseas Bus	92.3	17.0	18.4	95.9	16.6	17.3
Rail	206.0	18.9	9.2	206.0	20.7	10.0
Virgin Rail	140.6	7.7	5.5	127.1	8.4	6.6
Road King	–	5.8		–	6.6	
Group overheads	–	(4.5)		–	(5.2)	
Other*	0.8	(4.9)		0.8	(6.6)	
	1,067.7	86.9		1,085.8	106.7	
Exceptionals	–	(575.0)		–	(19.4)	
Goodwill	–	(24.3)		–	(25.2)	
	1,067.7	(512.4)		1,085.8	62.1	

* includes restructuring costs and strategic investments including thetrainline.com

Earnings before interest, taxation, depreciation, amortisation and exceptional items (pre-exceptional EBITDA) amounted to £138.5m (2001 – £160.7m). Depreciation for the period decreased from £54.0m to £51.6m. Goodwill amortisation fell from £25.2m to £24.3m. The decreases in goodwill amortisation and depreciation reflect the effect of foreign exchange movements on the translation of US$ and HK$ charges.

Net exceptional charges before tax of £575.0m (2001 – £14.4m) were reported. In light of a review of our Coach USA business and a corresponding impairment review of the carrying value, exceptional items include charges of £7.7m in respect of provisions for losses on operations to be terminated, £17.8m in respect of a write-down of current assets to net realisable value, and £549.5m in relation to the impairment of tangible fixed assets and goodwill.

Non-exceptional restructuring costs included within operating profit amounted to £2.9m (2001 – £4.1m), of which £0.9m relates to the restructuring at Coach USA and £2.0m relates to redundancy costs incurred in our other divisions.

Overall, earnings per share before goodwill amortisation and exceptional items increased to 4.4p, compared to 4.1p in the prior year, principally reflecting the decrease in finance charges.

Acquisitions and disposals

We have not completed any significant acquisitions or disposals in the six months ended 31 October 2002.

Shares in issue

The weighted average number of shares for the six months ended 31 October 2002 was 1,311.2m. The number of shares ranking for dividend at 31 October 2002 was also 1,311.2m. If no further shares are issued or repurchased in the remainder of this financial year, the weighted average number of shares for the full year shall remain at this level.

Operating cash flows and capital expenditure

The strong cash generative nature of the Group is once again highlighted by free cash flow for the six months of £100.2m up from £87.8m in the previous year.

Capital expenditure for the six months was £33.4m (2001 – £67.8m). This primarily related to expenditure on passenger service vehicles.

Net assets and net debt

Net assets at 31 October 2002 were £319.0m (30 April 2002 – £909.1m). The decrease reflects the exceptional write-offs at Coach USA.

Net debt decreased from £774.6m at 30 April 2002 to £659.8m at 31 October 2002. This reflects the cash generation of our businesses, a reduction in the Group's annual capital expenditure programme and a £48.2m reduction from foreign currency movements. Reflecting the confidence in our cash flows we have repurchased, in the six-month period, a total of US$45.0m of our 2009 bond issue and €39.6m of our 2004 Eurobond issue. We will continue to target debt reduction as we focus on cash generation across the Group.

We currently have over £650m of committed banking facilities, including over £250m of available cash and undrawn facilities. We are comfortable with the level of flexibility provided under our financial covenants and are confident that our cash generation, liquidity position and realisable asset base supports a stable investment grade rating. We are working to restore all our credit ratings to this position as soon as possible.

Interest

Net finance charges decreased from £31.6m to £11.7m. The ratio of pre-exceptional EBITDA to net finance charges was 11.8 for the six months ended 31 October 2002 (2001 – 5.1). The reduced interest charge reflects gains of £15m associated with the repurchase of bonds at below par value and the benefits of interest rate reductions on the element of our debt where interest rates have not been fixed.

At 31 October 2002, 50% (30 April 2002 – 49%) of the Group's gross borrowings were covered by fixed and capped/floored interest rates.

Taxation

Excluding the exceptional write-offs of £575m at Coach USA in the six months ended 31 October 2002, our effective tax rate amounts to 31.4% (2001 – 35.8%).

The effective tax rate before goodwill and all exceptional items is 23.8% (2001 – 27.7%). The reduced rate reflects the change in the mix of pre-tax profits by division and the differences in the corporate tax rates applying to each division. We expect the effective tax rate before goodwill and all exceptional items for the full year to 30 April 2003 to be broadly in line with the prior year.

Fuel hedging

We have hedging arrangements in place to cover approximately 75% of our expected fuel consumption until 30 April 2003. For the financial year ending 30 April 2004, we are approximately 70% hedged at the current time at a hedge price below the current year level and our hedging position is under constant review.

Accounting policies

There have been no changes to our accounting policies during the six months ended 31 October 2002. Our policies have been reviewed against recent accounting pronouncements and no significant changes are expected in the current financial year.

Martin A Griffiths

MARTIN GRIFFITHS
Finance Director
4 December 2002