1. Basis of preparation

The financial information for the six months ended 31 October 2002 has not been audited, nor has the comparative financial information for the six months ended 31 October 2001. However, the interim financial information has been reviewed by the auditors. Their report appears at the end of this document. The comparative financial information for the year ended 30 April 2002 does not reflect all of the information contained in the company's annual accounts. These annual accounts received an unqualified audit report and have been filed with the Registrar of Companies.

The interim report was approved by the Board of Directors on 4 December 2002. There have been no changes in accounting policies since those used in the annual accounts for the year ended 30 April 2002.

2. Exceptional items

The following items have been treated as exceptional:

	Unaudited		Audited
	6 months to 31 October 2002 £m	6 months to 31 October 2001 £m	Year to 30 April 2002 £m
Provision for losses on operations to be terminated or sold	(7.7)	(9.8)	(9.9)
Write-down of assets at Coach USA	(567.3)	(9.6)	(9.7)
Profit on disposal of overseas operations	Nil	5.2	4.8
(Loss)/profit on sale of properties	Nil	(0.2)	0.5
	(575.0)	(14.4)	(14.3)
Tax effect of exceptional items	Nil	6.5	5.6
	(575.0)	(7.9)	(8.7)

Management has undertaken a review of its North American business, Coach USA. The outcome of this review has resulted in a significant change to the Group's North American strategy, further details of which are given in the Chief Executive's Review.

As at 30 April 2002, the Group undertook an impairment review of Coach USA. The Directors concluded that at that time, no impairment write-down was required but announced that the review of Coach USA's business would be undertaken. The recovery in revenues for the six months ended 31 October 2002 was less than expected and trading conditions in North America continue to be difficult. As a result of the change in strategy for Coach USA and the absence of a significant recovery in revenues, the Group has undertaken a further review of the carrying value of Coach USA's assets as at 31 October 2002. The commercial assumptions used in reviewing the carrying value of Coach USA are consistent with the current strategic plans for that business.

The carrying value of current assets within Coach USA has been reviewed to ensure these are properly valued. Appropriate write-downs have been recorded in the six months ended 31 October 2002. These write-downs include adjustments to the carrying value of taxicab inventory and receivables, where the realisable value has fallen reflecting current market conditions.

2. Exceptional items (continued)

The remaining goodwill and tangible fixed assets of Coach USA have been reviewed for impairment. In accordance with FRS 11, 'Impairment of fixed assets and goodwill', Coach USA has been divided into appropriate 'Income Generating Units' or 'IGUs'. The carrying value of each IGU as at 31 October 2002 has been compared to its estimated recoverable amount, being the higher of its value in use and net realisable value to the Group. The value in use of each IGU has been derived from discounted cash flow projections that cover the period to 30 April 2007. After 30 April 2007, the projections use a long-term growth rate compatible with projections for the US economy. The average discount rate used to arrive at the value in use was 13.0% on a pre-tax basis. The remaining tangible fixed assets and goodwill of each IGU are being amortised over their estimated useful economic lives.

The Group has closed a number of businesses in the USA as a consequence of the review. Specific provision has been made for losses associated with the closure of these businesses over and above the write-down of asset values described above. These additional losses include employee redundancy payments, operating lease termination payments and professional fees directly attributable to the closures.

The aggregate exceptional charges across all of the IGUs are as follows:

	6 months to 31 October 2002 £m
Provision for losses on operations to be terminated	(7.7)
Write-down of current assets to net realisable value	(17.8)
Impairment of tangible fixed assets	(162.7)
Impairment of goodwill	(386.8)
	(575.0)

The residual written down values of Coach USA's net assets as at 31 October 2002 are as follows:

	As at 31 October 2002 £m
Goodwill	113.1
Tangible fixed assets	248.9
Net current assets	14.9
Net assets before debt and tax balances	376.9

3. Other operating income

	Unaudited 6 months to 31 October 2002 £m	Unaudited 6 months to 31 October 2001 £m	Audited Year to 30 April 2002 £m
Miscellaneous revenue	29.3	21.7	47.5
Losses on disposal of assets, other than properties	(1.3)	(0.2)	(0.1)
Rail franchise support	12.4	6.2	6.8
	40.4	27.7	54.2

4. Segmental analysis

(A) Turnover

	Unaudited 6 months to 31 October 2002 £m	Unaudited 6 months to 31 October 2001 £m	Audited Year to 30 April 2002 £m
UK Bus	293.8	282.4	567.9
Overseas Bus	92.3	95.9	194.7
Coach USA	334.2	373.6	682.3
Total bus continuing operations	720.3	751.9	1,444.9
Rail	206.0	206.0	402.8
Group turnover – continuing operations	926.3	957.9	1,847.7
Share of joint ventures' turnover			
Virgin Rail Group	140.6	127.1	261.2
thetrainline.com	5.1	4.1	11.7
Elimination of inter-segment turnover	(4.3)	(3.3)	(9.2)
Group turnover and share of joint ventures' turnover	1,067.7	1,085.8	2,111.4

4. Segmental analysis (continued)
(B) Operating profit

	Unaudited 6 months to 31 October 2002 £m	6 months to 31 October 2001 Restated £m	Year to 30 April 2002 Restated £m
Continuing operations			
UK Bus	31.1	31.1	62.1
Overseas Bus	17.0	16.6	33.4
Coach USA – pre-exceptional items	15.8	35.1	38.4
Coach USA – exceptional items	(575.0)	(19.4)	(19.6)
Total bus continuing operations	(511.1)	63.4	114.3
Rail	18.9	20.7	31.0
Total continuing operations	(492.2)	84.1	145.3
Group overheads	(4.5)	(5.2)	(10.2)
Annual goodwill amortisation	(19.8)	(20.8)	(41.7)
Redundancy/restructuring costs			
– continuing operations	(2.9)	(4.1)	(6.6)
Total operating (loss)/profit of group companies	(519.4)	54.0	86.8
Share of operating profit/(loss) of joint ventures			
– Virgin Rail Group	7.7	8.4	10.8
– thetrainline.com	(1.4)	(2.5)	(4.4)
– other	(0.1)	Nil	(0.3)
Goodwill amortised on investment in joint ventures	(4.3)	(4.2)	(8.4)
Share of operating profit of associates			
– Road King	5.8	6.6	12.9
– other	(0.5)	Nil	(0.5)
Goodwill amortised on investment in associates	(0.2)	(0.2)	(0.4)
Total operating (loss)/profit: group, joint ventures and associates	(512.4)	62.1	96.5

The above segmental analysis of operating profit has been re-stated by applying certain costs that were previously classified within 'Group overheads' against the operating profits of particular operating divisions. This has been done to align the segmental analysis with the way management now monitors the business and to achieve greater comparability with other companies.

For completeness, we have also presented on page 20, operating profits segmented using the previous basis.

4. Segmental analysis (continued)
(B) Operating profit

	Unaudited 6 months to 31 October 2002 £m	Unaudited 6 months to 31 October 2001 £m	Audited Year to 30 April 2002 £m
Continuing operations			
UK Bus	35.7	35.7	71.1
Overseas Bus	17.0	16.7	34.1
Coach USA – pre-exceptional items	17.1	36.8	41.2
Coach USA – exceptional items	(575.0)	(19.4)	(19.6)
Total bus continuing operations	(505.2)	69.8	126.8
Rail	19.1	20.8	31.3
Total continuing operations	(486.1)	90.6	158.1
Group overheads	(10.6)	(11.7)	(23.0)
Annual goodwill amortisation	(19.8)	(20.8)	(41.7)
Redundancy/restructuring costs			
– continuing operations	(2.9)	(4.1)	(6.6)
Total operating (loss)/profit of group companies	(519.4)	54.0	86.8
Share of operating profit/(loss) of joint ventures			
– Virgin Rail Group	7.7	8.4	10.8
– thetrainline.com	(1.4)	(2.5)	(4.4)
– other	(0.1)	Nil	(0.3)
Goodwill amortised on investment in joint ventures	(4.3)	(4.2)	(8.4)
Share of operating profit/(loss) of associates			
– Road King	5.8	6.6	12.9
– other	(0.5)	Nil	(0.5)
Goodwill amortised on investment in associates	(0.2)	(0.2)	(0.4)
Total operating (loss)/profit: group, joint ventures and associates	(512.4)	62.1	96.5

5. Taxation

The taxation charge comprises:

	Unaudited		Audited
	6 months to 31 October 2002 £m	6 months to 31 October 2001 £m	Year to 30 April 2002 £m
Group companies	15.8	11.1	11.1
Share of joint ventures' tax	Nil	1.3	0.8
Share of associates' tax	0.2	0.3	3.1
	16.0	12.7	15.0

6. Earnings per share

Earnings per ordinary share have been calculated in accordance with FRS 14 'Earnings per Share', by calculating group (loss)/profit on ordinary activities after tax 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 2002	6 months to 31 October 2001	Year to 30 April 2002
Basic weighted average share capital (number of shares, million)	1,311.2	1,308.7	1,309.9
Dilutive shares			
– Executive Share Option Scheme	Nil	0.1	0.1
– Employee SAYE Scheme	Nil	0.1	0.2
Diluted weighted average share capital (number of shares, million)	1,311.2	1,308.9	1,310.2
	£m	£m	£m
(Loss)/profit after taxation (for basic EPS calculation)	(540.1)	22.8	27.0
Goodwill amortised on subsidiaries	19.8	20.8	41.7
Goodwill amortised on joint ventures	4.3	4.2	8.4
Goodwill amortised on associates	0.2	0.2	0.4
Exceptional items (see note 2)	575.0	14.4	14.3
Tax effect of goodwill and exceptional items	(1.9)	(8.1)	(9.2)
Profit for adjusted EPS calculation	57.3	54.3	82.6

7. Reconciliation of operating (loss)/profit to net cashflow from operating activities

	Unaudited 6 months to 31 October 2002 £m	Unaudited 6 months to 31 October 2001 £m	Audited Year to 30 April 2002 £m
Operating (loss)/profit of group companies	(519.4)	54.0	86.8
Depreciation	51.6	54.0	112.7
Impairment of tangible fixed assets	162.7	9.6	9.7
Impairment of goodwill	386.8	Nil	Nil
Loss on sale of tangible fixed assets, other than properties	1.3	0.2	0.1
Goodwill amortisation	19.8	20.8	41.7
Distribution reserve	(0.7)	0.9	1.8
Decrease/(increase) in stocks	9.5	(2.3)	(3.1)
Increase in debtors	(10.1)	(19.0)	(6.6)
Increase in creditors	10.4	0.9	5.8
Increase in provisions	1.9	4.6	8.0
Net cash inflow from operating activities	113.8	123.7	256.9

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 £9.4m (31 October 2001 – £31.2m).

8. Reconciliation of net cashflow to movement in net debt

	Unaudited 6 months to 31 October 2002 £m	Unaudited 6 months to 31 October 2001 £m	Audited Year to 30 April 2002 £m
(Decrease)/increase in cash	(11.6)	14.9	28.5
Bond repayments	38.1	77.7	77.7
Cash flow from decrease in debt and lease financing	(3.4)	(83.4)	(17.3)
	23.1	9.2	88.9
Loans and finance leases of acquired/disposed subsidiaries	Nil	0.6	0.5
Other movements	57.5	(14.1)	(40.1)
Movement in cash collateral	34.2	(2.2)	(38.2)
Decrease/(increase) in net debt	114.8	(6.5)	11.1
Opening net debt	(774.6)	(785.7)	(785.7)
Closing net debt	(659.8)	(792.2)	(774.6)

9. Cash

The net total of cash and cash collateral of £168.4m (30 April 2002 – £150.0m) is classified in the balance sheet as £168.5m (30 April 2002 – £150.0m) cash at bank and in hand and £0.1m (30 April 2002 – £Nil) in bank overdrafts within Creditors: amounts falling due within one year. Included in cash are balances held in trust in respect of Porterbrook loan notes of £40.8m (30 April 2002 – £41.1m), South West Trains cash balances of £47.8m (30 April 2002 – £56.4m), Coach USA letter of credit and insurance collateral cash of £35.9m (30 April 2002 – £1.4m), and other restricted balances of £4.1m (30 April 2002 – £4.5m).