Stagecoach Group
Interim Report for the six months ended 31 October 2001

CHAIRMAN'S STATEMENT

The tragic events on 11 September in the USA have had a significant impact on the lives of many and we wish to express our deepest sympathy with the injured and bereaved. We are committed to the efforts by the Mayor and all New Yorkers to rebuild the spirit of New York City. The spirit and dedication of Coach USA's people during these difficult times has been tremendous and I would like to personally thank all of our people for their efforts over the last three months.

The impact of the events on 11 September, with their concentration on key areas of our operations in and around New York, has affected the short-term financial performance of Coach USA and this is reflected in the Group's results for the period.

Group turnover, excluding discontinued operations, has increased by 3.2% to £957.9m (2000 - £928.4m). Total operating profit (before goodwill amortisation and exceptional items), was £106.7m (2000 - £128.7m) and adjusted earnings per share on an equivalent basis were 4.1 pence (2000 – 5.1 pence).

The directors have declared an interim dividend of 1.3p per share (2000 - 1.3p). The interim dividend is payable to shareholders on the register at 15 February 2002 and will be paid on 13 March 2002.

Prior to 11 September we were greatly encouraged that Coach USA was moving forward positively and our priority now is to regain that momentum. Market conditions in the USA, however, continue to be difficult. Whilst our taxi, transit and scheduled line run businesses have proved to be very robust and have bounced back quickly, the immediate outlook for our tour, charter and airport dependent businesses is more uncertain. We have therefore implemented measures that will reduce the annualised cost base of the division by approximately $25 million (£17m) and see Coach USA withdraw from a number of operations which, in the current climate, we do not see as sufficiently robust. We remain firmly of the view that the US business will recover and that there will be significant opportunities arising from our strong position in the market place.

Our UK Bus division continues to generate strong cash flows. It has benefited from a strong performance in London underpinned by new and renewed tenders at rates reflecting the significant investment that we have made in these operations. Our Overseas Bus operations in Hong Kong and New Zealand are still achieving underlying organic volume growth and, like the UK Bus division, are strong cash contributors for the Group.

At South West Trains and Virgin Rail Group, financial and operating performance has been impacted by continued infrastructure unreliability. The recent administration of Railtrack has created further uncertainty. Whilst there are clearly challenges ahead, we at Stagecoach believe that there are considerable opportunities for our Group. We have recently approached the Transport Secretary, Stephen Byers, outlining our views for a radical change in the structure for running Britain's railways that would see much closer integration between train operations and infrastructure maintenance and renewal but which would leave ownership of the network with Railtrack or its successor company. We believe that it is essential that the train operating companies take an active role in finding a solution to the current structural problems that the industry faces.

We are continuing our discussions with the Strategic Rail Authority to finalise a new franchise agreement for South West Trains. Our £1 billion new trains order for South West Trains is proceeding on time with the first unit due to be tested in the near future. At Virgin Rail Group, passengers are already benefiting from new investment with the introduction of the new Voyager train on the CrossCountry Franchise. The first Pendolino "tilting" train is due into service on the West Coast Main Line in 2002. We are working closely with our partners at Virgin Group to deliver the Virgin Rail Group business plan in the post-Hatfield environment and remain encouraged about the future.

In September we were pleased to welcome Iain Duffin to our Board as an independent non-executive director. Iain has considerable management experience on both sides of the Atlantic and I am sure the Group will benefit from this in the future.

Our Group is operating in an uncertain economic environment and each of our divisions faces its own opportunities and challenges. The cost reduction programme and business disposals in the USA that we have already implemented are a reflection of the current operating environment. However, we have a sound and complementary portfolio of businesses underpinned by strong cash flow generation that continue to show good growth prospects. We anticipate further growth opportunities in North America which we will pursue from a leaner and more efficient base. While there is clearly some uncertainty in UK Rail at the current time, Stagecoach is well placed to negotiate a long-term position at South West Trains as a new railway structure in the UK emerges. In addition we are confident that any changes agreed to the timing and scope of the West Coast Main Line infrastructure upgrade project will recognise the interests of all the parties and protect the interests of Virgin Rail Group.

We remain focused on our core bus and rail businesses in our selected geographic markets and remain fully committed to generating value for shareholders.

BRIAN SOUTER
Chairman 6 December 2001

CHIEF EXECUTIVE'S REVIEW

Overview

Despite the recent events which have impacted Coach USA and our UK rail interests, we have retained a clear focus on the continued restructuring and development of our existing businesses. In light of a reduction in revenue at Coach USA after 11 September, management action has already been taken to address the cost base and we continue to pursue revenue growth initiatives across each of our businesses.

UK Bus

Turnover from our UK Bus operations was £282.4m, compared to £270.8m in the prior year. The prior year figure includes the turnover from four depots in East Lancashire that were disposed of in April 2001, and excluding this contribution, turnover has increased by 6.5%. Operating profits were £35.7m compared to £37.9m in 2000, representing a fall in operating margin from 14.0% to 12.6%, principally arising from above inflation wage increases.

Our priority is to generate organic passenger growth and to mitigate the ongoing cost pressures that the industry as a whole is experiencing. Underlying passenger volumes increased by 1.2% with particular growth achieved in London and the South of England and on key urban corridors across the network. We are continuing to tackle the issues of staff retention and recruitment and we are now seeing positive results from our efforts in this area. Driver shortage is still a key issue however with limited benefit accruing so far from the economic slow down. Across the UK, we are prioritising the development of new and existing services that offer the greatest growth prospects.

We continue to be encouraged by the commitment shown by Transport for London to improve bus services. Our two London bus companies have consistently been amongst the highest ranked operators for punctuality and reliability. We are well positioned to benefit from growth opportunities in London and, during the six months ended 31 October 2001, we have increased annual revenues by £9.0m as a result of net contract wins and renewals. In overall terms, we now have an approximate 16% share of this growing market.

Coach USA

In July and August, the Division as a whole reported operating profits significantly ahead of the equivalent months in the prior year. In the four months ended 31 August 2001, Coach USA's revenues increased by 4.1% (excluding exchange rate movements).

However the terrorist attacks in the USA on 11 September had a significant direct and indirect impact on a number of our businesses in the short term and this is reflected in the overall operating results for the period.

Coach USA reported turnover of £373.6m, up from £361.7m in 2000. Excluding the impact of foreign exchange rate movements, revenues at Coach USA fell by 0.2%. Operating profit before exceptional items fell from £49.5m to £36.8m, representing a reduction in operating margin from 13.7% to 9.9%.

The immediate effect of the attack resulted in the loss of one motor coach at the World Trade Centre in lower Manhattan, with no injury to staff or passengers. All sightseeing and commuter services in the New York City and New Jersey areas were suspended for three days after the emergency. Across the US, all our airport-related services were suspended pending the re-opening of US airports. In New York State and elsewhere in the US, our vehicles were used to assist the rescue and support efforts co-ordinated by public transport and airport authorities.

The impact was seen across most parts of the business with tour and sightseeing, charter and airport services most severely affected.

In September, revenues were $15m below our original expectations with operating profits $10m down, while in October revenues and operating profits were $10m and $8m respectively below our original expectations. Despite this, an operating profit (before exceptional items) was achieved by Coach USA in both September and October.

Our Taxi and Transit divisions have been least affected and have maintained their strong trading performances with both divisions reporting year on year increases in operating profits in the six months ended 31 October 2001.

Our scheduled line run and commuter businesses have now largely returned to previous ridership levels although airport services across the US remain weak in line with current air travel trends. Consistent with international and domestic travel and leisure trends, our sightseeing, tour and charter businesses are recovering slowly, but in overall terms, remain below prior year levels. The seasonality of these latter segments means that this will impact revenue and operating profits to a lesser degree in the second half of the year.

We continue to pursue new revenue opportunities and have already been successful in securing new corporate and contract business but this has not yet been sufficient to offset the revenue shortfalls in the other business segments.

With the outlook remaining uncertain, we have taken immediate steps to reduce our annualised cost base by approximately $25m (£17m) including the withdrawal of surplus vehicles and exiting a number of underperforming businesses. Since 11 September, the following actions have been taken resulting in a total exceptional charge of £19.4m together with restructuring costs of £3.2m:

- The Coach USA head office in Houston has been downsized with certain functions transferred to regional offices and Stagecoach head office in Perth. This has led to a 40% reduction in head office personnel. As a result of this downsizing, Randy West, CEO of Coach USA, will be leaving the company to pursue other interests. The Regional Management Teams, which have been strengthened over the last two years, will report directly to me as CEO of Stagecoach.

- We have made, or are committed to make, reductions in the total headcount at Coach USA totalling 550. This represents 10% of the total non-driver head count across the business.

- A moratorium has been placed on discretionary spend and new capital expenditure, and strict limitations have been imposed in relation to recruitment and pay adjustments.

- We have "moth-balled" approximately 330 motorcoaches which are not required to meet current volumes. Since these vehicles will not generate revenue for a period of time, we have recorded an exceptional non-cash charge of £9.6m against the carrying value of the vehicles. This will have a cash flow benefit through savings in the maintenance, cleaning and operation of part-utilised vehicles.

- We have committed to the sale or closure of a number of businesses which, in the current climate, we do not see as sufficiently robust including our airport shuttle operations in Atlanta and our charter operations in Montreal. These businesses have annualised revenues of approximately £14.0m. The sale or closure of these businesses gives rise to an exceptional charge of £9.8m, being the write-down of irrecoverable asset values (including goodwill) together with termination payments and other closure costs. The sale or closure of these businesses will cause a cash outflow of approximately £1.8m in the second half of this financial year but will improve annual cash flows thereafter.

Despite these cost savings and other initiatives, we will continue to prioritise safety, customer satisfaction and the development of our managers and staff. These still remain fundamental to the long-term development of the business. Equally we will continue to seek to reduce our dependence on tour and charter revenues through prioritising growth opportunities in transit, taxi, line run and sightseeing services. Recent events, if anything, will accelerate this process as we move faster towards our goals.

Overseas Bus

Turnover from our other overseas bus operations was £95.9m, the same amount as in the prior year. Operating profit fell from £17.8m to £16.7m, reflecting the disposal of our Portuguese bus operations in June 2001 and the impact on Citybus of severe weather in Hong Kong. These figures equate to an operating margin of 17.4% (2000 – 18.6%).

We have continued to see good underlying revenue growth in all of our Pacific Rim bus businesses. In New Zealand, passenger numbers increased by 5.3% in the six month period. Hong Kong suffered from 2 days (2000 – Nil days) of typhoons in the six months and a further 33 days (2000 – 15 days) of severe rainstorms. Excluding the effect of the severe weather, passenger volumes on the Hong Kong Island Franchise grew by 1.1% and on the Airport Franchise by 11.9%.

Our relationships with governments in Hong Kong and New Zealand remain strong. Discussions with the Hong Kong Government concerning the extension of the Airport Franchise are progressing well.

Our operations in Portugal were disposed of in June 2001, generating a gain on disposal of £6.0m.

UK Rail

Turnover from our UK Rail subsidiaries has increased from £200.0m to £206.0m. Operating profit fell from £24.3m to £20.8m, representing a reduced operating margin of 10.1% (2000 – 12.2%).

The results reflect a slowing of revenue growth offset by additional compensation payments from Railtrack for poor infrastructure performance, as well as the anticipated impact of additional rolling stock charges for the delayed Class 458 trains.

Overall revenue growth for the six month period was 3.0% with an underlying passenger volume decline of 1.9%. This particularly reflects three days of industrial action at South West Trains in May 2001 and a downturn in off-peak volumes with the trends that were evident prior to 11 September accelerating in recent periods. Whether this slowdown will continue is difficult to predict but is likely to depend on the speed of recovery of the rail network from continued infrastructure delays as well as external economic factors.

We remain totally committed to providing our passengers with an improved quality of service through increased capacity and better infrastructure to deliver improved punctuality and reliability. The principal driver for this will be major investment in a new 20-year franchise, on which our negotiations as preferred bidder with the Strategic Rail Authority are continuing.

Virgin Rail Group

Our share of Virgin Rail Group's turnover for the period amounted to £127.9m (2000 - £145.3m) and our share of operating profits before exceptional items was £8.4m (2000 - £7.6m).

During the period, Virgin Rail Group continued to be impacted by ongoing disruption caused by emergency speed restrictions imposed by Railtrack following the Hatfield accident. However for the six month period, the business has returned to profitability and passenger volumes are slowly recovering on the back of a successful marketing campaign over the summer period. Reduced yields however mean that revenues remain behind last year, although this has in part been offset by continuing compensation payments from Railtrack for poor infrastructure performance.

The future success of Virgin Rail Group is dependent on achieving significant revenue growth supported by new trains and enhanced infrastructure to offset the substantial decline in subsidy in the year ending 30 April 2003 and thereafter. On the CrossCountry franchise, we have ordered 78 new trains and 29 of these are now in service, with a further new train being delivered every week. The initial feedback from passengers on the new trains has been very positive and we believe that the arrival of new trains and reliable infrastructure will provide the basis for significant revenue growth. 53 Pendolino trains have been ordered for the West Coast franchise and two of these are now testing on the mainline and a third “production” train has been delivered complete with all fittings.

The upgrade of the West Coast Main Line is continuing. Phase 1 of the upgrade (“PUG 1”) is around 68% complete and is expected to be completed during 2003. While Phase 2 (“PUG 2”) is contracted for completion in 2005 with all new trains due in service by then, there are continuing discussions regarding the delivery of the track and signalling improvements required to meet this timetable.

Other Interests

thetrainline.com

Our share of trainline’s losses reduced from £7.4m (including £3.7m of exceptional marketing costs) in 2000 to £2.5m. The business now has over 5 million registered users and offers scope for considerable growth. The business is now clearly established as the market leader for Internet rail ticket distribution and the business model is now firmly underpinned by the necessary contractual framework to produce profitable growth in the short to medium term.

Road King Infrastructure

Our investment in Road King Infrastructure continues to deliver good returns but, as expected, our share of Road King’s operating profits fell from £7.1m to £6.6m, reflecting the fact that certain minimum income undertakings from joint venture partners reduced in the current period. The business has continued to report strong growth and in the six months traffic and toll revenue growth were 6.4% and 9.8% respectively.

Outlook

Each of our divisions is operating against the background of a challenging economic environment. However, we have a sound portfolio of businesses that are underpinned by strong cash flow generation. At Coach USA it is difficult to predict how long it will take for our revenues to fully recover. However, I believe that the decisive action we have taken to restructure the business combined with our strong competitive position in the market place, will enable us to capitalise on growth opportunities which will undoubtedly arise in the coming months.

The administration of Railtrack and current trading conditions has created an uncertain rail environment but Stagecoach and Virgin Rail Group are well placed to capitalise on the opportunities that will emerge as a new rail operating structure develops. We continue to negotiate with the Strategic Rail Authority as preferred bidder for a new franchise at South West Trains and I remain confident that we will conclude a successful new franchise agreement in due course that takes account of any new rail industry structure and is on realistic commercial terms. Our bus businesses in the UK and the Pacific Rim continue to perform well, generating significant cash flow.

KEITH COCHRANE
Chief Executive 6 December 2001

FINANCIAL REVIEW

Overall Review

Group turnover, excluding discontinued operations, for the six months ended 31 October 2001 increased by 3.2% from £928.4m to £957.9m. This reflects continued organic growth across our businesses together with the impact of some small acquisitions at Coach USA offset by the impact of the events of 11 September on Coach USA.

Total operating profit (before goodwill amortisation and exceptional items) was £106.7m compared to £128.7m in the prior year. The decrease in operating profit largely reflects a decline in revenues earned in September and October by Coach USA following the terrorist attacks on the US on 11 September 2001 and the impact of industrial action and increased costs at South West Trains.

The divisional results are summarised below:

	Six months ended 31 October 2001			Six months ended 31 October 2000		
	Turnover £m	Operating Profit £m	Operating Margin %	Turnover £m	Operating Profit £m	Operating Margin %
UK Bus	282.4	35.7	12.6%	270.8	37.9	14.0%
Coach USA	373.6	36.8	9.9%	361.7	49.5	13.7%
Overseas Bus	95.9	16.7	17.4%	95.9	17.8	18.6%
Rail	206.0	20.8	10.1%	200.0	24.3	12.2%
Virgin Rail	127.9	8.4	6.6%	145.3	7.6	5.2%
Road King	-	6.6		-	7.1	
Group Overheads	-	(11.7)		-	(10.4)	
Other*	-	(6.6)		-	(6.4)	
Discontinued	-	-		11.8	1.3	11.0%
	1,085.8	106.7		1,085.5	128.7	
Exceptionals	-	(19.4)		-	(4.5)	
Goodwill	-	(25.2)		-	(32.9)	
	1,085.8	62.1		1,085.5	91.3	

* includes restructuring costs and strategic investments including thetrainline.com.

Depreciation for the period decreased from £56.8m to £54.0m. The decrease reflects movements in foreign exchange rates used to translate overseas charges and savings from fleet reduction at Coach USA. Goodwill amortisation fell from £32.9m to £25.2m, reflecting the fact that we recorded a goodwill impairment of £393.3m as at 30 April 2001 and therefore, amortisation is no longer charged in respect of the amount that was written off as impaired.

Net exceptional charges before tax of £14.4m (2000 – £2.1m) were reported. The exceptional items include charges of £19.4m 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 £0.8m on the disposal of our interests in a small operation in Beijing, China. Direct and indirect losses arising from the terrorist attacks on North America have not been classified as exceptional items, although we estimate such losses to total approximately £13.0m for the period to 31 October 2001.

Restructuring costs amounted to £4.1m (2000 - £2.6m), of which £3.2m relates to the restructuring at Coach USA and £0.9m relates to redundancy costs incurred in our other divisions. Restructuring costs are not treated as exceptional items in our profit and loss account.

Earnings before interest, taxation, depreciation, amortisation and exceptional items (normalised EBITDA) amounted to £160.7m (2000 - £185.5m).

Overall, earnings per share before goodwill amortisation and exceptional items amounted to 4.1p, compared to 5.1p in the prior year, reflecting the decrease in operating profits.

Acquisitions and Disposals

During the six months ended 31 October 2001, we acquired businesses in North America with a total enterprise value of £15.4m. The current year acquisitions contributed £1.0m and £0.3m to turnover and operating profit respectively in the six months ended 31 October 2001. These acquisitions are taxicab businesses that complement our existing, strong performing taxi division.

We disposed of our bus operations in Portugal in June 2001. The consideration amounted to £10.9m 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. In the year ended 30 April 2001, the business reported turnover of £7.2m and operating profit of £1.2m.

Shares in Issue

The weighted average number of shares for the six months ended 31 October 2001 was 1,308.7m. The number of shares ranking for dividend at 31 October 2001 was 1,310.8m. 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 be 1,309.8m.

Operating Cash Flows and Capital Expenditure

The strong cash generative nature of the group is once again highlighted by operating cash flows generated of £123.7m for the six months (2000 - £152.6m). Free cash flow for the six months was £87.8m (2000 - £115.8m).

Capital expenditure for the six months was £67.8m (2000 - £76.6m).

Net Assets and Net Debt

Net assets at 31 October 2001 were £922.8m (30 April 2001 - £920.3m). This represents net assets per share of 70.4p (30 April 2001 – 70.4p).

Net debt increased from £785.7m at 30 April 2001 to £792.2m at 31 October 2001. This primarily reflects the front end bias of the Group’s annual capital expenditure programme. Reflecting the confidence in our cash flows and banking support we have repurchased to date a total of US$120.9m of our 2009 bond issue and ¤50.6m of our 2004 Eurobond issue.

Interest

Net finance charges decreased from £36.9m to £31.6m. The ratio of normalised EBITDA to net finance charges was 5.1 for the six months ended 31 October 2001 (2000 – 5.0). The reduced interest charge reflects the benefits of interest rate reductions on the element of our debt where interest rates have not been fixed and gains realised on the repurchase of our bonds.

At 31 October 2001, 56.1% (30 April 2001 – 65.6%) of the Group’s gross borrowings were covered by fixed and capped/floored interest rates.

Taxation

We have implemented Financial Reporting Standard 19 (“FRS 19”), “Deferred Tax” in this Interim Report. FRS 19 replaces the previous UK practice of partial provisioning for deferred tax with full provisioning. Our prior year accounts have been re-stated, resulting in a reduction of £88.6m to net assets as at 30 April 2001.

Our effective tax rate for the six months ended 31 October 2001 amounts to 35.8% (2000 – 36.8%). Cash tax paid as a percentage of profit before tax amounts to 16% (2000 – 4.0%), reflecting the phasing of tax payments during the financial year and the fact that an element of the tax charge relates to timing differences, the tax cash impact of which may or may not reverse in future periods.

Fuel hedging

We have hedging arrangements in place to cover approximately 90% of our expected fuel consumption until 30 April 2002. For the financial year ending 30 April 2003, we are approximately 60% hedged at the current time and our hedging position is under constant review.

Accounting policies

The only change in accounting policies during the six months ended 31 October 2001 is in respect of deferred tax, as described above. Our policies have been reviewed against recent accounting pronouncements and the most significant change expected in the medium term is in respect of accounting for pensions and post-retirement benefits.

MARTIN A GRIFFITHS 6 December 2001
Finance Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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	Notes	**Unaudited** 6 months to 31 October 2001 Performance pre goodwill and exceptionals	Goodwill and exceptional items	Total after goodwill and exceptional items	6 months to 31 October 2000 Performance pre goodwill and exceptionals Restated	Goodwill and exceptional items Restated	Total after goodwill and exceptional items Restated	Audited Year to 30 April 2001 Restated
		£m	£m	**£m**	£m	£m	£m	£m
Turnover: Group and share of joint ventures	4	1,085.8	Nil	**1,085.8**	1,085.5	Nil	1,085.5	2,083.5
Less: Share of joint ventures' turnover	4	(127.9)	Nil	**(127.9)**	(145.3)	Nil	(145.3)	(234.2)
Group turnover	4	957.9	Nil	**957.9**	940.2	Nil	940.2	1,849.3
Continuing group operations		957.9	Nil	**957.9**	928.4	Nil	928.4	1,833.1
Discontinued operations		Nil	Nil	**Nil**	11.8	Nil	11.8	16.2
		957.9	Nil	**957.9**	940.2	Nil	940.2	1,849.3
Operating costs (excluding impairment losses)		(879.7)	(20.8)	**(900.5)**	(861.9)	(28.6)	(890.5)	(1,790.4)
Provision for losses on operations to be terminated or sold		Nil	(9.8)	**(9.8)**	Nil	Nil	Nil	Nil
Impairment of assets of group companies		Nil	(9.6)	**(9.6)**	Nil	Nil	Nil	(393.3)
Other operating income	3	27.7	Nil	**27.7**	49.9	Nil	49.9	95.2
Group overheads		(11.7)	Nil	**(11.7)**	(10.4)	Nil	(10.4)	(21.1)
Operating profit/(loss) of group companies	4	94.2	(40.2)	**54.0**	117.8	(28.6)	89.2	(260.3)
Share of operating profit/(loss) of joint ventures		5.9	Nil	**5.9**	3.9	(4.5)	(0.6)	(13.5)
Goodwill amortised on joint ventures		Nil	(4.2)	**(4.2)**	Nil	(4.0)	(4.0)	(8.3)
Share of operating profit from interest in associates		6.6	Nil	**6.6**	7.0	Nil	7.0	13.6
Goodwill amortised on associates		Nil	(0.2)	**(0.2)**	Nil	(0.3)	(0.3)	(0.3)
Total operating profit/(loss): group and share of joint ventures and associates	4	106.7	(44.6)	**62.1**	128.7	(37.4)	91.3	(268.8)
Represented by:								
Continuing group operations		94.2	(40.2)	**54.0**	116.5	(28.6)	87.9	(261.4)
Joint ventures and associates		12.5	(4.4)	**8.1**	10.9	(8.8)	2.1	(8.5)
		106.7	(44.6)	**62.1**	127.4	(37.4)	90.0	(269.9)
Discontinued operations		Nil	Nil	**Nil**	1.3	Nil	1.3	1.1
Total operating profit/(loss): group and share of joint ventures and associates		106.7	(44.6)	**62.1**	128.7	(37.4)	91.3	(268.8)
(Loss)/profit on sale of properties – continuing operations		Nil	(0.2)	**(0.2)**	Nil	2.4	2.4	2.8
Profit on disposal of operations		Nil	5.2	**5.2**	Nil	Nil	Nil	6.8
Profit/(loss) on ordinary activities before interest and taxation		106.7	(39.6)	**67.1**	128.7	(35.0)	93.7	(259.2)
Finance charges (net)		(31.6)	Nil	**(31.6)**	(36.9)	Nil	(36.9)	(76.0)
Profit/(loss) on ordinary activities before taxation		75.1	(39.6)	**35.5**	91.8	(35.0)	56.8	(335.2)
Taxation on profit/(loss) on ordinary activities	5	(20.8)	8.1	**(12.7)**	(22.3)	1.4	(20.9)	(19.1)
Profit/(loss) for the financial period		54.3	(31.5)	**22.8**	69.5	(33.6)	35.9	(354.3)
Dividends (1.3p per share (1.3p – 31 October 2000; 3.8p – 30 April 2001))		(17.1)	Nil	**(17.1)**	(16.7)	Nil	(16.7)	(49.3)
Retained profit/(loss) for the period		37.2	(31.5)	**5.7**	52.8	(33.6)	19.2	(403.6)
Earnings/(loss) per share								
- Basic	6			**1.7p**			2.6p	(26.4)p
- Basic before goodwill amortisation and exceptional items	6			**4.1p**			5.1p	7.5p
- Diluted	6			**1.7p**			2.6p	(26.4)p

The accompanying notes form an integral part of this profit and loss account.

CONSOLIDATED BALANCE SHEET

		Unaudited		Audited
		As at 31 October 2001	As at 31 October 2000 Restated	As at 30 April 2001 Restated
		£m	£m	£m
Fixed Assets				
Intangible assets		**684.0**	1,060.0	699.7
Tangible assets		**1,138.3**	1,199.9	1,157.1
Investments				
- Investment in joint ventures				
Goodwill		**85.1**	91.8	89.0
Share of gross assets		**123.9**	88.8	101.6
Share of gross liabilities		**(100.7)**	(57.3)	(83.4)
Shareholder loan notes		**10.0**	10.0	10.0
		118.3	133.3	117.2
- Investment in associates		**71.7**	66.0	70.2
- Other investments		**3.0**	2.3	3.1
		2,015.3	2,461.5	2,047.3
Current Assets				
Stocks		**51.3**	44.6	48.4
Debtors and prepaid charges	- due within one year	**222.9**	225.4	205.0
	- due after more than one year	**34.2**	31.9	34.7
Cash at bank and in hand		**173.4**	170.0	160.4
		481.8	471.9	448.5
Creditors: Amounts falling due within one year		**(498.4)**	(538.8)	(557.6)
Net current liabilities		**(16.6)**	(66.9)	(109.1)
Total assets less current liabilities		**1,998.7**	2,394.6	1,938.2
Creditors: Amounts falling due after more than one year		**(859.2)**	(863.1)	(816.8)
Provisions for liabilities and charges		**(216.7)**	(201.3)	(201.1)
Net assets		**922.8**	1,330.2	920.3
Capital and reserves				
Equity share capital		**6.6**	6.6	6.6
Share premium account		**784.2**	781.2	781.5
ESOP distribution reserve		**1.1**	0.9	1.8
Capital redemption reserve		**1.7**	1.7	1.7
Profit and loss account		**129.2**	539.8	128.7
Shareholders' funds – Equity		**922.8**	1,330.2	920.3

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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	**Unaudited** **6 months to 31 October 2001 £m**	Unaudited 6 months to 31 October 2000 £m	Audited Year to 30 April 2001 £m
Net cash inflow from operating activities	7	**123.7**	152.6	306.4
Dividends from associates		**1.5**	3.6	6.1
Returns on investments and servicing of finance				
Interest paid		**(37.5)**	(43.0)	(82.2)
Interest element of HP and lease finance		**(4.1)**	(4.6)	(8.9)
Interest received		**10.2**	9.5	14.9
Net cash outflow from returns on investments and servicing of finance		**(31.4)**	(38.1)	(76.2)
Taxation		**(6.0)**	(2.3)	(8.2)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(48.7)**	(59.9)	(93.7)
Sale of tangible fixed assets		**3.7**	7.9	10.1
Net cash outflow for capital expenditure and financial investment		**(45.0)**	(52.0)	(83.6)
Acquisitions and disposals				
Acquisition of subsidiaries		**(16.8)**	(29.4)	(38.7)
Net cash acquired with subsidiaries		**0.2**	0.5	0.8
Purchase of goodwill		**Nil**	(0.1)	(0.1)
Purchase of investment in joint venture and associates		**Nil**	(1.8)	(2.5)
Purchase of other investments		**Nil**	Nil	(1.2)
Cash of disposed subsidiaries		**(0.8)**	Nil	(0.2)
Disposal of subsidiaries and other businesses		**15.3**	Nil	37.6
Disposal of other investments		**Nil**	0.4	2.9
Net cash outflow from acquisitions and disposals		**(2.1)**	(30.4)	(1.4)
Equity dividends paid		**(32.7)**	(33.2)	(50.2)
Net cash inflow before management of liquid resources and financing		**8.0**	0.2	92.9
Financing				
Sale of tokens		**5.3**	6.1	16.0
Redemption of tokens		**(7.3)**	(7.5)	(14.6)
Issue of share capital for cash		**1.0**	0.1	0.3
Repurchase of own shares		**Nil**	(172.4)	(178.8)
Decrease in collateral balances		**2.2**	23.9	23.5
Repayment of loan notes		**(24.6)**	(12.5)	(33.6)
Increase/(decrease) in borrowings		**56.3**	(421.6)	(471.6)
Cost of bond redemption		**Nil**	(15.4)	(15.4)
Repayments of hire purchase and lease finance		**(26.0)**	(25.4)	(54.0)
Net cash inflow/(outflow) from financing		**6.9**	(624.7)	(728.2)
Increase/(decrease) in cash in period	8	**14.9**	(624.5)	(635.3)
Free cash flow		**87.8**	115.8	228.1
Free cash flow per share		**6.7p**	8.4p	17.0p

The accompanying notes form an integral part of this cash flow statement.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000 Restated	Year to 30 April 2001 Restated
	£m	£m	£m
Profit/(loss) for the financial period	**22.8**	35.9	(354.3)
Translation differences on foreign currency net investments	**(8.2)**	46.6	57.7
Share of other recognised gains and losses of associates	**Nil**	Nil	1.3
Total recognised gains and losses relating to the period	**14.6**	82.5	(295.3)
Prior period adjustment – deferred taxation	**(88.6)**	Nil	Nil
Total recognised gains and losses recognised since last annual report	**(74.0)**	82.5	(295.3)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000 Restated	Year to 30 April 2001 Restated
	£m	£m	£m
Profit/(loss) for the financial period	**22.8**	35.9	(354.3)
Dividends	**(17.1)**	(16.7)	(49.3)
	5.7	19.2	(403.6)
Goodwill previously written off to reserves	**3.0**	Nil	2.5
Other recognised gains and losses relating to the period (see above)	**(8.2)**	46.6	59.0
New share capital issued less costs	**2.7**	1.6	1.8
ESOP distribution reserve decrease	**(0.7)**	(0.9)	Nil
Shares repurchased	**Nil**	(58.9)	(62.0)
Net increase/(decrease) in shareholders' funds	**2.5**	7.6	(402.3)
Opening shareholders' funds as previously stated	**1,008.9**	1,391.2	1,391.2
Full provision for deferred taxation	**(88.6)**	(68.6)	(68.6)
Opening shareholders' funds as restated	**920.3**	1,322.6	1,322.6
Closing shareholders' funds	**922.8**	1,330.2	920.3

NOTES TO THE INTERIM REPORT

1 BASIS OF PREPARATION

The financial information for the six months ended 31 October 2001 has not been audited, nor has the restated financial information for the six months ended 31 October 2000. However, the interim report includes a review report, signed by the auditors. The figures for the year ended 30 April 2001 do not constitute the company's full statutory accounts, which received an unqualified audit report and have been filed with the Registrar of Companies. This interim report was approved by the Board of Directors on 6 December 2001.

The Group has adopted Financial Reporting Standard 19 ("FRS 19"), "Deferred Tax" in the six months ended 31 October 2001. Under FRS 19, deferred taxation is provided for almost all tax timing differences whereas previously the Group only provided for deferred taxation to the extent the timing differences were expected to reverse. The deferred tax provision is not discounted to net present value. Comparatives for the six months ended 31 October 2000 and the year ended 30 April 2001 have been restated on a consistent basis.

The impact of this change in policy results in a re-statement of prior year goodwill amortisation, impairment losses, tax charge, goodwill and deferred taxation provision. The profit after tax for the six months ended 31 October 2000 is reduced by £4.3m and the loss after tax for the year ended 30 April 2001 is increased by £22.0m. Net assets at 31 October 2000 and 30 April 2001 are reduced by £71.2m and £88.6m respectively.

Except for the change described above in relation to FRS 19, there have been no changes in accounting policies since those used in the annual accounts for the year ended 30 April 2001.

2 EXCEPTIONAL ITEMS

The following items have been treated as exceptional:

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000	Year to 30 April 2001 Restated
	£m	£m	£m
Provision for environmental work	**Nil**	Nil	(1.5)
Provision for losses on operations to be terminated or sold	**(9.8)**	Nil	Nil
Impairment of tangible fixed assets at Coach USA	**(9.6)**	Nil	Nil
Impairment of goodwill at Coach USA	**Nil**	Nil	(393.3)
Share of joint venture exceptional items	**Nil**	(4.5)	(4.7)
Profit on disposal of Prestwick Airport	**Nil**	Nil	6.8
Profit on disposal of Portugal bus operations	**6.0**	Nil	Nil
Loss on disposal of other overseas operations	**(0.8)**	Nil	Nil
(Loss)/profit on sale of properties	**(0.2)**	2.4	2.8
	(14.4)	(2.1)	(389.9)
Tax effect of exceptional items	**6.5**	0.6	Nil
	(7.9)	(1.5)	(389.9)

3 OTHER OPERATING INCOME

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000	Year to 30 April 2001
	£m	£m	£m
Miscellaneous revenue	**21.7**	22.0	51.6
Losses on disposal of assets, other than properties	**(0.2)**	(0.3)	(0.5)
OPRAF franchise support	**6.2**	28.2	44.1
	27.7	49.9	95.2

4 SEGMENTAL ANALYSIS
(A) TURNOVER

	Unaudited		Audited
	6 months to 31 October 2001 £m	6 months to 31 October 2000 £m	Year to 30 April 2001 £m
UK bus	**282.4**	270.8	547.6
Overseas bus	**95.9**	95.9	195.4
Coach USA	**373.6**	361.7	686.4
Total bus continuing operations	**751.9**	728.4	1,429.4
Rail	**206.0**	200.0	403.7
Total continuing operations	**957.9**	928.4	1,833.1
Discontinued operations			
Prestwick Airport	**Nil**	11.8	16.2
Group turnover	**957.9**	940.2	1,849.3
Share of joint ventures' turnover	**127.9**	145.3	234.2
Group turnover and share of joint ventures' turnover	**1,085.8**	1,085.5	2,083.5

4 SEGMENTAL ANALYSIS (CONTINUED)
(B) OPERATING PROFIT

	Unaudited						
	6 months to 31 October 2001			6 months to 31 October 2000			Audited
	Performance pre goodwill and exceptionals	Goodwill and exceptional items	**Results for the period**	Performance pre goodwill and exceptionals	Goodwill and exceptional items Restated	Results for the period Restated	Year to 30 April 2001 Restated
	£m	£m	**£m**	£m	£m	£m	£m
Continuing operations							
UK bus	35.7	Nil	**35.7**	37.9	Nil	37.9	71.9
Overseas bus	16.7	Nil	**16.7**	17.8	Nil	17.8	35.8
Coach USA	36.8	(19.4)	**17.4**	49.5	Nil	49.5	67.1
Total bus continuing operations	89.2	(19.4)	**69.8**	105.2	Nil	105.2	174.8
Rail	20.8	Nil	**20.8**	24.3	Nil	24.3	45.6
Total continuing operations	110.0	(19.4)	**90.6**	129.5	Nil	129.5	220.4
Discontinued operations							
Prestwick Airport	Nil	Nil	**Nil**	1.3	Nil	1.3	1.1
Discontinued operations	Nil	Nil	**Nil**	1.3	Nil	1.3	1.1
Group overheads	(11.7)	Nil	**(11.7)**	(10.4)	Nil	(10.4)	(21.1)
Goodwill impairment	Nil	Nil	**Nil**	Nil	Nil	Nil	(393.3)
Annual goodwill amortisation	Nil	(20.8)	**(20.8)**	Nil	(28.6)	(28.6)	(59.6)
Redundancy/restructuring costs							
- Continuing	(4.1)	Nil	**(4.1)**	(2.6)	Nil	(2.6)	(7.8)
Total operating profit/(loss) of group companies	94.2	(40.2)	**54.0**	117.8	(28.6)	89.2	(260.3)
Share of operating profit/(loss) of joint venture							
- train operating companies	8.4	Nil	**8.4**	7.6	(0.8)	6.8	(3.5)
- thetrainline.com	(2.5)	Nil	**(2.5)**	(3.7)	(3.7)	(7.4)	(9.7)
- other	Nil	Nil	**Nil**	Nil	Nil	Nil	(0.3)
Goodwill amortised on investment in joint ventures	Nil	(4.2)	**(4.2)**	Nil	(4.0)	(4.0)	(8.3)
Share of operating profit of associates	6.6	Nil	**6.6**	7.0	Nil	7.0	13.6
Goodwill amortised on investment in associates	Nil	(0.2)	**(0.2)**	Nil	(0.3)	(0.3)	(0.3)
Total operating profit/(loss): group, joint ventures and associates	106.7	(44.6)	**62.1**	128.7	(37.4)	91.3	(268.8)

5 TAXATION

The taxation charge comprises:

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000 Restated	Year to 30 April 2001 Restated
	£m	£m	£m
Group companies	**11.1**	21.0	17.8
Share of joint ventures' tax	**1.3**	(0.2)	0.9
Share of associates' tax	**0.3**	0.1	0.4
	12.7	20.9	19.1

6 EARNINGS PER SHARE

Earnings per ordinary share have been calculated in accordance with FRS 14 'Earnings per Share', by calculating group profit/(loss) 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 2001	6 months to 31 October 2000	Year to 30 April 2001
Basic weighted average share capital (number of shares, million)	**1,308.7**	1,374.8	1,341.7
Dilutive shares			
- Executive Share Option Scheme	**0.1**	0.5	0.1
- Employee SAYE Scheme	**0.1**	0.5	0.3
Diluted weighted average share capital (number of shares, million)	**1,308.9**	1,375.8	1,342.1
	£m	£m Restated	£m Restated
Profit/(loss) after taxation (for basic EPS calculation)	**22.8**	35.9	(354.3)
Goodwill amortised on subsidiaries	**20.8**	28.6	59.6
Goodwill amortised on joint ventures	**4.2**	4.0	8.3
Goodwill amortised on associates	**0.2**	0.3	0.3
Exceptional items (see note 2)	**14.4**	2.1	389.9
Tax effect of goodwill and exceptional items	**(8.1)**	(1.4)	(2.8)
Profit for adjusted EPS calculation	**54.3**	69.5	101.0

7. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASHFLOW FROM OPERATING ACTIVITIES

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000 Restated	Year to 30 April 2001 Restated
	£m	£m	£m
Operating profit/(loss) of group companies	**54.0**	89.2	(260.3)
Depreciation	**54.0**	56.8	111.2
Impairment of tangible fixed assets	**9.6**	Nil	Nil
Impairment of goodwill at Coach USA	**Nil**	Nil	393.3
Loss on sale of tangible fixed assets	**0.2**	0.3	0.5
Goodwill amortisation	**20.8**	28.6	59.6
ESOP charge	**0.9**	0.9	1.9
Increase in stocks	**(2.3)**	(4.7)	(7.9)
Increase in debtors	**(19.0)**	(17.1)	(0.7)
Increase in creditors	**0.9**	0.9	6.4
Increase/(decrease) in provisions	**4.6**	(2.3)	2.4
Net cash inflow from operating activities	**123.7**	152.6	306.4

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 £31.2m (31 October 2000 - £17.2m).

8 RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	Unaudited		Audited
	6 months to 31 October 2001	6 months to 31 October 2000	Year to 30 April 2001
	£m	£m	£m
Increase/(decrease) in cash	**14.9**	(624.5)	(635.3)
Bond repayments	**77.7**	Nil	160.6
Cash flow from (decrease)/increase in debt and lease financing	**(83.4)**	459.5	398.6
	9.2	(165.0)	(76.1)
Loans and finance leases of acquired/disposed subsidiaries	**0.6**	(23.1)	(27.4)
New HP and lease obligations	**(28.1)**	(15.5)	(34.7)
Bank facility costs and bond discounts	**1.7**	Nil	(0.1)
Translation adjustment	**12.3**	(63.5)	(74.3)
Movement in cash collateral	**(2.2)**	(23.9)	(23.5)
Increase in net debt	**(6.5)**	(291.0)	(236.1)
Opening net debt	**(785.7)**	(549.6)	(549.6)
Closing net debt	**(792.2)**	(840.6)	(785.7)