

For immediate release

14 June 2000

STAG COACH HOLDINGS PLC
Preliminary Results for the year ended 30 April 2000
Pre-tax profits of £244m, up 11% *
Increased total dividend of 3.6p per share, up 20%

Stagecoach Holdings plc announces preliminary results for the year ended 30 April 2000.

HIGHLIGHTS

- Total turnover £2,179 million, up 41 per cent
- Profit before tax £244 million, up 11 per cent *
- Basic earnings per share 9.4p, down 22%
- Adjusted earnings per share 13.4p, up 6% *
- Net assets per share increased from 52.5 pence to 98.9 pence
- Restructuring programme underway at Coach USA including recruitment of Chief Operating Officer
- UK Bus record cash flows; initiatives for growth
- South West Trains strong growth in passenger numbers and revenue
- Technology initiatives at Prepayment Cards Limited and thetrainline.com
- Swebus and Porterbrook disposals completed
- Exceptional write-offs in respect of non-core operations
- New non-executive director
- Further share buyback approval sought

* before goodwill amortisation and exceptional items

Group chief executive Keith Cochrane said that the year had seen substantial corporate activity.

“We face a number of opportunities and challenges with our principal focus being the restructuring of Coach USA, the delivery of passenger volume and revenue growth within UK Bus and success in the rail refranchising process currently underway. Our strategy remains focused on our core bus and rail operations where we believe there remain significant opportunities to generate shareholder value.

“We have strengthened the management team at Coach USA and our restructuring programme is firmly underway. We are working hard in preparing innovative bids for South West Trains and East Coast Main Line, in conjunction with Virgin, and have commenced our strategic review of UK Bus.”

Brian Souter, chairman, said “I am pleased to welcome Russell Walls to the Board as a non-executive director. Russell will bring considerable international experience, and I look forward to working with him.”

Contacts:

Stagecoach Holdings plc

Brian Souter, Chairman

Keith Cochrane, Group Chief Executive

Martin Griffiths, Group Finance Director

Robert Ballantyne, Head of Corporate Communications

Tel: 01738 442111

John Kiely, Smithfield Financial

Tel: 020 7360 4900

CHAIRMAN'S STATEMENT

In a year of considerable corporate activity, including the acquisition of Coach USA and the disposals of Swebus and Porterbrook, we achieved good underlying financial performance.

Turnover increased 41% to £2,179.1 million and profit before tax, exceptional items and goodwill amortisation was up 11% to £244.3 million (1999- £220.1 million). Earnings per share on an equivalent basis rose 6% to 13.4 pence (1999 – 12.7 pence) with basic earnings per share falling 22% to 9.4 pence (1999 – 12.0 pence) after taking account of a number of exceptional items including write-downs of £115.0 million in respect of non-core operations.

A final dividend of 2.4 pence per share (1999 - 2.0 pence) is proposed. It is payable to shareholders on the register on 15 September 2000 and will be paid on 12 October 2000. The total dividend for the year is 3.6 pence per share, up 20%. The company has now reported growth in dividend per share every year since flotation and I am optimistic that we can continue to increase dividends going forward.

The acquisition of Coach USA in July 1999 established Stagecoach as the second largest bus operator in North America, with over 12,000 employees operating in 35 US states and in Canada. After an encouraging start, and despite continuing revenue growth, overall business performance has not yet met our expectations although operating margins for the 9 months to 30 April 2000 exceeded 14%. The business is fundamentally sound with strong revenues and substantial opportunities exist both to reduce costs and to grow revenues.

Our restructuring programme for Coach is now firmly underway and is based on the approach successfully applied in UK Bus and, more recently, at Citybus in Hong Kong. We are introducing significant economies of scale, facility consolidations and rationalisation of back office and administration personnel and a new maintenance and inventory system is being implemented across the business. We have also made a number of senior management changes and are currently recruiting a Chief Operating Officer to support the management in driving through the necessary business changes. Each region now has clearly defined monthly performance targets and we have introduced a more rigorous business review process.

In the period from announcing our acquisition to 30 April 2000 Coach has acquired 15 additional businesses, with annualised revenues in excess of \$60m. We remain focused on a clear acquisition strategy to bolt on businesses which are complementary to the existing portfolio and increase our geographic representation. I am encouraged by the opportunities which are available and that we are able to make acquisitions in the 4.5-5.5 EBITDA range.

Our UK Bus business has generated record free cash flows. There has, however, been a marginal decline in passenger volumes reflecting underlying industry trends. Cost increases have arisen as a result of labour market pressures and our focus is directed at initiatives across the UK to grow passenger volumes and revenue.

Our overseas bus businesses in Hong Kong, New Zealand, Australia and Portugal have all delivered organic growth and underlying margins have improved significantly from an average of 14.5% to 16.5%. The restructuring programme in Hong Kong is complete and the outlook for the business is positive.

Within our UK rail business we continually review safety procedures to seek continuous improvement beyond the existing high standards. Our ongoing reviews take account of the recommendations arising and expected from the Uff and Cullen reports.

South West Trains (SWT) had another excellent year with further strong growth in passenger numbers. Operating margins of 10.5% compare to 10.2% for the year ended 30 April 1999 and we have maintained punctuality at the previous year's level. We continue to invest heavily in training for customer serving staff. Looking forward, rolling stock and infrastructure peak capacity constraints face SWT and we believe that these will be key considerations in the re-franchising process now under way. We will submit a strong, credible proposal to the shadow Strategic Rail Authority ("SSRA") for franchise extension and remain fully committed to the UK rail industry provided we can earn sensible commercial returns for our shareholders.

Virgin Rail Group has also experienced strong volume and revenue growth during the year. Focused attention by management produced a sustained improvement in punctuality and reliability at both West Coast and CrossCountry and we are pleased to report that, in the most recent SSRA performance statistics, the SSRA Chief Executive highlighted both franchises for making the most performance improvements. CrossCountry will receive new trains in 2001, good progress is being made on the first elements of the West Coast infrastructure upgrade and we look forward to the introduction of the new high speed services in 2002.

Stagecoach and Virgin are jointly bidding for the East Coast Main Line franchise and we have proposed a new high speed line between Peterborough and Darlington to provide much increased capacity and train speeds.

Looking forward, I am excited at the prospects for our investment in smart card technology through Prepayment Cards Limited, in which we were a founder investor. This is a significant development for public transport in the UK and builds on our experience of smart card technology in our Hong Kong operations. I am also excited at the potential offered by our joint investment with Virgin Group in the trainline.com internet train booking service. In both instances we are at the forefront of technology in the UK bus and rail markets.

At Prestwick Airport, there has been continued passenger volume growth arising from the introduction of new European services. Our Prestwick management team is seeking new sources of revenue to offset the loss of duty-free that we had anticipated and the unexpected withdrawal of Federal Express. In the meantime, we have reduced the carrying value of the assets by £30 million.

Road King continues to trade strongly and contributed £13.1 million to profit before tax. On a like for like basis, Road King enjoyed an 8% increase in toll revenues in its financial year ended 31 December 1999 but trading in the shares of Road King was suspended on 12 June 2000 on the Hong Kong Stock Exchange when it was announced that Wai Kee Holdings Limited, the major shareholder in Road King, may dispose of its interest, resulting in a change of control of Road King to a third party. We have therefore written down the carrying value of our investment in Road King by £85 million to current market value.

In January 2000 we completed the disposal of Swebus following a strategic review which indicated limited prospects for this operation in the medium term. While in local currency terms we realised a gain on the disposal of this business, this translated into a sterling loss as a result of movements in foreign exchange rates between the time of acquisition and the time of disposal. We have recognised a loss of £10.7 million on overseas investments, principally the disposal of Swebus.

On 20 April 2000 we disposed of Porterbrook for a gain of £135.5 million and realised £773.3 million of cash proceeds for the Group, in addition to a reduction in debt of £361.6 million. This provides the group with substantial financial flexibility and we advised shareholders of our intention to buy back up to £250 million of share capital in the next 12 months, subject to there

being no significant investment alternatives to enhance shareholder value. To date the Company has repurchased 248.2 million shares for a total cost of £162.1 million. The Board will continue to look at value enhancing opportunities that demonstrate long-term returns for shareholders. If such acquisition opportunities are not forthcoming the Company may buy back further shares in excess of the £250 million.

The UK Bus market is now recognised as a mature business and growth is coming from overseas markets which have a different risk profile. This has resulted in a re-rating of all the UK companies in the sector but our short term challenges at Coach USA and the inevitable uncertainty arising from a number of management changes have added to the negative sentiment about Stagecoach. However the fundamentals of our business remain strong and I am confident our recent management changes will strengthen the company's future performance.

I would like to thank Mike Kinski, Larry King and Jim Leng, who left the board during the year, for their contributions to the Group and wish them well for the future.

Keith Cochran has made a substantial contribution to the Group over the last seven years. He is well qualified to face the challenge of his new role and he is the right choice for Chief Executive to take the business forward. Martin Griffiths becomes our Group Finance Director, having gained valuable insight and experience from working in key strategic roles with the group for the last three years. We also welcome to the Board, Frank Gallagher, who has overall responsibility for our North American operations.

Ann Gloag has relinquished her Executive Director responsibilities and I would like to express our thanks for her major contribution and support over the last 20 years and I am delighted that she will be continuing as a non-executive Director.

I am pleased to announce that Russell Walls will be joining the Board as a non-executive Director. Russell is the Finance Director of BAA plc and will bring considerable international experience to the Board and I look forward to working with him. We will be making a further non-executive appointment in due course.

The new management team will focus closely on the integration of the existing Coach USA business tackling the cost base, improving revenue growth and integrating new bolt-on acquisitions where these fit with our growth plans for this business. Attention in our UK Bus division is focused on revenue growth and in UK Rail we will submit strong proposals to retain the South West Trains franchise and, in conjunction with Virgin Group, to gain the East Coast Main Line franchise.

I would like to thank all our employees for their support and commitment over the past year. We have a fully committed team of people across our businesses whose contribution is invaluable. I continue to encounter genuine enthusiasm from so many individuals throughout our organisation and together I am sure we will continue to deliver a high quality service.

The current year has started in line with our expectations and our group is well positioned to take advantage of emerging opportunities. We are always assessing ways of achieving organic growth and examining other business development options within our core bus and rail businesses.

Brian Souter
Chairman

CHIEF EXECUTIVE'S REVIEW

Outlook

We face a number of opportunities and challenges with our principal focus being the restructuring of Coach USA, the delivery of passenger volume and revenue growth within UK Bus and success in the rail refranchising process currently underway. Our strategy remains focused on our core bus and rail operations where we believe there remain significant opportunities to generate shareholder value.

At Coach USA we will continue to strengthen the management team and our restructuring programme is firmly underway. We believe that there is substantial scope for cost reduction although we will not get the full benefit of the cost reduction measures until next year. Scope for revenue growth remains good and acquisition opportunities continue to be available at attractive prices. We are confident that Coach USA provides a strong platform for organic and acquisition growth in the large and exciting North American market.

Our UK Bus business operates in a mature market with very significant cost savings having been achieved over a number of years. We are currently undertaking a strategic review of each of our businesses but it is clear that there is limited scope for further cost reductions against a background of a difficult industrial relations climate. Our challenge is to maintain and grow margins by generating revenue growth to offset these pressures through innovative products, marketing initiatives, the use of new technology and government support for public transport.

We have now completed the restructuring of our 1998/99 acquisitions in New Zealand and Hong Kong and the outlook for these businesses is positive. We continue to achieve organic volume growth in both markets and our New Zealand operations are well placed to benefit from the new government's declared focus on public transport. In Hong Kong, a scheduled mid-term review of our urban franchise will take place and we will work with government in addressing the impact on the environment caused by congestion and pollution. Our other overseas operations in Australia, mainland China and Portugal continue to perform well.

At South West Trains, we are committed to delivering an ever-safer railway with improved levels of customer service and operational performance. We continue to see strong revenue growth although peak capacity constraints are likely to limit volume growth in the current year. To secure an extended franchise we will deliver an innovative and exciting proposal which addresses the complex rolling stock and infrastructure issues facing the franchise.

At Virgin Rail we continue to see strong revenue growth with significant improvements already achieved in customer service and underlying punctuality and reliability. The key challenge is to prepare the business for new rolling stock and infrastructure improvements. We are working closely with Virgin Group on our joint bid for the East Coast franchise replacement which provides an exciting vision of future rail travel.

We are optimistic at the prospects for thetrainline.com and its new management team is already undertaking further site development and commercial initiatives. Significant opportunities also exist for the development of smart cards in the UK and Prepayment Cards Limited is already well positioned within the bus sector.

The last few months have been a difficult period for the Stagecoach Group. However, I am confident that we now have the right management and financial resources to support the

development of the Group and to implement our future strategy. Management across the Group is committed to tackling the challenges ahead and to delivering value for shareholders.

Coach USA

We acquired Coach USA on 26 July 1999. Coach USA is the largest provider of motorcoach charter, tour and sightseeing services and the second largest bus operator in North America. In addition, the company also provides taxi, airport ground transportation, paratransit and other passenger related transport services.

Coach USA now operates in some 35 US states and in Canada and has a fleet of over 6,500 motorcoaches and 3,000 taxicabs, with an average age of less than five years. With the exception of the taxi division, which has operations in 8 states, and the Transit division, which manages privatisation contracts, the business is organised into six geographical regions: North East, New England, North Central, West, South and Canada. Each has a regional management team and typically there are ten to twelve companies in each operating region.

Turnover for the nine months to 30 April 2000 was £424.9 million, generating operating profits of £60.1 million giving an operating margin of 14.1%. This compares to turnover and operating profits for the equivalent nine-month period in the prior year of £396.9 million, £64.3 million and 16.2% respectively. After an encouraging start, the overall performance of the business is not yet meeting our expectations with cost increases more than offsetting the revenue growth achieved in the period.

Revenue Growth

Underlying revenue growth averaging 5% has been achieved on a like for like basis. We have seen strong growth in New England, Canada, Transit and Taxi with more modest growth in the South, North East and North Central regions. In the West region, loss of contracts in Las Vegas caused revenues to remain flat over the comparative periods. However, we are confident that this trend will be reversed in the coming year.

The rate of growth is being hampered in some areas by tight labour market conditions which have reduced the availability of drivers to meet our work requirements. This is particularly the case in the North East and South where the problem is most acute. One of the keys to maximising revenue growth will be to successfully recruit and retain drivers. Where possible, drivers are being temporarily relocated to the areas of most need, and work schedules are being examined to ensure a fair split of work between existing and new employees to increase our ability to retain quality drivers.

Prices in the Charter market are remaining firm and we have had considerable success winning new contracts, particularly in Los Angeles County where we have secured work for some \$7 million of revenue per annum under various bids. In total, since January 2000, we have won annualised revenues in excess of \$12 million, all with favourable returns on capital employed and operating margins, and we currently have another \$33 million of bids pending decision.

The taxi business has continued to grow during the year with organic growth of some 7% and bolt on acquisitions in West Palm Beach, Jacksonville, Orlando and Long Island. Our taxi businesses follow a standard model and as a result all new acquisitions are immediately earning and enhancing, contributing to the strong performance of this division.

Another area of considerable success has been our e-commerce initiative. Sightseeing and tours can now be booked directly over the internet, as can airport shuttle services and charters. This has simplified the process for the customer and is proving to be very popular. This project is still in its development stage and we believe it will change the way in which public transport is booked and will encourage integration of services going forward.

Cost base

Net operating costs increased by nearly 10% year on year compared to revenue growth in the same period of 7%. The decline in operating margin was caused by a number of factors including staff costs which increased proportionately more than turnover reflecting the high cost of labour shortages. We also experienced increases in engineering and maintenance, insurance and fuel costs as a percentage of turnover as well as some general cost inflation in administrative expenses.

Management structure

We have made a number of important senior management changes at both corporate and regional level to drive the business forward. Frank Gallagher, previously Chief Operating Officer, is now Chief Executive Officer. Frank has over 30 years experience in the industry and was one of the founding directors of Coach USA. Linda Bell has transferred to Coach USA as Chief Financial Officer. Linda was previously Sagecoach's Director of Financial Control and was responsible for budgetary control in the Group's UK Bus operations and was instrumental in establishing reporting procedures in our Overseas Bus division. She was also actively involved in the restructuring of our Hong Kong Citybus operation. We will appoint a Chief Operating Officer and I hope to be in a position to make an announcement about this in the near future. Senior management appointments have also been made in insurance and maintenance, and at regional levels.

We have introduced this management structure to address the increased cost base referred to above. Each region now has clear monthly targets and we have introduced a more rigorous business review process on both a monthly and quarterly basis. We are also introducing economies of scale using methods adopted successfully in our UK Bus business and more recently by Citybus in Hong Kong. These include centralised buying of spares, standardisation of procedures, facility consolidations, reductions in engineering staff, rationalisation of back office and accounting staff and an improved regional management structure. The implementation of this programme has started first of all in the North East Region where we believe there is the greatest potential for cost savings.

The North East region, although the largest in revenue terms, is highly concentrated in New Jersey and New York. More than 60% of its revenue base is derived from scheduled and commuter services with the remainder combining charter and sightseeing and some contract work. A new structure is currently being put in place, reorganising the ten companies into four divisions and centralising a significant proportion of the charter booking and all accounting functions into one regional office. This along with the other actions that I have referred to will reinforce accountability and will improve the efficient operation of the region.

A new maintenance and inventory system is currently being implemented nation-wide and we believe that this, combined with the implementation of best practice maintenance procedures that have been developed over a number of years in our other bus businesses, will have a significant impact on maintenance costs going forward.

New acquisitions

In the period from announcing our acquisition to 30 April 2000 Coach USA acquired 15 additional businesses with annualised revenues in excess of \$60m and with prices averaging a multiple of 4.9 times EBITDA. The focus of our acquisition strategy is to bolt on businesses that are either complementary to the existing portfolio or that increase our geographic representation. In this regard we have recently entered the Washington DC market, a market that we have been looking to enter for some time. We continue to investigate a number of acquisition opportunities where these fit with the growth plan for the business. Strong management and ability to integrate are key attributes for all new businesses acquired and I am also pleased to report that the acquisition prices that we are paying are well within expectations.

Coach USA, the second-largest coach operation in North America, is well placed to benefit from a focused acquisition strategy and the continuing consolidation of a growing \$40 billion North American bus and coach market. Coach is currently reporting an operating margin in excess of 14%, and we have identified and are implementing management action that will result in substantial cost savings. We remain convinced that Coach USA is uniquely placed to benefit from continuing industry consolidation, and prospects to grow the tour, taxi and transit businesses remain strong.

UK Bus Division

Our UK Bus business is now a mature business but, as a strong cash generator, remains a very important part of our Group. The current year has seen a marginal decline in passenger volumes reflecting underlying industry trends. A decline in bus passenger revenues has been offset by new business from quality partnerships, rural bus grants and other contract work but this has brought with it additional costs.

Turnover for the UK Bus division increased 2.0% from £516.9 million to £527.0 million but increases to the cost base meant that operating profits fell from £81.9 million to £80.8 million. Operating margins were 15.3% compared to 15.8% in the prior year.

Operating costs have increased ahead of inflation. In particular, the tight labour market in certain parts of the UK coupled with the final phasing out of profit related pay has led to industry-wide pressures on labour costs and on staff recruitment and retention. Management of labour, which accounts for approximately 65% of the division's operating costs, is a key priority for our bus management teams. Our efforts in this area have been strengthened by the appointment of a dedicated UK Bus HR Director during the year. Labour constraints have restricted growth opportunities particularly in the south of the UK where labour shortages are more pronounced and therefore we continue to prioritise driver recruitment as part of our growth strategy.

Investment

We are investing in new information systems to facilitate more sophisticated analysis of route profitability and route-segment profitability. This will provide us with better information to modify route networks to ensure the return from our resources is optimised. We will also, as part of a wide-ranging review of our IT strategy in the bus division, make a significant investment to simplify and rationalise both our operational and finance processes.

During the year a further 454 new vehicles were purchased, representing an investment of £51.3 million. A key element of this investment programme was the purchase of 27 low floor double deck air-conditioned coaches for our Oxford Tube service.

The average age of the UK fleet is now 6.7 years. We believe that maintaining a modern fleet that is both user-friendly and environmentally friendly is a key factor in attracting and retaining passengers. Orders for a further 375 vehicles have been placed for vehicles to be delivered in the year to 30 April 2001.

Working in Partnership

In the UK, in common with all of the markets in which it operates, the Stagecoach group is committed to encouraging greater use of public transport. We participated in the Government's UK Bus summit during the year and we have assisted the Commission for Integrated Transport (CfIT) and the National Economic Research Agency (NERA) in their review of the UK Bus industry.

In Scotland, we have been involved in the consultation process for the Scottish Transport White Paper and the PTI 2000 project and we are delighted that the Scottish Executive has welcomed our input. Similarly, Stagecoach in Wales has been actively involved in the preliminary establishment of the Public Transport Information Project in Wales.

The group is committed to quality partnerships and rural bus grant projects. We have been successful in winning a significant number of rural bus tenders.

Overseas Bus Division

We have bus operations in Hong Kong, mainland China, New Zealand, Australia and Portugal. Our operations in Sweden and Finland were disposed of during the year.

Asia

The first full year contribution from Citybus was turnover of £128.0 million and operating profit of £21.2 million, representing an operating margin of 16.6%. This compares with an operating margin of 11.4% for the full financial year prior to our acquisition.

On a like for like basis, passenger numbers increased 4.2% during the year with strong growth in the second half of the year. In recent months, passenger growth in the airport franchise has suggested that economic recovery is continuing in the Asia Pacific area. Similarly, passenger numbers in the Hong Kong urban franchise continue to be well ahead of the previous year. We are confident of achieving further growth this year.

Around 80% of Citybus' revenues are from the main franchise for Chek Lap Kok airport and the Hong Kong urban franchise. The remaining 20% of the business consists of non-franchised business, including cross-border and mainland China routes. The Hong Kong franchise is subject to a mid-term Government review in September 2000. I believe we can approach this review, and the remaining five years of the franchise, with confidence given the commitment shown to Citybus by the Stagecoach Group and the marked increase in business performance during the period of our ownership.

The restructuring programme at Citybus is largely complete and we will see the benefits from this in the current year. The operating margin benefit may be offset to a degree by increased fuel costs if we move towards using more expensive green diesel as recommended by the Hong Kong Government. We are, however, still discussing the implications of this with Government representatives and oil suppliers.

New Zealand & Australia

Turnover from our operations in New Zealand and Australia increased 33.4% from £31.4 million to £41.9 million and operating profit increased 45.7% from £4.6 million to £6.7 million. The increase includes the first full-year contribution from Yellow Bus (now known as Stagecoach Auckland) and Fuller's Ferries.

We are pleased by the performance of Stagecoach Auckland, acquired during the last financial year, and of Fuller's Ferries which benefited from the Americas Cup. Strong passenger growth was experienced in the Auckland area, particularly in the latter part of the year. Further growth is expected to result from anticipated increases in public funding for extra services and new infrastructure, including a proposed network of regional transit ways. Our new quality partnership with Auckland City Council is expected to result in more bus lanes and other bus priority measures and we will be investing in new fleet in relation to this partnership to take advantage of these opportunities.

Our operations in Australia, mainly in Queensland, continue to perform well as we gradually expand the business to attain critical mass.

UK Rail – South West Trains

Safety and security

The tragic accident at Ladbroke Grove brought into sharp focus the paramount importance that must always be placed on safety. We remain actively involved in industry-wide safety initiatives as well as striving to deliver continuous improvement beyond the existing high standards across our whole rail network.

Our Rail division has undertaken a thorough review of its safety procedures in the last year. The review was aimed primarily at the way safety critical staff, such as train drivers, are selected, recruited, trained and managed. Having evaluated the findings of this review, we have identified areas where existing safety procedures can be further improved. The outputs of this review are being fully implemented during the first half of 2000.

The station security project, completed last year as a joint scheme with Railtrack, has won a further railway industry award for reducing crime. The project will be extended over the course of 2000 to cover a number of further stations and car parks as part of a £750,000 investment in passenger safety. South West Trains now has ten stations, out of fifty one nationally, with the Government's safer station award and further stations will be put forward during 2000.

Operational performance

Our rail businesses have had another excellent year with further growth in passenger numbers.

Turnover from our UK Rail subsidiaries was £376.4 million, an increase of 8.0% from the prior year and operating profits increased 16.3% from £33.8 million to £39.3 million. At South West Trains, passenger volumes continued to grow and have increased 6.3% year on year. Additional peak hour passenger growth has been accommodated without increasing overcrowding by careful management of the timetable. However looking forward, rolling stock and peak hour infrastructure capacity constraints mean that peak passenger growth will be restricted in the short to medium term.

A solution to the capacity constraints and delivering further passenger growth will be a key part of our franchise extension proposal.

Operating costs increased by 7% during the year. This reflects South West Trains' exposure to the tight labour market in the South East and these cost pressures will continue in the current year. We are also introducing new trains which will lead to much improved customer facilities and off-peak revenue generation but which will attract higher leasing charges.

Service delivery

We have maintained train service punctuality at the previous year's level but we continue to strive for further improvements in this area.

The reliability of the train service fell over the last year, primarily due to eight weeks of unofficial industrial action by some train drivers in the late summer and autumn of 1999. South West Trains and the drivers' trade union, ASLEF, worked together to find a solution to the unofficial dispute and, since the dispute ended in January 2000, the reliability of the train service has been restored to levels above Passenger Charter standard.

Customer service training has continued during the year and almost one third of the South West Trains' customer service staff have now undergone detailed training. Recent customer comment suggests that this training has resulted in improvements to service skills among our staff. This investment in training is scheduled to continue for the next eighteen months. I am pleased to confirm that the impact of this staff training coupled with all of the other business improvements in the year, have resulted in South West Trains improving or maintaining its customer satisfaction scores in nine out of the twelve categories in the most recent National Passenger Survey conducted by the SSRA.

During the year South West Trains and the three railway trades unions, ASLEF, RMT and TSSA, ran joint training courses to increase the skills of managers and trade union representatives in better industrial relations.

The refurbishment of the Class 442 and Class 159 fleets is nearing completion. The trains have been given a more modern and colourful interior finish and have been re-branded in the striking South West Trains livery. The Class 159 fleet is also reaching the end of a programme to replace the train air conditioning systems that will give passengers a more comfortable journey during the summer months.

South West Trains has reached an agreement with Railtrack to install new passenger information systems at each of its 197 stations over the next two years. The replacement system at Waterloo station is intended to be fully operational by the end of August 2000. The system to be installed at all other stations operates in real-time giving a count down to the arrival of trains, their destination and calling pattern. Some stations will be equipped with dot matrix displays, some with TV screens and some with automated announcements but every station will be provided with the means for passengers to enquire how their individual train is actually running.

New Trains

In February 2000, South West Trains brought into revenue earning service the first electric train to be ordered since railway privatisation. The thirty Class 458 trains, of which two are presently operating in trial mode on the Alton line, will eventually be rolled out into full passenger service on the Waterloo to Reading lines. These trains provide new standards of passenger comfort including

better facilities for the disabled, air conditioning, on-board information and improved suspension systems.

UK Rail - Virgin Rail Group (49% shareholding)

Our share of the operating profits of Virgin Rail Group (excluding goodwill amortisation and thetrainline.com) increased from £9.4 million to £14.0 million, against an increase in our share of turnover from £134.9 million to £255.6 million. This reflects the first full year's contribution from Virgin Rail Group.

Passenger numbers increased year on year by 6% and 4% for CrossCountry and West Coast respectively, while revenues have increased by 10% and 15% for the same period. Reliability and punctuality remain key priorities for management and progress is being made in identifying and rectifying the causes of delays. Significant progress is being made, with West Coast punctuality improved to 88% and CrossCountry to 87% in April 2000, from lows during 1998/99 of 74% and 72% respectively. Reliability has consistently exceeded target, currently at 99.4% and 99.2% for West Coast and CrossCountry respectively.

The SSRA's most recent performance statistics were issued on 6 June 2000 and we are pleased to report that the SSRA Chief Executive singled out Virgin's West Coast and CrossCountry franchises for making the most performance improvements. The SSRA figures show year-on-year improvements of 8% for West Coast and 7% for CrossCountry on trains arriving within ten minutes. Virgin Rail Group has also focused over the past year on customer service skills training, creating a "Service with Style", and on several other on-board improvements, successfully creating a more consistent product. These sustained improvements in performance and on-board service are reflected in the latest survey of passenger perception and in customer complaints which are down 15% year on year.

thetrainline.com

thetrainline.com is a joint venture with Virgin Group. It operates the largest rail telesales service in the UK, generating £2 million in ticket revenue weekly. It also runs the only online booking facility offering a full range of tickets for all train services in mainland Britain from a combination of around 54 million routes and fares.

thetrainline.com originated in Virgin Rail Group but is now an autonomous operating entity with its own separate management team. Alan Meekings, previously with the Cap Gemini Group, was appointed Chief Executive earlier this year and I am also pleased to announce that Richard Bowden-Doyle, previously a main board director of Thomson Travel, has joined thetrainline.com as Chief Operating Officer. Richard's appointment completes the key management team positions for thetrainline.com.

thetrainline.com has developed its own, impartial website, www.thetrainline.com, and also operates web services for other Train Operating Companies such as Virgin Trains. thetrainline.com was launched on the back of a successful marketing campaign to promote this unique facility. We have been very encouraged with progress to date. The site has attracted over 1 million registered users since its introduction and we are equally encouraged by the revenue conversion figures.

Last month, thetrainline.com introduced “e-ticketing” via FastTicket machines, in partnership with Virgin Trains, becoming the first rail retailer in the UK to offer this service by telephone or internet. Customers book their tickets in advance and then collect them from the new e-ticket machines at stations. This facility complements the new Business Express service also launched last month, which offers tailored features for business customers and frequent bookers.

We have recorded our share of the start-up costs (primarily marketing expenditure) for the period to 30 April 2000 at £7.6 million and anticipate that we will incur a further share of marketing and other operating costs in the next financial year to support the development of the business.

Prepayment Cards

During the year, we announced the establishment of Prepayment Cards Limited (“PCL”), an associate company with ERG Group of Australia and Sema Group plc. The venture, in which we were a founder investor, has now been supported by other major UK transport operators and our shareholding is 20%. PCL will provide smart card payment and ticketing systems to the UK transport operators. The system, which has been developed by ERG in Australia, acts as clearing house by issuing cards, holding funds and acting as a settlement facility between transport operators. It also provides real time passenger journey information and has the potential to deliver truly integrated ticketing.

We will shortly be introducing this smart card technology into our bus operations, starting in Greater Manchester. In due course we intend to be able to offer a fully integrated smart card ticketing system across our bus and rail networks.

This is a very exciting development for public transport in the UK. Our experience of smart card technology in our Hong Kong operation suggests that this technology will be a valuable tool in managing our route networks and in stimulating organic growth in a targeted way. Such technology can also help to reduce bus boarding times by up to 70%.

In the year ended 30 April 2000, our share of the loss in PCL was less than £0.1 million, reflecting its initial set-up costs.

Glasgow Prestwick International Airport

Prestwick Airport benefited from a number of initiatives during the year including the resurfacing of the second runway that now gives the airport 24-hour access. Prestwick is now a major hub for the leading low cost airline, Ryanair, with regular flights to Stansted, Dublin, Paris and Frankfurt. However the airport has suffered from the loss of duty free sales on intra-EC flights and the unexpected withdrawal of a key cargo customer, Federal Express. Federal Express ceased operating from Prestwick Airport in April 2000, in response to not being granted Fifth Freedom rights at Stansted Airport.

Road King Infrastructure

Road King Infrastructure Limited has traded in line with our expectations, with our share of operating profits (before goodwill amortisation and exceptional items) increasing from £12.4 million to £15.2 million. Our share of operating profits includes a gain of £3.7 million realised on the disposal of Road King's interest in the Shenzhen Meiguan Expressway.

Trading in the shares of Road King was, however, suspended on 12 June 2000 on the Hong Kong Stock Exchange when it was announced that Wai Kee Holdings Limited, the major shareholder in Road King, may dispose of its interest, resulting in a change of control of Road King to a third party. We have therefore written down the carrying value of our investment in Road King by £85 million to current market value.

FINANCIAL DIRECTOR'S REVIEW

The financial results show good growth and demonstrate yet again the strong underlying cash generation of our businesses. These cash flows, along with our considerable financial resources, give the group significant flexibility in developing our core bus and rail businesses.

The group accounts include the first full year's results for Yellow Bus (acquired August 1998 and now renamed Stagecoach Auckland), Fuller's Ferries (acquired September 1998), Citybus (acquired March 1999) and our share of Virgin Rail Group (acquired October 1998). The accounts include the first contributions from the current year's acquisition of Coach USA (acquired July 1999). During the year two major disposals occurred, Swebus in January 2000 and Porterbrook in April 2000.

Trading Results

Operating profit before goodwill and exceptional items increased by 31% to £368.3 million however total group operating profits, after taking account of exceptional items and goodwill, were £199.7 million, down 27% from last year. Total depreciation increased from £186.0 million to £218.7 million, whilst that element of the charge relating to continuing businesses increased from £46.8 million to £96.6 million, reflecting the continued capital investment and the impact of acquisitions during the year. Restructuring costs of £6.5 million have been charged against profits and included £1.6 million at UK bus, £0.7 million at South West Trains, £3.3 million in Overseas bus and £0.8 million at Coach USA. Exceptional write-offs of £115.0 million have been made against the carrying value of Prestwick Airport and to the value of our investment in Road King to write it down to its current market value on the Hong Kong Stock Exchange. The results also include property gains of £2.4 million.

Our share of joint venture and associates operating profits (excluding costs associated with thetrainline.com, goodwill and exceptional items) grew by 34% to £29.2 million primarily reflecting the full year contribution from Virgin Rail Group. Our share of thetrainline.com operating costs and marketing and development costs, were £1.4m and £6.2m respectively. Further marketing and development costs will be incurred in the current year to fully develop the potential of this exciting investment.

Total goodwill amortisation of £47.4 million was charged in the year compared to £6.2 million in 1999. Net interest and financing charges increased from £61.0 million to £144.6 million. This reflected the impact of debt taken on to fund the acquisition of Coach USA. It also included an exceptional finance charge of £20.6 million, largely in respect of the £125 million 2007 sterling bonds redemption. The effective interest rate payable on gross debt for the year was 7.1% compared to 7.2% in 1999. Interest cover (excluding goodwill and exceptional items) was 3.0 times compared to 4.6 times in 1999. Following the disposal of Porterbrook, a significant reduction in net debt has occurred and this will result in reduced interest charges going forward. This decrease will be partly offset by the interest effect from the ongoing share buyback programme.

Acquisitions

The acquisition of Coach USA has had a significant impact on the cash flows and financial structure of the group. The consideration was \$1,090 million together with expenses of \$35 million and the assumption of local debt of \$837 million. Funding for the acquisition and refinancing of local debt was initially provided through a \$2.25 billion loan facility. The refinancing and cancellation of

\$1.25 billion of this facility was completed in November 1999 through equity and bond market issues.

In the period from announcing our acquisition to 30 April 2000, Coach USA acquired 15 additional businesses, with annualised revenues in excess of US\$60 million, for total consideration of approximately US\$55 million.

Total goodwill additions of £844.7 million has been recognised in the year primarily in relation to the acquisition of Coach USA and its subsequent acquisitions in North America and this is being amortised over 20 years.

Disposals

The disposal of our Swebus operations was announced on 27 October 1999 for a consideration of £101.9 million and the purchaser assumed net debt in relation to these operations of £91.4 million on completion at 14 January 2000. Operating profits of £6.7 million were reported in respect of Swebus up to the date of disposal.

We have recognised a £10.7 million loss on overseas investments (principally the disposal of Swebus) and a £135.5 million gain from the disposal of Porterbrook. The loss realised on the disposal of Swebus is less than had previously been estimated as a result of favourable movements in foreign exchange rates. The gain on the disposal of Porterbrook is higher than had previously been estimated due to certain one-off finance charges being separately classified in the profit and loss account.

The disposal of our Porterbrook operations was announced on 3 April 2000 and completed on 20 April 2000. The total business valuation on disposal was in excess of £1.4 billion and the pre-tax gain of £135.5 million was recorded after taking account of goodwill previously written off and costs associated with the disposal. Operating profits of £150.4 million, and profit before tax of £119.2 million, were reported in respect of Porterbrook for the period from 1 May 1999 to disposal.

As a result of the disposals in the year, goodwill of £316.4 million has been written back from reserves to the profit and loss account during the year.

Taxation

The tax charge for the year of £41.4 million represents an effective tax rate of 22.7% compared to 24.6% in 1999 after taking account of our share of joint venture and associates' tax. The reduction in the year is primarily due to the tax treatment of exceptional items and the tax allowances generated by consistently high levels of capital expenditure. Following the disposal of Porterbrook and assuming current accounting standards apply, we anticipate the effective tax rate will increase going forward. If an accounting standard requiring a full provision basis for deferred tax is introduced there would be a further increase in the group's effective tax rate. At present the partial provision basis is appropriate in view of the ongoing capital expenditure plans and requirements of the group's businesses.

Earnings and dividends

Earnings per share before goodwill amortisation and exceptional items was 13.4 pence, an increase of 6% compared to 1999. Basic earnings per share (taking account of all exceptional items and goodwill amortisation) was 9.4 pence, a reduction of 22% on last year's 12.0 pence. The weighted average number of shares in issue during the year was 1,505.2 million, 14% higher than last year.

principally reflecting 259.7 million shares placed in November 1999. Under the share repurchase general authority granted at the 1999 Annual General Meeting 69.1 million shares were repurchased prior to 20 April 2000 at an average price of 65 pence. Following the disposal of Porterbrook on 20 April 2000 further authority to repurchase up to 15% of the issued share capital was granted and, prior to 30 April 2000, a further 179.1 million shares were repurchased at an average price of 65 pence. Shares in issue at the year end were 1,407.0 million.

On 14 June 2000 the company issued a circular to shareholders seeking approval to repurchase up to a further 12.5% of its issued share capital. This resolution will be sought at an Extraordinary General Meeting to be held on 30 June 2000.

The total dividend for the year is 3.6 pence, an increase of 20% over last year's total dividend of 3.0 pence. This represents dividend cover (before goodwill amortisation and exceptional items) of 3.7 times compared to 4.1 times in 1999. The group will use available resources to maintain and enhance shareholder return.

Cash flows

Cash generation across the group remained strong with free cash flows improving from £279.8 million to £283.9 million. Due to the increase in the weighted average number of shares in issue, free cash flow per share declined by 2.3 pence to 18.9 pence.

Free cash flow is defined as operating cash flows less interest, taxation and Porterbrook maintenance capital expenditure and can be summarised by division as follows:

	2000	1999
	£m	£m
UK Bus	89.7	83.0
Coach USA	(4.3)	-
Overseas Bus	30.9	6.5
UK Rail	25.3	42.4
Discontinued - Porterbrook	129.6	131.1
- Swebus	28.0	23.5
Prestwick Airport	0.7	5.2
Other	(16.0)	(11.9)
Total	283.9	279.8

The UK Bus division has continued to see improved free cash flows. The Overseas Bus division's strong free cash flows reflect full year contributions from our acquisitions in Hong Kong and New Zealand. The negative cash outflow for Coach USA is a direct result of funding costs prior to refinancing in November 1999 and as a result of additional working capital requirements immediately post acquisition. The movement in SWT free cash flows has arisen primarily due to changes in the timing of corporation tax cash payments and is expected to improve in the current year.

At 30 April 2000 total cash balances were £816.0 million, an increase of £494.2 million from 30 April 1999. This increase resulted from the disposal of Porterbrook on 20 April 2000 which resulted in cash proceeds of £773.3 million being received. Prior to the year end these were partly utilised to repay revolving credit borrowings of £147.0 million and to make share repurchases amounting to £45.3 million. Following the year end £116.8 million was utilised to settle share

repurchases and a further £290 million was used to redeem the 2007 Sterling bond and reduce term and revolving credit facilities. However the group remains in a net borrowing position and aims to reduce surplus cash balances to a minimum.

Included in cash at bank and in hand is £29.9 million held in trust in support of SWT's season ticket bond, £47.0 million held as collateral for loan notes, £7.3m in respect of SWT performance bond and £20.1m as collateral for Letters of Credit issued by Coach USA.

Capital Expenditure

Capital Expenditure by division is summarised as follows:

	2000 £m	1999 £m
UK Bus	66.8	68.1
Coach USA	56.3	-
Overseas Bus	7.5	11.6
UK Rail	3.4	5.5
Discontinued - Porterbrook - maintenance	139.4	74.4
- capital	63.6	72.4
- Swebus	27.3	25.8
Prestwick Airport	5.4	5.3
Other	7.0	Nil
Total	376.7	263.1

In the UK Bus division 454 new buses and coaches were purchased at a total cost of £51.3 million a reduction from £62.1 million in 1999. At the year end capital commitments in respect of new vehicles for the UK Bus division were £40 million which is based on maintaining the average age of the fleet at current levels. Coach USA purchased some 230 new vehicles for £44 million and capital commitments going forward amount to £40 million.

We have also invested over £26m in Land and Buildings, and continue to invest in IT projects to fully develop the potential of our businesses.

Proceeds from asset disposals in the year were £17.4million.

Liquidity and funding

Our general policy is to finance the group through a mixture of bank debt, capital markets issues and retained earnings. Financing is generally raised centrally and on-lent to operating subsidiaries on commercial terms.

The group policy is that free cash flows generated from operations along with undrawn committed facilities should be sufficient to meet annual debt repayments. In addition there is a minimum working capital margin of comfort level which is reviewed in line with proposed acquisitions/disposals and is maintained through overdraft facilities at operating company level. At the year end the group's committed revolving credit facilities were £557 million, £71.4 million of which were utilised, including guarantees.

A \$2.25 billion acquisition facility was arranged in July 1999 to fund the acquisition of Coach USA and to provide additional committed facilities. On 9 November 1999 an open offer and international offering raised £387.4m of new equity (net of expenses). On 9 November 1999 a ten year US\$500m bond was issued and on 22 November 1999 a five year Euro400m bond was issued. Following this refinancing \$1.25 billion of the acquisition facility was repaid and cancelled. These bond issues have established Stagecoach as a borrower in the international capital markets, diversified our funding sources and, following the disposal of Porterbrook, have extended our average debt maturity profile from 3.5 years at 30 April 1999 to 4.6 years. The refinancing and the sale of Porterbrook has strengthened our balance sheet and we have significant committed bank facilities.

On 18 November 1999 Coach USA announced a tender and consent offer in respect of its \$150m 9 3/8% senior subordinated notes due 2007. This tender and consent removed covenants and reporting requirements and was the final element in the refinancing of the Coach USA acquisition. The tender offer period closed on 13 December 1999 and \$146.8m of the notes have been redeemed. The remaining outstanding notes are repayable in 2007.

Following the announcement of the Porterbrook disposal the group issued a redemption notice in relation to its £125 million Sterling bonds, due 2007. These bonds were redeemed on 15 May 2000 at a redemption price of £1.1182 per £1 nominal value. The redemption premium is included within exceptional finance charges.

In order to raise funds in the appropriate capital markets the group was the first UK ground transportation company to be assessed by three independent credit rating agencies and is currently assigned a long term investment grade credit rating by Standard and Poors, Fitch IBCA and Moody's. We believe, given the cash generative and stable nature of each of our core businesses along with our strong financial profile, that we can maintain a strong investment grade rating.

Overseas currency denominated borrowings increased by £715.2 million primarily as a result of the acquisition of Coach USA.

Total net borrowings at 30 April 2000 reduced by 39% to £549.6 million compared to £904.9 million in 1999. Net debt will increase during the current year to reflect the share repurchases paid after the year end

Gearing has reduced significantly and is 40% compared to 125% at 30 April 1999.

Balance sheet

Net assets have increased by 92% from £725.4 million to £1,391.2 million reflecting retained profits, the issue of share capital for net proceeds of £389.7 million and the add-back of £316.4 million of goodwill previously written off to reserves in relation to disposals during the year. A further £23.1 million of goodwill previously written off to reserves has been charged in respect of the impairment of our investment in Road King. This has been offset by share repurchases of £162.1 million. Net assets per share have increased from 52.5p to 98.9p. During the year net foreign exchange gains of £13.5 million were recorded primarily as a result of the translation of net foreign currency denominated investments in Coach USA and Citybus. The other significant movements in balance sheet items reflect investments in capital expenditure and acquisitions and disposals made during the year.

Post balance sheet events

On 15 May 2000 the company redeemed £125m of 7.625% Euro bonds due 2007 at a price per bond of £1.1182.

Consolidated Profit and Loss Account

	Notes	Unaudited Year to 30 April 2000			Audited Year to 30 April 1999		
		Performance Pre goodwill and exceptionals £m	Goodwill and exceptional items £m	Results for the year £m	Performance Pre goodwill and exceptionals Restated £m	Goodwill and exceptional items Restated £m	Results for the year Restated £m
Turnover: Group and share of joint venture	1	2,179.1	Nil	2,179.1	1,548.4	Nil	1,548.4
Less: Share of joint venture turnover	1	(255.6)	Nil	(255.6)	(134.9)	Nil	(134.9)
Group turnover	1	1,923.5	Nil	1,923.5	1,413.5	Nil	1,413.5
Continuing group operations	1	1,103.3	Nil	1,103.3	947.2	Nil	947.2
Acquisitions during the current year	1	424.9	Nil	424.9	Nil	Nil	Nil
		1,528.2	Nil	1,528.2	947.2	Nil	947.2
Discontinued operations	1	395.3	Nil	395.3	466.3	Nil	466.3
		1,923.5	Nil	1,923.5	1,413.5	Nil	1,413.5
Operating costs (excluding Prestwick impairment)		(1,670.8)	(39.2)	(1,710.0)	(1,248.9)	(1.8)	(1,245.7)
Impairment of assets at Prestwick airport		Nil	(30.0)	(30.0)	Nil	Nil	Nil
Other operating income	2	109.5	Nil	109.5	106.7	Nil	106.7
Group overheads (including ESOP charge)		(21.7)	Nil	(21.7)	(17.0)	Nil	(17.0)
Operating profit of group companies	1	340.5	(69.2)	271.3	259.3	(1.8)	257.5
Share of operating profit of joint venture		12.6	(6.2)	6.4	9.4	Nil	9.4
Goodwill amortised on joint venture		Nil	(8.0)	(8.0)	Nil	(4.4)	(4.4)
Share of operating profit from interest in associates		15.2	Nil	15.2	12.4	Nil	12.4
Impairment of investment in associates		Nil	(85.0)	(85.0)	Nil	Nil	Nil
Goodwill amortised on associates		Nil	(0.2)	(0.2)	Nil	Nil	Nil
Total operating profit: group and share of joint venture and associates	1	368.3	(168.6)	199.7	281.1	(6.2)	274.9
Represented by:							
Continuing group operations	1	124.1	(38.3)	85.8	106.2	(1.8)	104.4
Acquisitions during the current year	1	59.3	(30.9)	28.4	Nil	Nil	Nil
Joint venture and associates	1	27.8	(99.4)	(71.6)	21.8	(4.4)	17.4
		211.2	(168.6)	42.6	128.0	(6.2)	121.8
Discontinued operations	1	157.1	Nil	157.1	153.1	Nil	153.1
Total operating profit: group and share of joint venture and associates		368.3	(168.6)	199.7	281.1	(6.2)	274.9
Profit on sale of properties – continuing operations		Nil	2.4	2.4	Nil	0.3	0.3
Profit on disposal of Porterbrook	9	Nil	135.5	135.5	Nil	Nil	Nil
Loss on disposal of overseas operations	9	Nil	(10.7)	(10.7)	Nil	(3.8)	(3.8)
Profit on ordinary activities before interest and taxation		368.3	(41.4)	326.9	281.1	(9.7)	271.4
Finance charges (net)		(124.0)	(20.6)	(144.6)	(61.0)	Nil	(61.0)
Profit on ordinary activities before taxation		244.3	(62.0)	182.3	220.1	(9.7)	210.4
Taxation on profit on ordinary activities	5	(42.5)	1.1	(41.4)	(52.7)	0.9	(51.8)
Profit on ordinary activities after taxation		201.8	(60.9)	140.9	167.4	(8.8)	158.6
Minority interests		Nil	Nil	Nil	0.1	Nil	0.1
Profit for the financial year		201.8	(60.9)	140.9	167.5	(8.8)	158.7
Dividends	12	(54.0)	Nil	(54.0)	(40.9)	Nil	(40.9)
Retained profit for the year		147.8	(60.9)	86.9	126.6	(8.8)	117.8
Earnings per share:							
- Adjusted/Basic	3	13.4p		9.4p	12.7p		12.0p
- Diluted	3	13.3p		9.3p	12.6p		11.9p

Consolidated Balance Sheet

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
Notes	£m	£m
Fixed Assets		
Intangible assets	953.0	123.5
Tangible assets	1,127.7	1,714.8
Investments		
- Investment in joint venture:		
Goodwill	96.2	104.3
Share of gross assets	106.3	87.4
Share of gross liabilities	(74.4)	(60.4)
Shareholder loan notes	10.0	20.0
	138.1	151.3
- Investment in associates	59.1	108.1
- Other investments	2.7	2.5
	2,280.6	2,100.2
Current Assets		
Stocks	37.4	13.8
Debtors and prepaid charges	199.0	153.2
- due within one year		
- due after more than one year	34.4	27.6
Cash at bank and in hand	816.0	321.8
	1,086.8	516.4
Creditors: amounts falling due within one year	(836.0)	(706.3)
Net current assets/(liabilities)	250.8	(189.9)
Total assets less current liabilities	2,531.4	1,910.3
Creditors: amounts falling due after more than one year	(1,039.4)	(950.8)
Provisions for liabilities and charges	(100.8)	(234.1)
Net Assets	1,391.2	725.4
Capital and reserves		
Equity share capital	7.1	6.9
Share premium account	779.7	391.4
Profit and loss account	601.4	325.0
ESOP distribution reserve	1.8	2.1
Capital redemption reserve	1.2	Nil
Shareholders' Funds – Equity	1,391.2	725.4
Net assets per share	98.9p	52.5p

Consolidated Statement of Total Recognised Gains and Losses

	Unaudited Year to 30 April 2000 £m	Audited Year to 30 April 1999 Restated £m
Profit for the financial year	1409	158.7
Translation differences on foreign currency net investments	135	(0.2)
Tax effect of translation differences on foreign currency net investments	(14)	Nil
Goodwill sold, previously written off to reserves/share premium	3395	Nil
Total recognised gains and losses relating to the year	4925	158.5
Prior year adjustment (as explained in note 11)	(56)	8.6
Total recognised gains and losses recognised since last Annual Report and Accounts	4869	167.1

A reconciliation of movements in shareholders' funds is provided in note 6.

Consolidated Cash Flow Statement

		Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
	<i>Notes</i>	£m	£m
Net Cash Inflow from Operating Activities	7	511.7	452.3
Dividends from Joint Venture and Associates		6.7	3.1
Returns on Investments and Servicing of Finance			
Interest paid		(138.3)	(82.1)
Interest element of HP and lease finance		(9.6)	(11.4)
Interest received		26.9	36.6
Net Cash outflow from Returns on Investments and Servicing of Finance		(121.0)	(56.9)
Taxation		(49.9)	(44.3)
Capital Expenditure and Financial Investment			
Purchase of tangible fixed assets		(258.6)	(93.6)
Maintenance capital expenditure		(63.6)	(74.4)
Sale of tangible fixed assets		17.4	22.0
Net cash outflow for Capital Expenditure and Financial Investment		(304.8)	(146.0)
Acquisitions and Disposals			
Acquisition of subsidiaries	9	(768.0)	(203.3)
Net cash acquired with subsidiaries	9	49.2	8.8
Purchase of good will		(0.8)	Nil
Purchase of investment in joint venture and associates		(9.8)	(152.6)
Repayment of shareholder loan		10.0	Nil
Purchase of other investments		Nil	(0.1)
Cash of disposed subsidiaries	9	(196.1)	Nil
Disposal of subsidiaries	9	872.2	0.6
Net Cash Outflow from Acquisitions and Disposals		(43.3)	(346.6)
Equity Dividends Paid		(47.4)	(32.3)
Net Cash Outflow before management of liquid resources and financing		(48.0)	(170.7)
Financing			
Sale of tokens		14.5	15.6
Redemption of tokens		(14.6)	(14.7)
Issue of share capital for cash		400.4	307.2
Costs of issuing new shares		(12.6)	(5.4)
Repurchase of own shares		(45.3)	Nil
Decrease in collateral balances		3.6	1.3
Repayment of loan notes		(28.5)	(1.0)
Increase in borrowings		295.1	121.8
Repayments of hire purchase and lease finance		(68.2)	(93.5)
Net Cash Inflow from Financing		544.4	331.3
Increase in Cash during the Year		496.4	160.6
Free cash flow		283.9	279.8
Free cash flow per share		18.9p	21.2p

Notes to the Preliminary Statement

1 Segmental Analysis

Turnover

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999
	£m	£m
Continuing operations		
UK bus	527.0	516.9
Overseas bus	192	20.5
Acquisitions – 1998/1999		
New Zealand	29.6	18.0
Hong Kong	128.0	20.9
Total bus continuing operations	703.8	576.3
Rail	376.4	348.6
Prestwick airport	23.1	22.3
Total continuing operations	1,103.3	947.2
Acquisitions – 1999/2000		
Coach USA	424.9	Nil
	1,528.2	947.2
Discontinued operations		
Africa	Nil	5.9
Swebus	159.3	229.4
Porterbrook	275.0	269.5
	434.3	504.8
Elimination of inter-segment turnover	(39.0)	(38.5)
Group turnover	1,923.5	1,413.5
Share of joint venture turnover	255.6	134.9
Group turnover and share of joint venture turnover	2,179.1	1,548.4

Discontinued operations represent the disposal of the Group's bus operations in Sweden and its Porterbrook leasing operation in the year to 30 April 2000 and Kenyan bus operations in the year to 30 April 1999.

1 Segmental Analysis (continued)

Operating Profit

	Unaudited Year to 30 April 2000			Audited Year to 30 April 1999		
	Performance Pre goodwill and exceptionals £m	Goodwill and Exceptional items £m	Results for the year £m	Performance Pre goodwill and exceptionals Restated £m	Goodwill and exceptional items Restated £m	Results for the year Restated £m
Continuing operations						
UK bus	80.8	Nil	80.8	81.9	Nil	81.9
Overseas bus	3.3	Nil	3.3	3.9	Nil	3.9
Acquisitions – 1998/99						
New Zealand	4.6	Nil	4.6	2.1	Nil	2.1
Hong Kong	21.2	Nil	21.2	2.6	Nil	2.6
Total bus continuing operations	109.9	Nil	109.9	90.5	Nil	90.5
Rail	39.3	Nil	39.3	33.8	Nil	33.8
Prestwick airport	2.3	Nil	2.3	3.6	Nil	3.6
Prestwick airport – impairment of fixed assets	Nil	(30.0)	(30.0)	Nil	Nil	Nil
Total continuing operations	151.5	(30.0)	121.5	127.9	Nil	127.9
Acquisitions – 1999/2000						
Coach USA	60.1	Nil	60.1	Nil	Nil	Nil
	211.6	(30.0)	181.6	127.9	Nil	127.9
Discontinued operations						
Africa	Nil	Nil	Nil	(1.5)	Nil	(1.5)
Swebus	6.7	Nil	6.7	14.4	Nil	14.4
Porterbrook	150.4	Nil	150.4	140.2	Nil	140.2
	157.1	Nil	157.1	153.1	Nil	153.1
Group overheads (including ESOP charge)	(21.7)	Nil	(21.7)	(17.0)	Nil	(17.0)
Goodwill amortisation	Nil	(39.2)	(39.2)	Nil	(1.8)	(1.8)
Redundancy /Restructuring costs						
- 1999/2000 acquisitions	(0.8)	Nil	(0.8)	Nil	Nil	Nil
- 1998/1999 acquisitions	(3.2)	Nil	(3.2)	(0.8)	Nil	(0.8)
- Continuing operations	(2.5)	Nil	(2.5)	(3.9)	Nil	(3.9)
Total operating profit of group companies	340.5	(69.2)	271.3	259.3	(1.8)	257.5
Share of operating profit of joint venture						
- Train operating companies	14.0	Nil	14.0	9.4	Nil	9.4
- thetrainline.com	(1.4)	(6.2)	(7.6)	Nil	Nil	Nil
Goodwill amortised on investment in joint venture	Nil	(8.0)	(8.0)	Nil	(4.4)	(4.4)
Share of operating profit of associates	15.2	Nil	15.2	12.4	Nil	12.4
Impairment of investment in associates	Nil	(85.0)	(85.0)	Nil	Nil	Nil
Goodwill amortised on investment in associates	Nil	(0.2)	(0.2)	Nil	Nil	Nil
Total operating profit: group, joint venture and associates	368.3	(168.6)	199.7	281.1	(6.2)	274.9

2 Other Operating Income

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999
	£m	£m
Miscellaneous revenue	50.2	43.8
Gain on disposal of assets, other than properties	0.7	0.7
OPRAF franchise support	58.6	62.2
	<u>109.5</u>	<u>106.7</u>

3 Earnings Per Share

Earnings per share have been calculated in accordance with FRS 14 "Earnings per Share" by calculating group profit on ordinary activities after tax and minority interests, divided by the weighted average number of shares in issue during the year based on the following:

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
Profit for the year after taxation and minority interest (£m)	140.9	158.7
Basic weighted average share capital (number of shares, million)	1,505.2	1317.9
Dilutive Shares		
- Executive Share Option Scheme	2.0	2.0
- Employee SAYE Scheme	5.7	9.3
Diluted weighted average share capital (number of shares, million)	<u>1,512.9</u>	<u>1329.2</u>

Earnings per share before goodwill and exceptional items is calculated after adding back goodwill amortisation of £47.4m (1999 - £6.2m) and adding back exceptional items after taking account of taxation of £13.5m (1999 - add back of £2.6m) to profit for the year.

4 Exceptional items

The following items have been treated as exceptional:

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
	£m	£m
Impairment of assets at Prestwick airport	(30.0)	Nil
thetrainline.com marketing costs	(62)	Nil
Impairment of investment in associates	(85.0)	Nil
Profit on disposal of Porterbrook	135.5	Nil
Loss on disposal of overseas operations	(10.7)	(3.8)
Profit on sale of properties	2.4	0.3
Finance charges	(20.6)	Nil
	(14.6)	(3.5)
Tax effect of exceptional items	1.1	0.9
	(13.5)	(2.6)

The impairment of assets at Prestwick airport of £30 million has been determined in accordance with Financial Reporting Standard 11, "Impairment of fixed assets and goodwill" to ensure that the assets are stated at the higher of net realisable value and value in use.

thetrainline.com marketing costs represent our share of initial marketing cost in respect of a internet booking service operated as a part of a joint venture.

The impairment of investments in associates represents the effect of writing-down our investment in Road King Infrastructure Limited which has been re-stated to realisable value determined by applying the share price of Road King as quoted on the Hong Kong stock exchange. In determining the write-down we have applied the mid market closing price on Friday 9 June 2000, which is not materially different from the price at 30 April.

Details on the disposals of Porterbrook and overseas operations are given in note 9.

The exceptional finance charges are non-recurring financing costs relating to acquisitions and disposals completed during the year. The principal element relates to the redemption of sterling eurobonds, following the disposal of Porterbrook.

5 Taxation

	Unaudited Year to 30 April 2000			Audited Year to 30 April 1999		
	Performance Pre goodwill and exceptionals	Goodwill and exceptional items	Results for the year	Performance Pre goodwill and exceptionals	Goodwill and exceptional items	Results for the year
	£m	£m	£m	£m	£m	£m
Corporation tax at 30% (1999 – 30.9%)	38.5	(1.1)	37.4	50.3	(0.9)	49.4
Share of joint venture's tax	1.9	Nil	1.9	1.4	Nil	1.4
Share of associate's tax	0.2	Nil	0.2	0.1	Nil	0.1
Foreign tax	2.6	Nil	2.6	0.3	Nil	0.3
Prior year under-provision for corporation tax	0.2	Nil	0.2	2.9	Nil	2.9
Deferred taxation	(0.9)	Nil	(0.9)	(2.3)	Nil	(2.3)
	42.5	(1.1)	41.4	52.7	(0.9)	51.8

6 Reconciliation of Movements in Shareholders' Funds

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999
	£m	£m
Profit for the financial year	140.9	158.7
Dividends paid and proposed	(54.0)	(40.9)
Goodwill sold, previously written off to reserves	86.9	117.8
Other recognised gains and losses relating to the year	339.5	Nil
New share capital issued less costs	12.1	(0.2)
ESOP distribution reserve (decrease)/increase	389.7	343.3
Shares repurchased	(0.3)	0.6
Net additions to Shareholders' Funds	(162.1)	Nil
Opening Shareholders' Funds as previously stated	665.8	461.5
Prior year adjustment (see note 11)	731.0	261.2
Reversal of fun realised revaluation surplus recognised in previous periods	Nil	8.6
Opening Shareholders' Funds as restated	(5.6)	(5.9)
Closing Shareholders' Funds	725.4	263.9
	1,391.2	725.4

7 Reconciliation of operating profit to net cash inflow from operating activities

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
	£m	£m
Operating Profit of group companies	271.3	257.5
Depreciation and amortisation	218.7	186.0
Impairment of assets	30.0	Nil
Profit on sale of tangible fixed assets	(0.7)	(0.7)
Goodwill amortisation	39.2	1.8
(Increase)/decrease in stocks	(0.8)	2.9
Increase in debtors	(20.3)	(15.2)
(Decrease)/increase in creditors	(30.0)	20.6
Increase in ESOP provision	1.4	2.1
Increase/(decrease) in provisions	2.9	(2.7)
Net cash inflow from operating activities	511.7	452.3

During the year the group entered into hire purchase arrangements in respect of new buses with a total capital value at inception of the contracts of £53.3m.

8 (a) Reconciliation of net cashflow to movement in net debt

	Unaudited Year to 30 April 2000	Audited Year to 30 April 1999 Restated
	£m	£m
Increase in cash	496.4	160.6
Bond issues	(468.0)	Nil
Cash flow from increase/(decrease) in debt and lease financing	269.6	(27.3)
	298.0	133.3
Loans and finance leases of acquired/disposed subsidiaries	124.2	(110.1)
New HP and lease obligations	(53.3)	(95.4)
Bond issue costs	(1.3)	(0.2)
Translation difference	(8.7)	6.8
Movement in cash collateral	(3.6)	(1.3)
	355.3	(66.9)
Opening net debt	(904.9)	(838.0)
Closing net debt	(549.6)	(904.9)

8 (b) Analysis of net debt

	Opening	Cash flows	Cash collateral	Other non cash	Acquisition/ Disposal	Exchange Movement	Closing
	£m	£m	£m	£m	£m	£m	£m
Cash	214.0	496.4	Nil	Nil	Nil	0.9	711.3
Cash collateral	107.8	19.9	(23.5)	Nil	Nil	Nil	104.2
HP and lease obligations	(174.5)	68.2	Nil	(53.3)	28.5	1.0	(130.1)
Loan stock	(78.3)	5.0	23.5	Nil	(26.7)	(0.8)	(77.3)
Bank loan	(367.5)	200.9	Nil	Nil	(295.7)	13.0	(449.3)
Bonds	(123.7)	(468.0)	Nil	(1.3)	(92.6)	(22.8)	(708.4)
Securitized bonds	(482.7)	(28.0)	Nil	Nil	510.7	Nil	Nil
Totals	(904.9)	294.4	Nil	(54.6)	124.2	(8.7)	(549.6)

The net total of cash and cash collateral of £815.5m is classified in the balance sheet as £816.0m in cash at bank and in hand and £0.5m in bank overdrafts within creditors: amounts falling due within one year.

Gearing at 30 April 2000 was 40% (1999 – 125%) and net borrowing were 49% of tangible fixed assets (1999 – 53%).

Included in cash at 30 April 2000 are balances held in trust in respect of Porterbrook loan stock of £47.0m (1999 - £70.5m), South West Trains season tickets of £29.9m (1999 - £30m) and South West Trains Performance bond cash of £7.3m (1999 - £7.3m) and Coach USA Letter of Credit collateral cash of £20.1m (1999 – Nil).

9 (a) Purchase of subsidiary undertakings

	Coach USA £m	North American Bus operations £m	Total £m
Net assets			
Tangible fixed assets	362.6	16.5	379.1
Other current assets	116.2	3.5	119.7
Cash at bank	49.1	0.1	49.2
Bank loans and other debt	(515.5)	(9.4)	(524.9)
Other creditors	(105.8)	(8.2)	(114.0)
Fair Value	(93.4)	2.5	(90.9)
Goodwill	804.5	32.8	837.3
Consideration			
Cash and acquisition expenses paid in year	711.1	35.3	746.4
Other acquisition payments in year			2.6
			749.0
Deferred consideration on prior acquisitions:			
- Citybus			17.7
- Fuller's Ferries			1.3
			768.0

9 (b) Disposal of subsidiary undertakings

	Overseas investments £m	Porterbrook £m	Total £m
Net assets			
Tangible fixed assets	190.7	898.1	1,088.8
Investments	0.4	4.9	5.3
Other current assets	24.5	18.2	42.7
Cash at bank	8.2	187.9	196.1
Bank loans and other debt	(99.6)	(549.5)	(649.1)
Other creditors	(51.8)	(199.6)	(251.4)
Net assets	72.4	360.0	432.4
(Loss)/profit on sale	(10.7)	135.5	124.8
Goodwill previously written off to reserves	40.2	276.0	316.2
Sales proceeds	101.9	771.5	873.4
Satisfied by:			
Cash received in year	98.9	773.3	872.2
Deferred receivable	3.0	Nil	3.0
Accrued professional fees	Nil	(1.8)	(1.8)
	101.9	771.5	873.4

10 Accounting Policies

Except for the impact of the new Financial Reporting Standard ("FRS") 15 and accounting for parts and consumables, as discussed below, there have been no changes in accounting policies since those used in the annual accounts for the year ended 30 April 1999.

Following a review of group accounting policies parts and consumable stocks previously reported as prepaid stocks within debtors due within one year are now separately disclosed in the balance sheet. Stocks of parts and consumables are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Prior year comparatives have been restated on a consistent basis.

With the acquisition of Coach USA the group now owns taxicabs which have been included within stocks. These vehicles are held for sale or lease to independent contractors.

FRS 15 – 'Tangible Fixed Assets' was issued by the UK Accounting Standards Board on 18 February 1999. The new standard requires each class of tangible fixed asset to be revalued at certain minimum intervals or not at all. The group has revalued certain of its properties in prior years. The policy that has now been adopted is to restate the value of tangible fixed assets to depreciated historical cost, as permitted by the standard. Although the impact on the reported profits of the prior year is not material we have restated the comparative amounts on a consistent basis. The group's policy remains unchanged for tangible fixed assets that are restated to fair value on acquisition, in accordance with FRS 7.

We have also implemented FRS16, 'Current Tax' in these accounts. Compliance with FRS 16 has not resulted in any material changes in the group's accounting policies.

11 Prior Year Adjustment

The group policy for accounting for rolling stock maintenance expenditure was changed during the year ended 30 April 1999 to comply with FRS12. Token redemption, insurance and pension provisions, which were previously classified as creditors due within one year, were reclassified in the prior year to Provisions for Liabilities and Charges.

In the year ended 30 April 2000, the group policy in respect of revaluation of tangible fixed assets was changed as described in note 10.

12 Dividend

Subject to shareholder approval, a final dividend of 2.4p per ordinary share is proposed (1999 – 2p). This dividend will be paid on 12 October 2000 to all those shareholders on the register on 15 September 2000.

13 Statutory Accounts

The financial information set out above does not constitute the group's statutory accounts for the year ended 30 April 1999 and 30 April 2000. Statutory accounts for 1999, which received an unqualified audit report, have been delivered to the Registrar of Companies. The audit opinion on the statutory accounts for 2000 has not yet been signed but an unqualified audit report is expected to be given. Statutory accounts for 2000 will be forwarded to all shareholders in due course and will also be available at the registered office of the company, 10 Dunkeld Road, Perth PH1 5TW.

This preliminary announcement was approved by the board of directors on 14 June 2000.