Thursday 31 July 2008

National Express Group PLC

Interim Results

For the six months ended 30 June 2008

National Express Group PLC, a leading international public transport group, today announces interim results

Highlights

- **Significant earnings growth over 2007, with normalised diluted earnings per share up 12.3%**
- **Interim dividend increased by 10% to 12.72 pence, in line with previous dividend commitment**
- **Successful start up of the National Express East Coast franchise and subsequent revenue growth of 11%**
- **Highly successful bid season in North America, with 95% retention of existing business and inroads into the conversion market**
- **Strong performance in the enlarged Spanish business, following the integration of Continental Auto into our Alsa operation in Spain**
- **Strong like for like revenue growth across UK Bus (7%) and Coach (5%) with continued excellent performance of Quality Partnership routes**

Financial Results

- Revenue up 4.4% to £1,367.2 million (2007: £1,309.3 million)
- Group operating profit of £70.8 million (2007: £77.0 million)
- Normalised operating profit* up 25.7% to £113.9 million (2007: £90.6 million)
- Normalised profit before tax* up 13.9% to £90.0 million (2007: £79.0 million)
- Normalised diluted earnings per share* from continuing operations up 12.3% to 42.8 pence (2007: 38.1 pence)
- Interim dividend increased by 10.0% to 12.72 pence (2007: 11.56 pence)
- Net debt of £1,029.3 million (31 December 2007: £910.8 million)

* excluding profit or loss on the sale of businesses and charges for intangible asset amortisation, exceptional items and tax relief on qualifying exceptional items.

Commenting on current trading and prospects, David Ross, Chairman, said:

"Over the last six months the Group has traded well. We are benefitting from our customer knowledge and ability to capitalise on new opportunities. In the UK our trains business is seeing good growth. The performance of National Express East Coast, together with revenue growth of 11%, is a source of great confidence. We are delighted by the performance of our enlarged Spanish business following the integration of Continental Auto, and forward bookings remain strong. This means we are the leading private sector provider of public transport operations and are in a good place to take advantage of the liberalisation of the transport market. In North America we are moving forward on Business Transformation which we believe will put us in a position to be the leading provider of school bus operations in North America.

As we enter the second half and whilst recognising the wider economic climate, we are encouraged by the Group's prospects and remain confident that we will deliver full year results in line with expectations."

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- There will be an analyst and investor meeting at 0900 hours on 31 July 2008 at City Presentation Centre, 4 Chiswell Street, Finsbury Square, London EC1Y 4UP.
- A webcast of the analyst presentation will be available on our website www.nationalexpressgroup.com at 0900 hours on 31 July 2008.
- High resolution images can be accessed at www.vismedia.co.uk
- For general media enquiries please call 0121 460 8426/8419

Chairman's Statement

I am pleased to report the Group's interim results for the six month period ended 30 June 2008. Over the last six months the Group has traded well and is delivering on its promise to make travel simpler. Continued passenger growth derived from a focus on value for money fares and excellent products is helping to drive overall growth.

In Spain, we have successfully completed the integration of Continental Auto with Alsa. The combined group is now the leading private sector operator of public transport in Spain. Not only does this provide us with the capability to expand the range of products and services in our existing businesses, but also puts us in a strong position to benefit from the liberalisation of the Spanish transport market.

We are using the same innovative approach to sales and marketing in Spain which is delivering results in the UK. Our Bus Plus loyalty programme is continuing to go from strength to strength with over 90,000 customers signed up and we have launched a variety of exciting new products to appeal to a wide range of customers in Spain. We are encouraged by the Spanish Government's forthcoming marketing campaign, which will highlight the advantages of using public transport over other modes.

In the UK we have completed the integration of our businesses and now operate under a single management team with one business and one brand. This has delivered the anticipated annualised £11m cost savings and is an important step in ensuring we share knowledge and expertise across our business and maximise opportunities that benefit the Group and its customers.

Trading in the UK is encouraging and we anticipate that, with fuel prices at historically high levels, we will see an increased use of public transport and we remain confident that we can recover the effects of increasing fuel prices through a combination of revenue and yield management and improved operational efficiencies.

Our sales and marketing initiatives – which are vital in helping us understand the needs of our customers - are delivering benefits. So far in 2008 we have run 43 campaigns reaching almost two million consumers. Our c2c customer database has increased by 51% in the last 12 months. And in our East Coast business the focus has been on tactical campaigns and seat sales, with almost £4m of revenue generated in the first half of 2008 as a consequence of CRM.

In our coach business – together with partners Cintra - we have won a five-year contract awarded by BAA to provide passenger transport and car park management at Stansted Airport. The deal is an important diversification for us and commences in October this year. At Dot2Dot, our new start up, revenue growth has not been as strong as anticipated and plans are currently being implemented to maximize growth over the summer period.

Our bus business continues to grow. The first partnership routes in the West Midlands have increased passenger numbers 12% year-on-year. This approach is now a core part of our business strategy. At the end of April this year we entered into a new partnership with Centro in Dudley to deliver a revised bus network in line with the needs of our customers.

Our trains business has seen strong performance with the launch of National Express East Coast in December last year and the extension of our National Express brand into the UK rail business, including National Express East Anglia. Customer satisfaction, which we made a key priority, is improving and we were delighted to recently top the list of long distance train operators as voted for by customers across the UK in the industry's independent benchmark passenger survey. Punctuality is also improving due to our rigorous Performance Management Improvement process and so far over the National Express East Coast franchise punctuality is up 4%. In June we handed over Gatwick Express to its new operators so that it could be integrated into the new Southern franchise currently being tendered by the Department for Transport. In doing so we passed on one of the very best performing rail companies in the UK and we wish all employees of Gatwick Express well for the future.

In North America we had an excellent bid season and retained 95% of our existing business put out to tender. The conversion market provides considerable future opportunity for growth and we were delighted to have our best ever success with conversions, securing five contracts. Additionally, although at the beginning of the bid season it appears contracts were extended with incumbent operators, we have none-the-less secured net new business of $15m. A key focus in 2008 has been the continued development of Business Transformation, our project to create a scalable business platform that we believe will put us in a position to be the leading provider of school bus operations in North America in the future.

Safety is and always will be our number one priority and our commitment to continuous improvement remains at the heart of the business.

Results
Revenue for the six months to 30 June 2008 was up 4.4% to £1,367.2 million (2007: £1,309.3 million). Group operating profit was £70.8 million (2007: £77.0 million) and profit before tax was £46.9 million (2007: £65.4 million). After taxation, the earnings per share was 23.4 pence (2007: 31.5 pence).

In this review we will refer to normalised results, which we feel reflect the performance of the business more appropriately. Normalised results are defined as the statutory results before the following as appropriate: profit or loss on the sale of businesses and charges for goodwill impairment, intangible amortisation, exceptional items and tax relief on qualifying exceptional items.

Normalised operating profit was up 25.7% to £113.9 million (2007: £90.6 million) with normalised operating margins increasing to 8.3% (2007: 6.9%). Normalised profit before tax increased to £90.0 million (2007: £79.0 million).

Normalised diluted earnings per share were up by 12.3% to 42.8 pence (2007: 38.1 pence). Operating cash flow before one-off items during the first six months was £42.0 million (2007: £80.9 million). There is some seasonal working capital movements that are expected to reverse in the second half. Net debt at 30 June 2008 was £1,029.3 million (31 December 2007: £910.8 million).

An interim dividend of 12.72 pence per share, an increase of 10.0% over last year's interim dividend of 11.56 pence per share, will be paid on 26 September 2008 to shareholders on the register by 12 September 2008.

Current Trading and Prospects
Over the last six months the Group has traded well. We are benefitting from our customer knowledge and ability to capitalise on new opportunities. In the UK our trains business is seeing good growth. The performance of National Express East Coast, together with revenue growth of 11%, is a source of great confidence. We are delighted by the performance of our enlarged Spanish business following the integration of Continental Auto, and forward bookings remain strong. This means we are the leading private sector provider of public transport operations and are in a good place to take advantage of the liberalisation of the transport market. In North America we are moving forward on Business Transformation which we believe will put us in a position to be the leading provider of school bus operations in North America.

As we enter the second half and whilst recognising the wider economic climate, we are encouraged by the Group's prospects and remain confident that we will deliver full year results in line with expectations.

Operating Review

Spain
Our Spanish business incorporates Alsa and Continental Auto. We are Spain's largest private coach and bus operator, with 2100 vehicles and a high quality network of long distance and regional coach routes. We operate urban bus networks in Spain and Morocco and the addition of Continental Auto adds a range of long distance services across Spain and provides a regional and commuter network in Madrid, Catalonia and Andalucia.

Revenue was £223.0 million (2007: £121.7 million) and normalised operating profit was £31.7 million (2007: £18.9 million). Normalised operating profit in local currency improved by 46.8% to €41.1 million (2007: €28.0 million). These encouraging results include organic growth as well as the addition of Continental Auto to the existing business.

In Spain we have enjoyed 5% revenue growth, in line with expectations. On routes where competitive pressure has been felt from both High Speed Rail Services and no frills airlines, we have proactively adapted our services – by reallocating capacity where appropriate and ensuring our fares remain the best value in the market.

We continue to develop customer loyalty schemes to ensure we offer a wide range of products. Our Bus Plus loyalty card continues to attract new customers and we now have 90,000 regular users. We are developing and launching new products such as the coach equivalent of the famous InterRail ticket. Launched in June, the product offers customers the chance to travel across Spain between June and September on all routes offered by Alsa and Continental Auto at a flat-rate.

We were delighted that one of our associate companies in Spain recently won the concession to operate the Ferrol to Algeciras franchise, in Northern Spain. We were also pleased that because of increased fuel prices in Spain an exceptional fares review of 3.27% has been agreed and applied to scheduled services at a local, regional and national level.

Alsa continues to have a fantastic reputation in the Spanish market. This year the business appeared in both the top 100 companies to work for, and the top 100 companies for corporate reputation, as defined by the Spanish Monitor of Corporate Reputation.

UK

In the UK we have concluded the integration of our UK business and now operate as a single team under one management team. We will now deliver the large majority of our products and services in the UK under the National Express brand which will enable us to be more consistent in our offers, reach a far wider customer base, leverage value and save significant costs. Our sales and marketing activity for example is structured under this single brand and the results have been very positive. The National Express website now ranks fifth in the top twenty travel websites in terms of hits and the 'Miniature Fares' campaign which we ran at National Express East Coast [as part of our CRM campaign] has helped increase our market share in the important London to Scotland domestic market from 13% in 2006 to 17% in 2008.

Bus and Coach

Our bus and coach business operates over 2,000 buses and 500 coaches across the UK. As well as operating buses in the West Midlands, London and Dundee, we also operate the Midland Metro, the light rail service in the West Midlands. Our coaches provide Britain's only scheduled national coach network and services to more than 1,000 destinations and Kings Ferry provide commuter coach services into London. Eurolines offers value for money European travel by coach and Dot2Dot provides a door to door on demand airport shuttle service, operating out of London Heathrow.

Bus

Revenue for the period was £169.2 million (2007: £157.0 million) with normalised operating profit of £20.6 million (2007: £19.8 million). We have achieved a 7% increase in like-for-like revenue across the business. We also signed a three-year concessionary fares deal with Centro, which has brought stability and certainty to both our own and Centro's forward planning.

Our bus business continues to see the benefits of our Partnership approach. Our Dudley network review, implemented in partnership with Centro in April, has led to a simplified network to better meet customer needs and increases in passengers carried per kilometer of 15% year-on-year. The success of our partnership in Dudley together with the continued success of the routes we launched in November 2007 has given both Centro and ourselves the confidence to explore further opportunities to develop our Quality Partnership.

Travel London continues to perform well, with the award of the 434 route in South East London starting in August and changes to bus operations at Heathrow with the opening of Terminal 5 further strengthening our relationship with Transport for London and BAA. Our planning application for a new enlarged depot in Battersea has also been successful.

We expect further progress in our bus business in the second half of 2008, with an order for 120 new lower emission vehicles. We also intend to drive the success of our West Midlands business by launching an awareness programme 'Dump the Pump' to highlight the potential cost savings of leaving the car at home and opting to use the bus instead.

Coach

Revenue was £117.7 million (2007: £103.5 million) and normalised operating profit was £1.8 million (2007: £6.1 million). The 2008 result includes our start up operation Dot2Dot. The operating profit excluding Dot2Dot was £7.2 million from revenue of £115.3 million, which represents an improved operating margin of 6.2% (2007: 5.9%).

In Coach we had a good start to the year, with like-for-like revenue growth of 5%. Increased growth was particularly strong in our rail replacement and special events business. In addition, we saw increased internet sales and have transferred the majority of our third party agents to a new web based system to ensure a streamlined approach to sales.

Coach travel is becoming increasingly important, both from an environmental and economic perspective and we continue to play an active part in the Government’s transport management debate in order to promote the role of the coach for leisure, business and commuting alike.

We also continue to invest in our facilities to provide the customer with a comfortable travel experience. We have transformed our coach stations in Liverpool, Brighton and Leeds and planning permission has been granted to build our state of the art coach station in Digbeth, Birmingham. The work is due to be completed in late 2009 and in the interim period we have successfully relocated our operations to a temporary site.

Our events business continues to play an important role including our relationship with the Football Association and Wembley Stadium. A direct service to the stadium is now provided to 57 towns and cities and these additional destinations have resulted in a 58% increase in people travelling with us to games and events. Our Glastonbury services this year saw their most successful weekend ever, with a 45% increase in passenger numbers.

We have also focused on the trend towards holidaying in the UK and are currently running a ‘Celebrate Britain’ campaign designed to capture this market. Our partnership with Travelodge - 'Save our Seaside' - will promote the extensive coach network of services to traditional seaside destinations, with people booking a Travelodge hotel receiving a 10% discount on coach travel. We are also partnering with the Daily Mirror to offer £1 fares to its 3.7 million readers.

Eurolines has experienced continued growth in passenger numbers on the key short distance routes it operates to Paris and Amsterdam, and has increased the frequency of these services to help to build passenger numbers. The Eurolines Ski service also performed well in the 2008 winter season and is being developed further for winter 2009, allowing skiers to travel direct to their resort.

In our pre-close statement we highlighted that revenue growth at Dot2Dot had not been as strong as anticipated and plans are currently being implemented to maximise growth over the key summer period. We are focused on improving the operating profit for 2008 and this will not affect our Group outlook for the coming year.

Trains
We operate three train franchises in the UK: c2c, National Express East Anglia and, one of the UK's most prestigious railways, National Express East Coast.

Revenue for the period was £671.1 million (2007: £771.1 million) and normalised operating profit of £39.6 million (2007: £28.7 million).

Our trains business continues to perform well, with overall like-for-like passenger revenue growth of 9%. National Express East Anglia is seeing continued improvements in performance, with annual average punctuality now standing at over 90%. c2c retains its position as one of the UK's leading operators with 94.4% of trains arriving on time. Capacity is also a key priority and we have submitted proposals to Department for Transport to introduce extra carriages onto the National Express East Anglia network to increase seating. We have also introduced additional measures to protect our ticket revenues with extra inspectors on key East Anglia routes and a text alert service for reporting fare evadors.

The National Express East Coast franchise is on track to deliver its bid commitments. 80% of our franchise investment plan is being delivered over the first 12 months of the franchise and a quarter of our committed obligations have been achieved, including the delivery of free Wi-Fi throughout all trains on day one of the franchise. Like for like revenue growth is in line with expectations at 11%, driven by innovative products, strong sales and marketing activity, and sophisticated yield management systems. As the franchise progresses our plans include a £7.8 million station improvement programme to enhance customer experience.

In June we completed the internal reorganisation of the National Express East Coast business. We also completed the move to a new head office in York and the transfer of finance and payroll functions to a shared service centre with East Anglia in Colchester delivering additional savings.

We have seen particularly strong year-on-year growth in advance ticket sales driven by major marketing campaigns promoting headline fares, such as our 'Miniature Prices' campaign. Passenger satisfaction has also improved, and the East Coast business now tops the tables of the UK's long distance operators as voted for by UK passengers.

We are competing strongly on the London to Scotland route and our share of the market is growing, now standing at 17%, compared to 13% in April 2006. Continued revenue growth is expected driven in part by the attractiveness of rail over car for long distance journeys and the rising cost of fuel.

North America

We operate a fleet of 16,500 buses, entirely focused on school services in 29 US states and two Canadian provinces.

Revenue was £190.0 million (2007: £162.8 million) and normalised operating profit was £25.9 million (2007: £24.1 million). In local currency, North America maintained normalised operating profit at US$51.3 million (2007: US$47.6 million).

Our North American operation enjoyed a successful conversion season, winning five contracts. Although at the beginning of the bid season it appears contracts were extended with incumbent operators, we have none-the-less secured new contracts with net annualised revenue of $15m. We also retained over 95% of our existing contracts, maintaining the strong position we have built in the past few years. We believe that as School Districts come under increasing budgetary pressure, the benefits of private sector operation enhanced by our industry leading service quality will be a compelling argument for many school districts to consider conversion.

Our Business Transformation project continues to be a major focus as we believe this will make us even more competitive, and we are scheduled to implement our pilot project in 10% of our business in the third quarter of 2008. In advance of this, our new customer and shared service centre opens in August.

We have discussed Business Transformation with a great number of existing customers and our plans have met with resounding support and confidence that our approach is needed in the industry. Customers are anticipating the new technology and process with enthusiasm. Parents of the students we transport have also been very positive with respect to the enhanced security initiatives we are proposing as part of the programme. Tangible results of the project will be realised throughout 2009.

We continued our policy of buying quality businesses as bolt-on acquisitions where appropriate and we have therefore acquired A&E Transport Services in New York and North Bay Alouette Bus Lines in Ontario with a combined fleet of more than 300 buses.

Finance Review

Seasonality

As a result of seasonality, the Group does not generate operating profit evenly between the first half and the second half of the year. In UK Coach and, to a lesser extent, Spain, the higher volumes over the summer holiday months weight operating profit towards the second half of the year. In 2008 we anticipate UK Trains operating profit to be marginally weighted towards the first half of the year. The North American school bus business primarily earns revenue by operating contracts on behalf of school boards and therefore generates less operating profit in the second half of the year because of school summer holidays. Operating profit in UK Bus is broadly weighted evenly between the first half and the second half of the year.

Foreign exchange

The strengthening Euro has provided a £4.0 million positive currency benefit for Group normalised operating profit. If the results for Spain for the six months to 30 June 2008 were retranslated at the average exchange rates for the six months to 30 June 2007 the division would have achieved normalised operating profit of £27.7 million on revenue of £195.2 million. This compares to the reported normalised operating profit of £31.7 million on reported revenue of £223.0 million.

Movements in the US and Canadian dollar have had little impact on Group normalised operating profit. If the results for the six months to 30 June 2008 were retranslated at the average exchange rates for the six months to 30 June 2007, North America would have achieved normalised operating profit of £25.5 million on revenue of £186.4 million.

Fuel

In addition to being fully hedged for our 2008 fuel requirements, we are now 56% hedged for our 2009 requirements and 10% hedged for our 2010 requirements.

Joint ventures and associates

The share of profit from joint ventures and associates was £0.2 million (2007: £0.5 million) and is generated entirely in Spain.

Finance cost

Net finance costs increased to £24.1 million (2007: £12.1 million). This increase reflects the higher level of net debt in the first half of 2008 when compared to the first half of 2007 following the acquisition of Continental Auto in October 2007 for £459.8 million.

Normalised operating profit before depreciation and other non-cash items ("EBITDA") was £160.5 million (2007: £128.7 million) and EBITDA finance cover was 6.7 times (2007: 10.6 times).

Exceptional costs and Intangible asset amortisation

In the first half of 2008 exceptional costs of £15.2 million were incurred in respect of the Business Transformation project in North America (£9.0 million), the UK integration project (£3.0 million), mobilisation costs in our National Express East Coast train franchise (£2.5 million), and integration costs following the acquisition of Continental Auto in Spain (£0.7 million). No exceptional costs were incurred in the first half of 2007.

Intangible asset amortisation of £27.9 million (2007: £13.6 million) comprises £24.0 million (2007: £10.0 million) on contracts acquired in Spain, £3.1 million (2007: £2.4 million) on contracts acquired in North America, £0.3 million (2007: £0.6 million) on contracts acquired in UK Bus and £0.5 million (2007: £0.6 million) on the intangible asset that arises from the Group's right to operate its rail franchises.

Tax

The tax charge on normalised profit was £24.3 million (2007: £20.8 million), which represents an effective tax rate of 27.0% (2007: 26.4%). This compares to the 2007 full year effective tax rate of 27.2%.

The total tax charge includes a tax credit on exceptional items of £13.2 million (2007: £3.4 million) which includes the deferred tax impact of the Group's non-deductible intangible asset amortisation.

Previously we have expected that in the long term, the group effective tax rate would increase above 27%. However, we now believe that the current rate of 27% is deliverable for the foreseeable future

Cash flow

In the first half of 2008 the Group has generated operating cash flow of £41.5 million (2007: £77.7 million).

Operating Cash Flow	UK Bus £m	UK Coach £m	UK Trains £m	North America £m	Spain £m	Central functions £m	Total £m
Normalised operating profit	20.6	1.8	39.6	25.9	31.7	(5.7)	113.9
Depreciation	8.9	2.9	6.9	15.9	12.7	0.1	47.4
Amortisation of property, plant and equipment grants	-	-	(0.3)	-	(0.6)	-	(0.9)
Profit on disposal of property plant and equipment	(0.2)	(0.1)	(0.6)	(0.1)	(0.8)	-	(1.8)
Share based payments	0.2	0.2	0.1	0.2	0.3	0.9	1.9
EBITDA	**29.5**	**4.8**	**45.7**	**41.9**	**43.3**	**(4.7)**	**160.5**
Working capital movement	(12.5)	2.7	(37.3)	3.7	(15.8)	(7.1)	(66.3)
Net cash inflow from operations	**17.0**	**7.5**	**8.4**	**45.6**	**27.5**	**(11.8)**	**94.2**
Net capital expenditure	(5.6)	(5.3)	(4.5)	(10.6)	(24.0)	(2.2)	(52.2)
Operating cash flow before one-offs	**11.4**	**2.2**	**3.9**	**35.0**	**3.5**	**(14.0)**	**42.0**
Other cash flows							
- Franchise exits							(0.5)
Operating cash flow							**41.5**

Operating cash flow is intended to be the cash flow equivalent to normalised operating profit. To reconcile the operating cash flow to the statutory cash flow the following items are included: "Cash generated from operations" plus "Proceeds from the disposal of property, plant and equipment" less "Finance lease additions" and "Purchase of property, plant and equipment" as set out in note 15 and the cash flow statement. The non-operating items are then excluded which comprise of £15.5m payments in respect of exceptional items and the £8.4m payment in respect of the ICRRL liability.

The working capital outflow in UK Trains and Spain includes timing differences which we expect to reverse in the second half of 2008. The largest phasing difference occurs in UK Trains, where the working capital movement includes an outflow resulting from the fact we make seven of the year's thirteen franchise premia payments in the first half of the year. In UK Bus, the working capital outflow includes payments to the defined benefit pension schemes in excess of the income statement charge.

Net capital expenditure was £52.2 million (2007: £37.5 million) including £7.0 million (2007: £9.7 million) proceeds from disposals. Around two thirds of the Group's capital expenditure program is projected to occur in the second half of the year, including the annual fleet deliveries in UK Bus and North America.

Reconciliation of net debt	2008 £m	2007 £m
Operating cash flow	41.5	77.7
Exceptional cash flow	(15.5)	-
Payments to associates	(8.4)	(8.4)
Net interest	(23.7)	(12.2)
Non-equity dividends paid	(0.2)	(0.2)
Taxation	4.7	0.1
Free cash flow	**(1.6)**	**57.0**
Share (purchase) / proceeds	(1.2)	4.8
Acquisitions	(10.7)	(3.6)
Dividends	(40.2)	(36.3)
Net funds flow	**(53.7)**	**21.9**
Foreign exchange	(64.8)	3.8
Funds flow post exchange	(118.5)	25.7
Opening net debt	(910.8)	(438.4)
Closing net debt	**(1,029.3)**	**(412.7)**

Exceptional cash flows of £15.5 million arise from the 2008 charge to the income statement of £15.2 million and the settlement of exceptional costs charged to the income statement in 2007.

Payments to associates of £8.4 million represent the annual outflow in respect of the ICRRL onerous contract in both 2008 and 2007.

Net interest paid of £23.7 million comprises a cash outflow of £23.0 million plus loan fee amortisation of £0.7 million. The cash outflow is broadly in line with the finance cost before discounting of £22.6 million.

Taxation inflows of £4.7 million arise from the repayment of £8.5 million from the UK tax authorities relating to 2005 and 2006.

The cash outflow for acquisitions of £10.7 million arises from the purchase of two North American school bus businesses as laid out in note 11.

The £64.8m increase in net debt due to foreign exchange arises from the strengthening of the Euro:UK£ exchange rate from 1.36 at the start of the period to 1.26 at the end.

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2008

	Note	Unaudited six months to 30 June						Restated*
		Total before intangible asset amortisation & exceptional items 2008 £m	**Intangible asset amortisation & exceptional items 2008 £m**	**Total 2008 £m**	Total before intangible asset amortisation & exceptional items 2007 £m	Intangible asset amortisation & exceptional items 2007 £m	Total 2007 £m	Year to 31 December Total 2007 £m
Continuing operations								
Revenue	4	**1,367.2**	**-**	**1,367.2**	1,309.3	-	1,309.3	2,615.4
Operating costs before intangible asset amortisation & exceptional items		**(1,253.3)**	**-**	**(1,253.3)**	(1,218.7)	-	(1,218.7)	(2,409.8)
Intangible asset amortisation	5	**-**	**(27.9)**	**(27.9)**	-	(13.6)	(13.6)	(33.1)
Exceptional items	6	**-**	**(15.2)**	**(15.2)**	-	-	-	(15.8)
Total operating costs		**(1,253.3)**	**(43.1)**	**(1,296.4)**	(1,218.7)	(13.6)	(1,232.3)	(2,458.7)
Group operating profit		**113.9**	**(43.1)**	**70.8**	90.6	(13.6)	77.0	156.7
Profit on disposal of non-current assets		**-**	**-**	**-**	-	-	-	16.2
Profit from operations		**113.9**	**(43.1)**	**70.8**	90.6	(13.6)	77.0	172.9
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.2**	**-**	**0.2**	0.5	-	0.5	0.4
Finance income	7	**7.9**	**-**	**7.9**	6.7	-	6.7	17.0
Finance costs	7	**(32.0)**	**-**	**(32.0)**	(18.8)	-	(18.8)	(46.0)
Profit before tax		**90.0**	**(43.1)**	**46.9**	79.0	(13.6)	65.4	144.3
Tax expense	8	**(24.3)**	**13.2**	**(11.1)**	(20.8)	3.4	(17.4)	(35.9)
Profit after tax for the period from continuing operations		**65.7**	**(29.9)**	**35.8**	58.2	(10.2)	48.0	108.4
Loss for the period from discontinued operations		**-**	**-**	**-**	-	-	-	(2.9)
Profit for the period		**65.7**	**(29.9)**	**35.8**	58.2	(10.2)	48.0	105.5
Profit attributable to equity shareholders		**65.5**	**(29.9)**	**35.6**	58.0	(10.2)	47.8	105.0
Profit attributable to minority interests		**0.2**	**-**	**0.2**	0.2	-	0.2	0.5
		65.7	**(29.9)**	**35.8**	58.2	(10.2)	48.0	105.5
Earnings per share:								
- basic earnings per share	10			**23.4p**			31.5p	69.1p
- diluted earnings per share	10			**23.3p**			31.4p	68.7p
Normalised earnings per share:								
- basic earnings per share	10	**43.0p**			38.3p			84.5p
- diluted earnings per share	10	**42.8p**			38.1p			83.9p
Earnings per share from continuing operations:								
- basic earnings per share	10			**23.4p**			31.5p	71.0p
- diluted earnings per share	10			**23.3p**			31.4p	70.6p
Dividends per ordinary share:								
- interim 2008/2007	9			**12.72p**			11.56p	11.56p
- final 2007	9							26.40p
				12.72p			11.56p	37.96p

* The income statement and earnings per share for the year ended 31 December 2007 have been restated as a result of the Continental Auto fair value and amortisation adjustments required by IFRS 3 (see note 11).

Dividends of £40.2m were paid during the period (2007 interim: £36.4m; 2007 full year: £54.0m). Dividends of £19.4m were proposed for approval during the period (2007 interim: £17.6m; 2007 full year: £57.8m).

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2008

	Note	**Unaudited 30 June 2008 £m**	Unaudited 30 June 2007 £m	Restated* 31 December 2007 £m
Non-current assets				
Intangible assets		**1,255.5**	687.4	1,205.5
Property, plant and equipment		**706.7**	499.3	697.3
Financial assets – Available for sale	12	**7.9**	13.5	7.2
Financial assets – Derivative financial instruments	12	**16.5**	6.1	5.3
Investments accounted for using the equity method		**12.1**	9.2	11.8
Other receivables		**4.9**	4.4	10.0
		2,003.6	1,219.9	1,937.1
Current assets				
Inventories		**18.4**	16.9	20.0
Trade and other receivables		**318.0**	231.0	272.4
Financial assets – Derivative financial instruments	12	**37.5**	5.4	10.0
Current tax assets		**10.8**	5.3	9.5
Cash and cash equivalents	15	**119.8**	155.1	157.2
		504.5	413.7	469.1
Disposal group assets classified as held for sale		**4.3**	20.0	-
Total assets		**2,512.4**	1,653.6	2,406.2
Non-current liabilities				
Financial liabilities – Borrowings	15	**(1,089.9)**	(544.0)	(641.6)
Financial liabilities – Derivative financial instruments	12	**(4.6)**	(4.0)	(5.4)
Deferred tax liability		**(152.7)**	(84.7)	(157.7)
Other non-current liabilities		**(7.7)**	(3.0)	(3.7)
Defined benefit pension liability	13	**(105.9)**	(43.9)	(29.8)
Provisions		**(39.8)**	(57.5)	(43.5)
		(1,400.6)	(737.1)	(881.7)
Current liabilities				
Trade and other payables		**(546.8)**	(463.0)	(574.0)
Financial liabilities – Borrowings	15	**(59.2)**	(23.8)	(426.4)
Financial liabilities – Derivative financial instruments	12	**(29.6)**	(2.5)	(17.7)
Current tax liabilities		**(38.8)**	(33.5)	(24.7)
Provisions		**(39.5)**	(14.7)	(44.8)
		(713.9)	(537.5)	(1,087.6)
Liabilities directly associated with disposal group assets classified as held for sale		**(4.3)**	(2.1)	-
Total liabilities		**(2,118.8)**	(1,276.7)	(1,969.3)
Net assets		**393.6**	376.9	436.9
Shareholders' equity				
Called up share capital	14	**7.7**	7.7	7.7
Share premium account	14	**195.4**	194.6	195.3
Capital redemption reserve	14	**0.2**	0.2	0.2
Own shares	14	**(16.3)**	(16.4)	(16.3)
Other reserves	14	**49.0**	20.7	30.4
Retained earnings	14	**153.2**	166.8	215.7
Total shareholders' equity		**389.2**	373.6	433.0
Minority interest in equity	14	**4.4**	3.3	3.9
Total equity		**393.6**	376.9	436.9

* The balance sheet at 31 December 2007 has been restated as a result of the Continental Auto fair value and amortisation adjustments required by IFRS 3 (see note 11).

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2008

	Note	**Unaudited six months to 30 June 2008 £m**	Unaudited six months to 30 June 2007 £m	Audited year to 31 December 2007 £m
Cash generated from operations	16	**69.2**	106.8	272.1
Tax received/(paid)		**4.7**	0.1	(18.8)
Net cash from operating activities		**73.9**	106.9	253.3
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	11	**(10.7)**	(2.5)	(485.0)
Deferred consideration for businesses acquired		**-**	(1.1)	(1.7)
Purchase of property, plant and equipment		**(57.9)**	(47.2)	(149.7)
Proceeds from disposal of property, plant and equipment		**7.0**	9.7	22.9
Receipts from disposal of available for sale investments		**-**	-	10.7
Receipts from disposal of business, net of cash disposed		**-**	-	34.3
Payments in respect of discontinued operations		**-**	-	(1.9)
Interest received		**7.9**	6.7	17.0
Net cash used in investing activities		**(53.7)**	(34.4)	(553.4)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**0.1**	4.8	5.5
Purchase of treasury shares		**(1.3)**	-	-
Interest paid		**(30.9)**	(18.5)	(39.5)
Finance lease principal payments		**(19.6)**	(12.4)	(26.3)
Net loans advanced		**33.5**	-	424.9
Dividends paid to minority interests		**(0.2)**	(0.2)	(0.1)
Dividends paid to shareholders of the Company		**(40.2)**	(36.3)	(53.9)
Net cash (used in)/from financing activities		**(58.6)**	(62.6)	310.6
(Decrease)/increase in cash and cash equivalents		**(38.4)**	9.9	10.5
Opening cash and cash equivalents	15	**157.2**	143.6	143.6
(Decrease)/increase in cash and cash equivalents		**(38.4)**	9.9	10.5
Foreign exchange		**1.0**	1.6	3.1
Closing cash and cash equivalents	15	**119.8**	155.1	157.2

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NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the six months ended 30 June 2008

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Restated* year to 31 December 2007 £m
Income and expense recognised directly in equity			
Exchange differences on retranslation of foreign operations	**78.1**	2.7	82.9
Exchange differences on retranslation of foreign currency borrowings	**(89.3)**	(1.0)	(89.1)
Exchange differences on retranslation of minority interests	**0.3**	-	0.2
Actuarial (losses)/gains on defined benefit pension plans	**(81.2)**	3.2	11.7
Gain on cash flow hedges taken to equity	**43.0**	13.0	21.5
	(49.1)	17.9	27.2
Transfers to the income statement			
On cash flow hedges	**(5.7)**	3.1	(1.0)
	(5.7)	3.1	(1.0)
Tax on exchange differences	**3.1**	(0.1)	14.3
Tax on share based payments	**-**	(1.0)	0.4
Deferred tax on actuarial losses/(gains)	**22.7**	(0.8)	(3.5)
Deferred tax on cash flow hedges	**(10.6)**	(4.9)	(6.1)
Tax on items taken directly to or transferred from equity	**15.2**	(6.8)	5.1
Net profit recognised directly in equity	**(39.6)**	14.2	31.3
Profit for the financial period	**35.6**	47.8	105.0
Profit attributable to minority interests	**0.2**	0.2	0.5
Total recognised income and expense for the period	**(3.8)**	62.2	136.8
Attributable to equity shareholders	**(4.3)**	62.0	136.1
Attributable to minority interests	**0.5**	0.2	0.7
	(3.8)	62.2	136.8

* The exchange differences on retranslation of foreign operations and profit for the financial period have been restated for the year ended 31 December 2007 as a result of the Continental Auto fair value and amortisation adjustments required by IFRS 3 (see note 11).

NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM ACCOUNTS
For the six months ended 30 June 2008

1 Basis of preparation

These interim condensed consolidated financial statements have been prepared using the accounting policies set out in the Group's 2007 statutory accounts and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting".

The interim results are unaudited but have been reviewed by the auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the year to 31 December 2007 have been extracted from the Annual Report and Accounts 2007 which has been filed with the Registrar of Companies, with the exception of the restatements as detailed in note 11. The audit report on the Annual Report and Accounts 2007 was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2 Exchange rates

The most significant exchange rates to the pound for the Group are as follows:

	Six months to 30 June 2008		Six months to 30 June 2007		Year to 31 December 2007	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.99**	**1.99**	2.01	1.98	1.98	2.00
Canadian dollar	**2.04**	**2.00**	2.14	2.23	1.98	2.15
Euro	**1.26**	**1.30**	1.48	1.48	1.36	1.46

If the results for the six months to 30 June 2008 had been retranslated at the average exchange rates for the six months to 30 June 2007, North America would have achieved normalised operating profit of £25.5m on revenue of £186.4m, and Spain would have achieved normalised operating profit of £27.7m on revenue of £195.2m.

3 Risks and uncertainties

The risks and uncertainties described in the Operating and Financial Review contained in the Annual Report and Accounts 2007 remain the principal risks and uncertainties facing the Group for the second six months of the financial year ending 31 December 2008.

4 Segmental analysis

The revenue of the Group comprises income from road passenger transport, train passenger services and related activities in the UK, North America and Europe. Within UK Trains, franchise agreement receipts from the Department for Transport Rail Division and local Passenger Transport Executives are treated as revenue. During the half year to 30 June 2008, franchise agreement receipts amounted to £14.6m (2007 interim: £191.4m; 2007 full year: £340.8m).

Analysis by class and geography of business	Unaudited six months to 30 June				Restated year to 31 December	
	Revenue 2008 £m	**Operating result 2008 £m**	Revenue 2007 £m	Operating result 2007 £m	Revenue 2007 £m	Operating result 2007 £m
UK Bus	**169.2**	**20.6**	157.0	19.8	322.3	43.5
UK Trains	**671.1**	**39.6**	771.1	28.7	1,472.1	63.3
UK Coach	**117.7**	**1.8**	103.5	6.1	231.0	23.1
Intercompany elimination	**(3.8)**	**-**	(6.8)	-	(16.0)	-
UK operations	**954.2**	**62.0**	1,024.8	54.6	2,009.4	129.9
North American Bus	**190.0**	**25.9**	162.8	24.1	308.0	37.7
European Coach & Bus	**223.0**	**31.7**	121.7	18.9	298.0	50.9
Central functions	**-**	**(5.7)**	-	(7.0)	-	(12.9)
Result from continuing operations	**1,367.2**	**113.9**	1,309.3	90.6	2,615.4	205.6
Intangible asset amortisation		**(27.9)**		(13.6)		(33.1)
Exceptional items		**(15.2)**		-		(15.8)
Group operating profit		**70.8**		77.0		156.7
Profit on disposal of non-current assets		**-**		-		16.2
Profit from operations		**70.8**		77.0		172.9
Share of post tax results from associates and joint ventures		**0.2**		0.5		0.4
Net finance costs		**(24.1)**		(12.1)		(29.0)
Profit before tax		**46.9**		65.4		144.3
Tax expense		**(11.1)**		(17.4)		(35.9)
Profit for the period from continuing operations		**35.8**		48.0		108.4
Loss for the period from discontinued operations		**-**		-		(2.9)
Profit for the period		**35.8**		48.0		105.5

Intercompany sales only occur between the Group's UK Divisions. Inter-segment trading is undertaken on standard arm's length commercial terms.
In the year to 31 December 2007 non-operating exceptional items comprise £16.2m of profit on disposal of the trade and business of Stewart International Airport.

5 Intangible asset amortisation

Intangible assets in UK Trains are subject to amortisation, which is charged on a straight-line basis to the end of the franchise, of £0.5m (2007 interim: £0.6m; 2007 full year: £1.1m). Intangible assets representing customer contracts have been subject to an amortisation charge in Spain of £24.0m (2007 interim: £10.0m, 2007 full year: £25.8m, as restated), in North America of £3.1m (2007 interim: £2.4m; 2007 full year: £5.1m) and in UK Bus of £0.3m (2007 interim: £0.6m; 2007 full year: £1.1m).

6 Exceptional items

Exceptional items are material items of income or expenditure which due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the period, in comparison to prior periods.

In the six months to 30 June 2008 exceptional costs of £3.0m for UK integration (2007 interim: £nil; 2007 full year: £4.2m) were incurred in UK Bus, UK Trains, UK Coach and Central functions. Mobilisation costs of £2.5m (2007 interim: £nil; 2007 full year £0.8m) were incurred in National Express East Coast. Integration costs of £0.7m (2007 interim: £nil; 2007 full year £2.6m) were incurred in Continental Auto. Business transformation costs of £9.0m (2007 interim: £nil; 2007 full year £8.2m) were incurred in North America.

The exceptional items can be analysed by operating segment as follows:

	Six months to 30 June 2008 £m	Six months to 30 June 2007 £m	Year to 31 December 2007 £m
UK Bus	**1.5**	**-**	0.1
UK Trains	**2.6**	**-**	1.8
UK Coach	**0.1**	**-**	0.3
North America Bus	**9.0**	**-**	8.2
European Coach & Bus	**0.7**	**-**	2.6
Central functions	**1.3**	**-**	2.8
Total exceptional charge/(credit)	**15.2**	**-**	15.8

7 Net finance costs

	Six months to 30 June 2008 £m	Six months to 30 June 2007 £m	Year to 31 December 2007 £m
Bank interest payable	**(27.7)**	(14.6)	(37.9)
Finance lease interest payable	**(2.8)**	(2.7)	(5.0)
Other interest payable	-	-	(0.1)
Unwind of provision discounting	**(1.5)**	(1.5)	(3.0)
Finance costs	**(32.0)**	(18.8)	(46.0)
Finance income: Bank interest receivable	**7.9**	6.7	17.0
Net finance costs	**(24.1)**	(12.1)	(29.0)

8 Taxation

Tax on profit on ordinary activities for the six months to 30 June 2008 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2008. The tax charge of £24.3m (2007 interim: £20.8m; 2007 full year: £48.1m) represents an effective tax rate on normalised profit before tax, for continuing and discontinued operations, of 27.0% (2007 interim: 26.4%; 2007 full year: 27.2%). The total tax charge of £11.1m (2007 interim: £17.4m; 2007 full year: £35.9m) includes a deferred taxation credit of £(0.3)m (2007 interim: charge of £4.2m; 2007 full year: £nil).

9 Dividends paid and proposed

	Six months to 30 June 2008 £m	Six months to 30 June 2007 £m	Year to 31 December 2007 £m
Declared and paid during the period:			
Ordinary final dividend for 2006 paid of 24.00p per share	**-**	36.4	36.4
Ordinary interim dividend for 2007 paid of 11.56p per share	**-**	-	17.6
Ordinary final dividend for 2007 paid of 26.40p per share	**40.2**	-	-
	40.2	36.4	54.0
Proposed for approval and not recognised as a liability as at period end:			
Ordinary interim dividend for 2007 of 11.56p per share	**-**	17.6	-
Ordinary final dividend for 2007 of 26.40p per share	**-**	-	40.2
Ordinary interim dividend for 2008 of 12.72p per share	**19.4**	-	-

10 Earnings per share

	Six months to 30 June 2008	Six months to 30 June 2007	Restated Year to 31 December 2007
Basic earnings per share – continuing operations	**23.4p**	31.5p	71.0p
Basic loss per share – discontinued operations	**-**	-	(1.9p)
Basic earnings per share – total	**23.4p**	31.5p	69.1p
Normalised basic earnings per share – continuing operations	**43.0p**	38.3p	84.5p
Diluted earnings per share – continuing operations	**23.3p**	31.4p	70.6p
Diluted loss per share – discontinued operations	**-**	-	(1.9p)
Diluted earnings per share – total	**23.3p**	31.4p	68.7p
Normalised diluted earnings per share – continuing operations	**42.8p**	38.1p	83.9p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £35.6m (2007 interim: £47.8m; 2007 full year restated: £105.0m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The reconciliation of weighted average number of ordinary shares is as follows:

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
Basic weighted average shares	**152,375,941**	151,529,606	151,914,241
Adjustment for dilutive potential ordinary shares	**758,309**	820,212	976,000
Diluted weighted average shares	**153,134,250**	152,349,818	152,890,241

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33, 'Earnings per Share' since, in the opinion of the Directors, they reflect the underlying performance of the business's operations more appropriately.

The reconciliation of statutory profit to normalised profit for the financial period is as follows:

	Six months to 30 June 2008 £m	Six months to 30 June 2007 £m	Restated Year to 31 December 2007 £m
Profit attributable to equity shareholders	**35.6**	47.8	105.0
Loss from discontinued operations	**-**	-	2.9
Profit from continuing operations attributable to equity shareholders	**35.6**	47.8	107.9
Intangible asset amortisation	**27.9**	13.6	33.1
Exceptional items	**15.2**	-	15.8
Profit on disposal of non-current assets	**-**	-	(16.2)
Tax relief on goodwill and exceptional items	**(13.2)**	(3.4)	(12.2)
Normalised profit attributable to equity shareholders	**65.5**	58.0	128.4

The reconciliation of statutory earnings per share to normalised earnings per share is as follows:

	Six months to 30 June 2008		Six months to 30 June 2007		Restated Year to 31 December 2007	
	Basic eps p	**Diluted eps p**	Basic eps p	Diluted eps p	Basic eps p	Diluted eps p
Profit attributable to equity shareholders	**23.4**	**23.3**	31.5	31.4	69.1	68.7
Loss from discontinued operations	**-**	**-**	-	-	1.9	1.9
Profit from continuing operations attributable to equity shareholders	**23.4**	**23.3**	31.5	31.4	71.0	70.6
Intangible asset amortisation	**18.3**	**18.2**	9.0	8.9	21.8	21.6
Exceptional items	**10.0**	**9.9**	-	-	10.4	10.3
Profit on disposal of non-current assets	**-**	**-**	-	-	(10.7)	(10.6)
Tax relief on goodwill and exceptional items	**(8.7)**	**(8.6)**	(2.2)	(2.2)	(8.0)	(8.0)
Normalised profit attributable to equity shareholders	**43.0**	**42.8**	38.3	38.1	84.5	83.9

11 Business combinations

Continental Auto fair value adjustments

The project to allocate the consideration paid on 4 October 2007 to purchase Continental Auto's entire share capital to the fair value of assets acquired was completed in the first half of the year. The fair values of the assets acquired have now been updated.

	Provisional fair value as previously reported £m	Fair value adjustments £m	**Updated fair value £m**
Intangible assets	**-**	1	**157.9**
Property, plant and equipment	85.6		**103.3**
Investments accounted for under the equity method	1.9		**1.9**
Inventories	1.5		**1.5**
Trade and other receivables	17.0		**17.0**
Cash and cash equivalents	4.1		**4.1**
Trade and other payables	(16.7)		**(16.7)**
Provisions	(1.4)		**(1.4)**
Fixed assets grants	(3.0)		**(3.0)**
Net financial liabilities	(22.8)		**(22.8)**
Current tax	(1.3)		**(1.3)**
Deferred tax liability	(11.1)	(	**(63.8)**
Net assets	53.8	1	**176.7**
Goodwill on acquisition	409.4	(1	**286.5**
Total consideration (incl. £3.4m acquisition costs)	463.2		**463.2**

The adjustments represent:

a) the recognition of customer contracts and contractual relationships acquired with Continental Auto (£157.9m). The customer contracts are amortised over the life of the contracts, whilst contractual relationships are not amortised, but are tested for impairment on an annual basis;

b) an increase in the value of property, plant and equipment following a valuation of the buildings;

c) the deferred tax liability associated with the intangible assets recognised and the revaluation of the property.

In accordance with IFRS 3 "Business Combinations", the Group income statement for the year ended 31 December 2007 has been restated to reflect the amortisation of the customer contracts from the date of acquisition as follows:

	As reported 31 December 2007 £m	Continental Auto Intangible asset Amortisation 2007 £m	**Restated Year to 31 December 2007 £m**
Continuing operations			
Revenue	2,615.4	-	**2,615.4**
Operating costs before intangible asset amortisation & exceptional items	(2,409.8)	-	**(2,409.8)**
Intangible asset amortisation	(27.5)	(5.6)	**(33.1)**
Exceptional items	(15.8)	-	**(15.8)**
Total operating costs	(2,453.1)	(5.6)	**(2,458.7)**
Group operating profit	162.3	(5.6)	**156.7**
Profit on disposal of non-current assets	16.2	-	**16.2**
Profit from operations	178.5	(5.6)	**172.9**
Share of post tax results from associates and joint ventures accounted for using the equity method	0.4	-	**0.4**
Finance income	17.0	-	**17.0**
Finance costs	(46.0)	-	**(46.0)**
Profit before tax	149.9	(5.6)	**144.3**
Tax expense	(37.6)	1.7	**(35.9)**
Profit after tax for the period from continuing operations	112.3	(3.9)	**108.4**
Loss for the period from discontinued operations	(2.9)	-	**(2.9)**
Profit for the period	109.4	(3.9)	**105.5**
Profit attributable to equity shareholders	108.9	(3.9)	**105.0**
Profit attributable to minority interests	0.5	-	**0.5**
	109.4	(3.9)	**105.5**
Earnings per share - Basic	71.7p	(2.6)p	**69.1p**
Earnings per share - Diluted	71.2p	(2.5)p	**68.7p**

11 Business combinations (continued)

In accordance with IFRS 3 the Group balance sheet as at 31 December 2007 has been restated to reflect the fair value and amortisation adjustments relating to Continental Auto and the goodwill adjustment relating to The Kings Ferry as follows:

		Continental Auto			The Kings Ferry -	
	As reported 31 December 2007 £m	Fair value adjustments £m	Intangible asset amortisation £m	Foreign exchange £m	Fair value Adjustment £m	**Restated 31 December 2007 £m**
Non-current assets						
Intangible assets	1,173.9	35.0	(5.6)	1.5	0.7	**1,205.5**
Property, plant and equipment	678.7	17.7		0.9		**697.3**
Financial assets	12.5					**12.5**
Investments accounted for using the equity method	11.8					**11.8**
Other receivables	10.0					**10.0**
	1,886.9	52.7	(5.6)	2.4	0.7	**1,937.1**
Current assets	469.1	-	-	-	-	**469.1**
Total assets	2,356.0	52.7	(5.6)	2.4	0.7	**2,406.2**
Non-current liabilities						
Financial liabilities	(647.0)					**(647.0)**
Deferred tax liability	(104.0)	(52.7)	1.7	(2.7)		**(157.7)**
Other non-current liabilities	(3.7)					**(3.7)**
Defined benefit pension liability	(29.8)					**(29.8)**
Provisions	(43.5)					**(43.5)**
	(828.0)	(52.7)	1.7	(2.7)	-	**(881.7)**
Current liabilities	(1,086.9)	-	-	-	(0.7)	**(1,087.6)**
Total liabilities	(1,914.9)	(52.7)	1.7	(2.7)	(0.7)	**(1,969.3)**
Net assets	441.1	-	(3.9)	(0.3)	-	**436.9**
Shareholders' equity						
Called up share capital	7.7					**7.7**
Share premium account	195.3					**195.3**
Capital redemption reserve	0.2					**0.2**
Own shares	(16.3)					**(16.3)**
Other reserves	30.7			(0.3)		**30.4**
Retained earnings	219.6		(3.9)			**215.7**
Total shareholders' equity	437.2		(3.9)	(0.3)		**433.0**
Minority interest in equity	3.9					**3.9**
Total equity	441.1	-	(3.9)	(0.3)	-	**436.9**

11 Business combinations (continued)

2008 acquisitions

During the six months to 30 June 2008, in Canada, the Group acquired the entire share capital of school bus operator Alouette (North Bay Alouette Bus Lines Inc) on 7 January 2008. In the United States, the Group acquired the entire share capital of school bus operator A&E Transport Services Inc on 28 February 2008.

Net assets at date of acquisition:	Book value			Fair value adjustments	**Fair value Total**
	A&E £m	Alouette £m	Total £m	£m	**£m**
Intangible assets	-	0.1	0.1	6.4	**6.5**
Property, plant and equipment	1.6	0.1	1.7	0.1	**1.8**
Trade and other receivables	1.2	-	1.2	-	**1.2**
Cash and cash equivalents	0.6	-	0.6	-	**0.6**
Trade and other payables	(0.3)	-	(0.3)	-	**(0.3)**
Deferred tax liability	-	-	-	(1.8)	**(1.8)**
Net assets acquired	3.1	0.2	3.3	4.7	**8.0**
Goodwill on acquisition					**4.6**
Total consideration					**12.6**
Net consideration					**12.5**
Acquisition costs					**0.1**
Total consideration					**12.6**
Less: deferred consideration					**(1.3)**
Less: net cash acquired					**(0.6)**
Net cash outflow					**10.7**

The acquisition balance sheets have been adjusted to reflect fair value adjustments. The adjustments represent:

a) the elimination of the book value of Alouette's intangible assets (£0.1m), the recognition of customer contracts acquired with A&E (£1.7m), and contractual relationships acquired with A&E (£4.2m) and Alouette (£0.6m) which reflects the expected indefinite renewal of these school bus contracts in North America. The customer contracts are amortised over the life of the contracts, whilst contractual relationships are not amortised, but are tested for impairment on an annual basis;

b) a £0.1m increase in the value of property, plant and equipment at Alouette following a review of the vehicle fleet;

c) the deferred tax liability associated with the customer contracts acquired with A&E (£0.5m), and the contractual relationships acquired with A&E (£1.1m) and Alouette (£0.2m);

Total consideration was £11.7m for A&E (including £1.3m deferred consideration) and £0.9m for Alouette.

From their respective dates of acquisition, A&E and Alouette have contributed £1.3m and £0.1m to operating profit of the Group respectively. Group operating profit and group revenue would not have been materially different if these combinations had taken place at the beginning of the period.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and assembled workforce and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's North American operations.

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12 Financial assets and liabilities

The Group's multi-national transport operations and debt financing expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, interest rates and fuel prices. The Group has in place a risk management programme that seeks to limit the adverse effects of these financial risks on the financial performance of the group by using financial instruments, including foreign currency debt and fuel price and interest rate swaps. These derivative financial instruments are held in the balance sheet at fair value, as determined by the third party financial institution with which the Group holds the instrument.

The interest rate swaps are in place to hedge the cash flow risk in relation to changes in interest rates. The fuel price swaps are in place to hedge the changes in price of the different types of fuel used in each division. The foreign exchange forward contracts are in place to hedge the foreign exchange risk on translation of net assets and on earnings denominated in foreign currency.

	At 30 June 2008 £m	At 30 June 2007 £m	At 31 December 2007 £m
Non-current			
Interest rate swaps	**7.9**	5.5	1.7
Fuel price swaps	**8.6**	0.6	3.6
Derivative financial assets	**16.5**	6.1	5.3
Current			
Interest rate swaps	**7.4**	2.2	1.5
Fuel price swaps	**30.1**	1.7	8.5
Foreign exchange forward contracts	**-**	1.5	-
Derivative financial assets	**37.5**	5.4	10.0
Non-current			
Fuel price swaps	**0.2**	-	-
Interest rate swaps	**4.4**	4.0	5.4
Derivative financial liabilities	**4.6**	4.0	5.4
Current			
Foreign exchange forward contracts	**26.1**	0.4	14.5
Fuel price swaps	**0.2**	-	-
Interest rate swaps	**3.3**	2.1	3.2
Derivative financial liabilities	**29.6**	2.5	17.7

The foreign currency borrowings are included in 'Financial liabilities – Borrowings' which are analysed in note 15. Included in bank loans are foreign currency denominated borrowings which hedge the foreign currency denominated net assets of the Group.

Other financial assets in the balance sheet include the 'Financial assets – Available for sale' of £7.9m (30 June 2007: £13.5m; 31 December 2007: £7.2m) which represent the Group's available for sale investments in unlisted companies.

13 Pensions and other post-employment benefits

The UK Bus and UK Coach divisions operate funded defined benefit pension schemes and there is a single defined contribution scheme for the two Divisions. The majority of employees of the UK Train companies are members of the appropriate shared-cost section of the Railways Pension Scheme, a funded defined benefit scheme. Central Functions staff are included in the Group's UK Coach pension scheme. The assets of all schemes are held separately from those of the Group. Contributions to the schemes are determined by independent professionally qualified actuaries.

Subsidiaries in North America and Spain contribute to a number of defined contribution plans. The Group also provides certain additional post-employment benefits to employees in North America, which are categorised as 'Other' below.

The total pension cost for the period was £11.7m (2007 interim: £14.7m; 2007 full year: £27.5m), of which £9.9m (2007 interim: £13.6m; 2007 full year: £24.3m) relates to the defined benefit schemes and £1.8m (2007 interim: £1.1m; 2007 full year: £3.2m) relates to the defined contribution schemes.

The defined benefit pension liability included in the balance sheet is as follows:

	At 30 June 2008 £m	At 30 June 2007 £m	At 31 December 2007 £m
UK Bus	**(33**	(	(5.1)
UK Coach	**(7**	(	(4.9)
UK Trains	**(65**	(	(18.8)
Other	**(0**		(1.0)
Total	**(105**	(	(29.8)

The UK Train defined benefit pension liability is net of the franchise adjustment of £3.7m (30 June 2007: £35.8m; 31 December 2007: £2.3m). Details of the franchise adjustment are included in note 35 to the Annual Report and Accounts 2007.

14 Reconciliation of movements in equity

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total £m
At 1 January 2008 restated	7.7	195.3	0.2	(16.3)	30.4	215.7	433.0	3.9	436.9
Shares issued	-	0.1	-	-	-	-	0.1	-	0.1
Shares purchased	-	-	-	(1.3)	-	-	(1.3)	-	(1.3)
Own shares released to satisfy employee share schemes	-	-	-	1.3	-	(1.3)	-	-	-
Total recognised income and expense	-	-	-	-	18.6	(22.9)	(4.3)	0.5	(3.8)
Share-based payments	-	-	-	-	-	1.9	1.9	-	1.9
Increase in minority interests	-	-	-	-	-	-	-	0.2	0.2
Dividends	-	-	-	-	-	(40.2)	(40.2)	-	(40.2)
Dividends paid to minority interest	-	-	-	-	-	-	-	(0.2)	(0.2)
At 30 June 2008	**7.7**	**195.4**	**0.2**	**(16.3)**	**49.0**	**153.2**	**389.2**	**4.4**	**393.6**

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total £m
At 1 January 2007	7.7	189.8	0.2	(16.7)	7.9	153.3	342.2	3.3	345.5
Shares issued	-	4.8	-	-	-	-	4.8	-	4.8
Own shares released to satisfy employee share schemes	-	-	-	0.3	-	(0.3)	-	-	-
Total recognised income and expense	-	-	-	-	12.8	49.2	62.0	0.2	62.2
Share-based payments	-	-	-	-	-	1.0	1.0	-	1.0
Dividends	-	-	-	-	-	(36.4)	(36.4)	-	(36.4)
Dividends paid to minority interest	-	-	-	-	-	-	-	(0.2)	(0.2)
At 30 June 2007	**7.7**	**194.6**	**0.2**	**(16.4)**	**20.7**	**166.8**	**373.6**	**3.3**	**376.9**

Shares issued in the six months to 30 June 2008 and 30 June 2007 related to the exercise of share options.

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15 Net debt

	At 1 Jan 2008 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	**At 30 June 2008 £m**
Cash and cash equivalents	157.2	(38.4)	1.0	-	**119.8**
Loan notes	(0.8)	-	-	-	**(0.8)**
Bank loans*	(947.4)	(32.9)	(63.2)	(0.7)	**(1,044.2)**
Finance lease obligations*	(119.8)	19.6	(2.6)	(0.7)	**(103.5)**
Other debt payable	-	(0.6)	-	-	**(0.6)**
Net debt	(910.8)	(52.3)	(64.8)	(1.4)	**(1,029.3)**

* The opening balances for bank loans and finance leases have been restated, with a reclassification of £18.5m between finance leases and bank loans.

	At 1 Jan 2007 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	**At 30 June 2007 £m**
Cash and cash equivalents	143.6	9.9	1.6	-	**155.1**
Loan notes	(0.8)	-	-	-	**(0.8)**
Bank loans	(478.1)	-	1.1	(0.4)	**(477.4)**
Finance lease obligations	(103.1)	12.4	1.1	-	**(89.6)**
Net debt	(438.4)	22.3	3.8	(0.4)	**(412.7)**

Current 'Financial liabilities – Borrowings' of £59.2m (30 June 2007: £23.8m; 31 December 2007: £426.4m) comprises £0.8m of loan notes (30 June 2007: £0.8m; 31 December 2007: £0.8m), £22.6m of finance lease obligations (30 June 2007: £20.2m; 31 December 2007: £22.6m), £35.2m of bank loans (30 June 2007: £2.8m; 31 December 2007: £403.0m) and £0.6m of other debt payable (30 June 2007: £nil; 31 December 2007: £nil).

Non-current 'Financial liabilities – Borrowings' of £1,089.9m (30 June 2007: £544.0m; 31 December 2007: £641.6m) comprises £80.9m of finance leases (30 June 2007: £69.4m; 31 December 2007: £97.2m) and £1,009.0m of bank loans (30 June 2007: £474.6m; 31 December 2007: £544.4m).

Included in cash and cash equivalents are restricted balances of £47.6m (30 June 2007: £52.3m; 31 December 2007: £55.2m) held by the Train Operating Companies.

Other non cash movements in net debt represent finance lease additions of £0.7m (2007 interim: £nil; 2007 full year: £0.2m) and amortisation of loan arrangement fees of £0.7m (2007 interim: £0.4m; 2007 full year: £0.9m).

16 Cash flow statement

The reconciliation of Group profit before tax to cash generated from operations is as follows:

	Six months to 30 June 2008 £m	Six months to 30 June 2007 £m	Restated Year to 31 December 2007 £m
Net cash inflow from operating activities			
Profit before tax	**46.9**	65.4	144.3
Net finance costs	**24.1**	12.1	29.0
Profit on disposal of non-current assets	**-**	-	(16.2)
Share of post tax results from associates and joint ventures under the equity method	**(0.2)**	(0.5)	(0.4)
Depreciation of property, plant and equipment	**47.4**	38.2	79.6
Amortisation of leasehold property prepayment	**-**	-	0.1
Intangible asset amortisation	**27.9**	13.6	33.1
Amortisation of property, plant and equipment grants	**(0.9)**	(0.4)	(1.3)
Profit on disposal of property, plant and equipment	**(1.8)**	(0.7)	(4.3)
Share-based payments	**1.9**	1.0	3.2
Decrease/(increase) in inventories	**1.8**	(1.4)	(2.1)
(Increase)/decrease in receivables	**(35.7)**	41.1	17.7
(Decrease)/increase in payables	**(26.7)**	(48.6)	5.9
Decrease in provisions	**(15.5)**	(13.0)	(16.5)
Cash generated from operations	**69.2**	106.8	272.1

17 Changes in commitments and contingencies

Capital Commitments

Capital commitments contracted but not provided at 30 June 2008 were £65.6m (31 December 2007: £34.2m).

Contingent liabilities

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2008, the Group has issued UK Train performance bonds of £66.2m (31 December 2007: £78.3m) and UK Train season ticket bonds of £64.2m (31 December 2007: £79.4m). The Group has other performance bonds which include the £16.2m (31 December 2007: £15.5m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £58.9m (31 December 2007: £63.4m) and the rest of Europe of £20.0m (31 December 2007: £19.7m). Letters of credit have been issued to support insurance retentions of £72.9m (31 December 2007: £74.8m).

18 Related party transactions

There have been no material changes to the related party balances disclosed in the Annual Report and Accounts 2007 and there have been no transactions which have materially affected the financial position or performance of the Group during the interim period.

- Ends -