national express

Press release

29 July 2010

National Express Group PLC
Half Year Results for the six months ended 30 June 2010

National Express Group PLC ("National Express" or the "Group"), a leading international public transport group, operates bus and coach services across the UK, continental Europe/North Africa and North America, together with rail services in the UK.

Highlights
A strong first half performance, building on a stable financial platform, a clear margin improvement plan, a selective investment programme and a proactive approach to meeting the needs of all our stakeholders.

- Good results in a challenging macro-economic environment
- Stable underlying revenue, with organic growth in UK Coach and success in winning new customer contracts in North America for the 2010/11 school year
- Improved operating margins in UK, North America and Spanish businesses
- Profit recovery as business improvement plans begin to deliver
- Continued reduction in net debt through ongoing cash generation
- Refinancing successfully completed, with funding in place until 2014
- Exploring opportunities to extend our two rail franchises
- Expect to recommence dividend at year end, subject to continued trading performance.

Financial summary

	Normalised result		
Half year ended 30 June	**2010**	**2009**	**Change**
Revenue (£m)	1,059.6	1,424.5	-26%
Group operating profit (£m)	95.7	73.8	+30%
Share of results from associates (£m)	0.3	0.1	+200%
Net finance costs (£m)	(20.3)	(18.2)	-12%
Profit before taxation (£m)	75.7	55.7	+36%
Operating margin	9.0%	5.2%	+73%
Net debt (£m)	601.1	977.5	-39%
Basic earnings per share (pence)	11.4	14.5	-21%
Statutory profit/(loss) for the period (£m)	19.4	(36.6)	n/a

Comment
Commenting on the results, Dean Finch, National Express Group Chief Executive, said:

"Progress in the first half has been good. With a strong financial platform, National Express is now delivering the benefits from its business improvement programmes. Despite challenging economic conditions, greater operational focus is having a positive impact and we will continue to progressively drive improvement in performance and cut costs.

We have secured growth opportunities, particularly in North America and Spain, in which we will selectively invest in the second half of the year. We expect trading to remain resilient in the next six months and we look to the future with confidence."

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Definitions
Operating margin: the ratio of normalised operating profit to revenue for continuing businesses.

Normalised result: Statutory result excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

Underlying revenue compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated.

Operating and financial review

Overview of the first half year
Progress in the first half of 2010 has been encouraging. Building on the resolution of our major issues in 2009, we have focused on delivering and implementing plans to improve operational performance. Our Spanish and UK Coach businesses are well placed, delivering strong margins and effective cost management in tough economic conditions. Our UK Bus and North American businesses now have plans in place for margin recovery and initial progress has been encouraging. Our UK Rail franchises are amongst the top operational performers in the industry and we are now in discussion with the UK government to explore how we can best meet their objectives for improvement in the franchising model by extending the period of operation of the existing contracts. There remains much to do to deliver sustained business improvement across the Group; however, we are pleased with our initial progress.

Underlying revenue was broadly flat at £1,059.6 million, despite the challenging economy and the impact of reduced vehicle mileage. Our successful cost saving programmes, together with the removal of our loss-making rail franchise, saw normalised operating profit rise by 30% to £95.7 million. Normalised profit before taxation increased 36% to £75.7 million, with normalised basic earnings per share of 11.4 pence.

Profit margin rose in all businesses except UK Coach, where additional cost investment supported revenue growth. Spain delivered good profit growth, despite the challenges of the local economy and government austerity plans; while we remain cautious over the domestic market outlook, our market leading position, long term concessions, flexible cost model and strong management provide a robust position from which to defend profitability and grow. North America has begun the first steps to a streamlined, lower cost operation, while winning significant new business. The UK economy is also going through challenging times and we are working hard to defend and extend our position in Bus and Rail. However, the improvement in margin in both businesses is encouraging.

		First half	Full year
Normalised operating profit	**2010**	**2009**	**2009**
	£m	**£m**	**£m**
Spain	33.0	28.6	76.5
North America	31.0	24.7	25.3
UK Coach	10.3	10.6	34.3
UK Bus	10.9	11.2	20.8
UK Rail	16.1	2.5	12.0
Corporate costs	(5.6)	(3.8)	(9.1)
Normalised operating profit	95.7	73.8	159.8

After the success in 2009 in driving a strong cash culture within the Group, we continue to manage debt effectively. Closing net debt was £601.1 million, some £57 million lower than the last year end.

Sound financial platform created
In 2010 we have built on the successful rights issue in 2009, which provided an optimal equity and debt balance for National Express from which to create value going forward. Over the last six months we have refinanced all of our debt needs, out to 2014 and beyond. In January, we issued our debut bond in the Sterling market, a £350 million 7 year issue. In March, we secured our investment grade credit rating, confirming our access to lower cost funds. In June, we completed a second Sterling bond issuance at £225 million for 10 years. This month we syndicated a £500 million bank facility out to 2014. These measures help to provide ample liquidity and maturity at an attractive funding cost, allowing us to pursue our improvement and growth plans without funding constraint.

Clear margin recovery plans underway
Our key focus in 2010 and into next year is to drive margin improvement, particularly in the underperforming businesses. We have put plans in place and begun implementation in both North America and UK Bus. North America had been distracted by the previous transformation programme, which had added complexity and cost at a time of reducing contract revenue. We have replaced the management team, simplified the organisation, restored focus on the customer and outlined a series of initiatives to deliver a US$40 million cost improvement. In UK Bus, we have identified the issues – an imbalance between single and multiple journey fares, underinvestment in the fleet, excessive cost in the operational footprint and a need to optimise our extensive network. We have begun to implement a series of improvement programmes and margins increased in the first half of the year. In both businesses we are targeting to deliver typical industry margins, which when achieved will generate significant incremental profit for the Group.

Pursuing selective growth opportunities
Despite a sluggish economic environment, we have secured a number of new growth opportunities, particularly in North America and Spain, in which we will invest selectively in the second half of the year. North America delivered a strong bid season, winning over 1,600 new routes, equivalent to over 11% of existing business, and securing its first conversions of in-house school board operations. The ALSA team will be launching a major new urban bus operation in Agadir, Morocco in the second half year, ahead of schedule. The UK Coach business provides a strong platform to grow new services, adding to our airport and event operations, while continuing to reinvent its core national service with new customer offerings; and our UK Bus business is investing in new fleet and adding capacity.

Our public transport strength, allied with our international experience, provides the skills and scale to explore new market opportunities in existing geographies and beyond. However, our near-term focus will remain on improving our existing business performance and driving value.

Helping our customers and stakeholders
During these challenging times, we are working to provide both our customers and key stakeholders with low cost, high service, flexible solutions to their challenges. For customers, we continue to offer some of the lowest fares – in UK Bus, our West Midlands travel cards offer journeys over a huge network whilst remaining amongst the cheapest of our peers. Our UK Coach business provided 100,000 £1 fares, bookable through a 'Low Fare Finder' tool on our website; at the same time, we provide half-price travel for the armed forces. In UK Rail, we expanded customer service, with wi-fi to be introduced between London and Norwich before the end of 2010, and continue to roll out our joint investment programme with the government to enhance train capacity in peak periods.

In North America, we are working with our school board customers to meet their budget constraints. In Santa Rosa, Florida, we introduced more efficient route management which has helped reduce school board costs. Using knowledge gained from GPS technology, we were able to transport the same number of students using over 5% fewer routes, cutting bus, driver and fuel costs. In Spain, during the volcanic ash cloud disruption, ALSA carried 20,000 additional passengers on domestic and international services, including supporting the British Embassy and the major airlines.

We are also working with governments and other stakeholders as public funding becomes more restrictive, stepping into gaps to provide effective and attractive transport solutions. We hope that this dialogue will continue to be constructive, allowing us to protect and grow this key public service. In the UK, we are working closely with passenger transport executives. In the West Midlands, we signed the first multi-operator Voluntary Partnership Scheme, providing a more integrated service for passengers between transport operators.

We are also discussing opportunities to continue to operate our UK rail franchises to allow a better, more efficient franchise model to be developed, whilst in Spain, our coach operations are working to replace any reductions in rail services arising from funding and investment restrictions, with new premium Supra services providing a viable alternative to rail.

Outlook and dividend
Despite challenging economic conditions in all our markets, we have seen a stabilisation in our underlying revenue and we are progressively delivering cost improvement. Whilst we closely monitor conditions in each of our markets, we expect trading to remain resilient in the second half year and to meet expectations. We have increased our selective investment for growth and fleet replacement in the third quarter to take advantage of profitable opportunities. We remain focused on driving shareholder value.

We view dividends as a key part of value creation, provided these are paid from both earnings and cash generated by the business. We have completed our refinancing programme and will continue to focus on our plans to deliver improvements in Group margin this year. The Board therefore expects to recommence dividend payments at the year end, subject to our continued trading performance.

Key performance indicators
At the end of 2009 we laid out our key performance indicators (KPIs) on which we manage our business. The financial KPIs are as follows:

		First half	Full year
KPI	**2010**	**2009**	**2009**
Underlying revenue growth	(0.9)%	1.3%	(0.8)%
Normalised operating profit	£95.7m	£73.8m	£159.8m
Normalised profit before tax	£75.7m	£55.7m	£116.2m
Normalised diluted earnings per share	11.3p	14.4p	30.4p
Operating cash generation	£130.7m	£149.1m	£289.4m
Debt gearing ratio	2.2x	3.2x	2.5x

These show good progress in improving profitability, continuation of good cash generation and an improving gearing ratio. Revenue remained flat in the aftermath of recession, whilst the measurement of earnings per share is impacted by the successful rights issue late in 2009. These KPIs are explained in more detail below. Non-financial KPIs are reported annually.

Revenue
Group revenue declined on the first half of the prior year to £1,059.6 million (2009: £1,424.5m). This reflected the return of the East Coast rail franchise and the sale of the Travel London bus business, both in 2009, together with an adverse impact from foreign currency of £6.8 million as Sterling strengthened against both the Euro and US Dollar.

Underlying revenue was broadly flat. This reflected tough economic conditions and the impact of reduced operating mileage driving greater network efficiency. Nevertheless, there was a general improvement in the overall revenue trend over 2009, with the decline in Spain slowing, growth in UK Coach and North America winning contracts to secure growth in the second half of 2010.

Normalised profit
Normalised Group operating profit rose by 30% to £95.7 million (2009: £73.8m). This success reflected the benefit of our cost reduction programmes (saving £13.0 million despite the adverse impact of inflation), better hedged fuel costs (£10.1 million) and the net loss avoided on exited businesses (£15.5 million). These benefits were partially offset by lower revenue (£9.0 million), increased rail franchise premium (£5.1 million) and increased marketing spend (£1.1 million). The impact of strengthening Sterling adversely impacted the translation of overseas results by £1.5 million.

Operating profit improvement reflected initial benefits of recovery plans in North America, a strong cost control performance by Spain and the removal of East Coast, the loss-making franchise in UK Rail. UK Bus profits increased, after allowing for the impact of last year's disposal of the sub-scale Travel London operation, while UK Coach profits fell slightly due to increased marketing costs and investment in new services.

Normalised operating profit	Half year ended 30 June		Full year
	2010 £m	2009 £m	2009 £m
Revenue	1,059.6	1,424.5	2,711.1
Operating costs	(963.9)	(1,350.7)	(2,551.3)
Normalised group operating profit	95.7	73.8	159.8
Share of results from associates	0.3	0.1	(0.1)
Net finance costs	(20.3)	(18.2)	(43.5)
Normalised profit before taxation	75.7	55.7	116.2

Normalised net finance costs increased to £20.3 million (2009: £18.2m), reflecting an increase in the average rate of interest paid on the Group's borrowings following issuance of new bonds and a one-off benefit in the prior year from the receipt of interest from Australia.

Normalised profit before taxation increased 36% to £75.7 million (2009: £55.7m). The Group's effective tax rate on normalised profit was 22.9% (2009: 23.2%). The resultant normalised basic earnings per share was 11.4 pence (2009: 14.5p), with the benefit of improved profitability more than offset by the increase in shares in issue, following the rights issue in November 2009.

Exceptional items and profit for the period

The Group is committed to reducing exceptional costs over time, as business improvement programmes are completed. In the first half of 2010, the exceptional operating charge reduced to £19.2 million (2009: £62.3m), of which £15.9 million relates to cash costs and £3.3 million to non-cash asset write-offs. The key items were £12.4 million for the North America recovery programme (reorganisation costs as part of cost reduction and the write-down of surplus school buses as part of the ongoing fleet optimisation programme); £3.4 million for UK Bus (relating to Bus improvement programme reorganisation costs and the ongoing Competition Commission investigation into the industry) and £2.4 million for Corporate changes (for management changes and corporate office relocation).

Intangible asset amortisation, primarily relating to the contracts in Spain, was £32.0m (2009: £30.6m). The Group's statutory profit for the period was £19.4 million (2009 loss: £36.6m). Fully diluted earnings per share were 3.7 pence (2009 loss: 14.4p).

Cash management

In 2009, the Group successfully focused on cash management to drive down debt. Although the Group now has a stable financial platform from which to grow revenue and margin, we continue to focus on driving cash generation, as the best long-term indicator of shareholder value creation. The cash generated will be available to reinvest in the business for future growth and to resume dividend payments to shareholders.

Operating cash flow, the measure of cash generated from business operations, was £130.7 million (2009: £149.1m). This reflected a successful conversion of 137% (2009: 202%) of normalised operating profit, adding to the one-off but sustainable success in 2009 from a reduction in working capital. EBITDA (earnings before interest, tax, depreciation and amortisation) continued to improve. Net capital expenditure was low, reflecting limited organic growth as markets emerged slowly from recession. In the second half of the year, we expect to invest around £125 million, with expenditure focused on new contract wins in North America and Morocco, together with fleet investment in UK Bus. Working capital reduced slightly in the first half of the year, with strong cash collections in North America offsetting a limited increase in regional and city council balances in Spain, which is being closely monitored.

	Half year ended 30 June		**Full year**
	2010 £m	**2009 £m**	**2009 £m**
Normalised operating profit	95.7	73.8	159.8
Depreciation	48.9	55.1	108.0
Grant amortisation, profit on disposal and share-based payments	0.3	0.2	1.5
EBITDA	144.9	129.1	269.3
Net capital expenditure	(17.0)	(30.2)	(51.9)
Working capital improvement	2.8	50.2	72.0
Operating cash flow	130.7	149.1	289.4

Debt reduction

Operating cash flow was used to pay net interest of £33.6 million (2009: £21.4m), which included payment of the interest rate swaps cancelled in 2009 following the Euro debt refinancing; exceptional cash outflow of £19.4 million (2009: £16.8m); and payments to associates of £8.8 million (2009: £8.6m), for the onerous ICRRL contract with Eurostar. Free cash flow (the amount available to fund acquisitions and dividends) was £51.2 million (2009: £103.5m).

	Half year ended 30 June		**Full year**
	2010 £m	**2009 £m**	**2009 £m**
Operating cash flow	130.7	149.1	289.4
Discontinued operations	(0.8)	-	5.5
UK rail franchise exit	(8.5)	(0.1)	(32.3)
Pension contributions above normal charge	(3.5)	(3.4)	(8.1)
Exceptional cash flow	(19.4)	(16.8)	(74.3)
Payment to associates	(8.8)	(8.6)	(8.0)
Net interest	(33.6)	(21.4)	(48.8)
Dividends to minority interests	-	(0.2)	(0.5)
Taxation	(4.9)	4.9	2.6
Free cash flow	51.2	103.5	125.5
Financial investments and shares	(0.6)	(0.5)	(0.7)
Acquisitions and disposals	(0.3)	33.2	30.1
Equity issuance	(3.9)	4.3	357.9
Dividends	-	-	(15.2)
Net funds flow	46.4	140.5	497.6

Net funds flow was £46.4 million (2009: £140.5m). Together with a benefit of £10.4 million from movement in foreign exchange, net debt reduced to £601.1 million (2009: £977.5m) at 30 June. This demonstrates further successful progress in cash generation across the Group and further improved the Group's key debt ratios, as follows:

- Debt gearing ratio 2.2x (2009: 3.2x; Group bank covenant not to exceed 3.5x)
- Interest cover ratio 6.5x (2009: 5.3x; bank covenant not to be less than 3.5x).

Consequently, the Group continues to operate with considerable flexibility over its debt level, following the rebuilding of the Group's finances in 2009.

Treasury management
The Group has now completed the refinancing of all its debt on attractive terms. Following the repayment of nearly £360 million of debt from the successful equity rights issue in late 2009, the Group's residual €270 million 2011 Euro facility was refinanced with a heavily oversubscribed 7 year 6.25% £350 million unrated Sterling bond in January 2010. This was subsequently rated with the award of investment grade for the Group's debt by Moody's and Fitch Ratings in March 2010. The Group's residual £800 million 2011 bank facility has now also been refinanced, through a 10 year 6.625% £225 million Sterling bond issued in June 2010 and a new bank facility. The latter is a £500 million unsecured facility committed until August 2014 by the Group's core relationship banks. This facility, which is attractively priced, will primarily be used for seasonal working capital and headroom purposes.

With the new bank facility in place, the former bank facility has been cancelled and the Group has no requirement to refinance its debt for several years. At 30 June 2010, adjusting for the subsequent completion of the refinancing and cancellation of the previous bank facility, the Group had cash and undrawn committed financing facilities available of £465.7 million (2009: £409.0m). Subsequent to the end of the half year, the Group swapped £200 million of debt from fixed to floating rate. We will continue to hold the majority of debt hedged at fixed rates going forward.

In light of the completion of the refinancing and the strong headroom under both cash and covenant measures, the Board has adopted the going concern assumption in these financial statements and has not identified any material uncertainty as to the Group's ability to meet its obligations.

Pensions and risk management
The Group's principal defined benefit pension schemes are all in the UK. These schemes had a combined deficit under IAS19 at 30 June 2010 of £77.0 million (2009: £77.1m). The deficit under the Railways Pension Scheme is transferred to the incoming operator on franchise termination.

The IAS19 deficit under the National Express Group Staff Pension Plan, which covers UK Coach and corporate employees, was £5.0 million. In July 2010, the Group reached agreement with the trustees of this plan to support its proposed closure to future accrual and to a new deficit recovery plan to eliminate the increased scheme funding shortfall. This plan envisages the Group making contributions of £4.2 million per annum from January 2011 for just over six years to bring the funding of the plan to a 'self sufficiency' level, whereby the trustees would no longer be reliant on the Group for deficit funding. This plan will replace the current annual deficit recovery payment of £2.8 million.

On fuel, the Group's policy is to hedge a proportion of its 229 million litres of addressable consumption against shorter term movements in price. The Group is fully hedged for its usage in both 2010 and 2011, at average prices of 38 and 39 pence per litre respectively. We are 35% hedged for 2012 at 40 pence. These hedges compare favourably to the average price in 2009 of 50 pence.

The Group is also focused on mitigating risks and uncertainties with respect to previous activities which are no longer core to the Group. Agreement has now been reached with the Eurostar operator LCR, whereby the contract held by the Group's associate company ICRRL will be terminated and the Group's liability capped at £18.0 million, which will be paid in equal instalments in February 2011 and February 2012. This liability was fully provided for in 2009. With regard to former rail operations, the Group has finalised amounts owing to the DfT on franchises up to the exit of Gatwick Express in 2008. Reporting accountants have now been appointed to finalise the settlement owing to the Group by the new operator of the East Coast franchise.

The Group's other principal risks and uncertainties remain in line with those detailed in the Annual Report and Accounts 2009. The Board continues to monitor the economic risks of any renewed recession, together with the impact of government expenditure reductions in the UK, the impact of the austerity plan on the ability of local and regional councils in Spain to subsidise bus and coach operations, and pressure on school board budgets in North America. Monitoring of outstanding receivable balances in Spain and plans to address any reduction in public funding to UK Bus are key mitigating factors. The Group has made good progress in mitigating other risk areas identified.

Spain

ALSA is the largest private long distance and regional coach operator in Spain and a significant urban bus and tram operator. It has a growing presence in Morocco and is part of the Eurolines trans-European coach service.

Half year ended 30 June	2010 £m	2009 £m
Revenue	252.4	263.2
Operating profit	33.0	28.6
Operating margin	13.1%	10.9%

ALSA performed well in the first half of the year, despite challenging domestic economic conditions of continued recession, high unemployment and the implementation of government austerity plans. Benefiting from successful cost reduction during 2009, a leaner more efficient ALSA business was well positioned to react to an uncertain revenue environment and strong competition from high speed rail. During the first half of the year, the rate of revenue decline has eased and current demand is relatively stable. With lower fuel costs, margin has improved and new opportunities continue to be identified to grow this successful business under strong management.

Total revenue in Sterling terms declined to £252.4 million (2009: £263.2m). In local currency, revenue was €291.2 million (2009: €294.3m). Underlying passenger transport revenue was flat. This was a significant improvement on 2009, which saw underlying revenue decline by 5%. After poor weather in the first quarter, there was a steady recovery in revenue, particularly in the inter-city segment as passenger numbers improved. This was supported by the impact of the Icelandic volcano in April, with ALSA responding to the challenge by repatriating over 20,000 stranded airline passengers.

In addition, ALSA's flexible cost base allowed it to reduce operating kilometres by 4%, benefiting margin. With a continued reduction in both owned and outsourced operating costs, together with lower fuel costs, normalised operating profit increased by 15% in Sterling terms to £33.0 million (2009: £28.6m) and by 19% in local currency to €38.1 million (2009: €32.0m). Operating margin improved to 13.1% (2009: 10.9%), partly due to the full year benefits of the cost reduction programme delivered in 2009. Markets for our ancillary businesses, such as fuel distribution, were, however, down on the prior year.

Inter-city routes (covering our 163 long term regional and long distance exclusive concessions) continued to benefit from a reducing impact from the domestic economic recession, with underlying revenue down only 3%. While passengers remain uncertain in their outlook, this improving trend is an encouraging sign. We also continue to grow selectively. The first half of the year saw the launch of new Supra routes in Andalucia and between Madrid and Barcelona. After significant competition from high speed rail in the first quarter, this appears to be abating as reductions in investment and services by the domestic rail operator started to impact on competitive routes. New EU rules also reduce government subsidies to rail from July.

Urban underlying revenue increased by 6%, with continued strong demand across our 24 concessions. There has been limited impact from recession with city councils continuing to promote this greener, low cost form of transport, although suburban commuter traffic has declined somewhat. New contracts for existing operations in Almeria and Madrid were supported by new school and contract operations. In addition, Alsa has been awarded new urban service contracts in Santander that will commence in the second half of 2010. Morocco continues to perform well, ahead of the start up of the 15 year Agadir contract in the second half of the year.

North America
National Express Corporation operates nearly 14,000 school bus routes across the US and Canada, mostly through 3 to 5 year contracts with local school boards, which provide medium term revenue visibility.

Half year ended 30 June	**2010 £m**	**2009 £m**
Revenue	253.7	259.1
Operating profit	31.0	24.7
Operating margin	12.2%	9.5%

Our North America business has previously significantly underperformed the sector and we are targeting to restore industry average margins. It has now begun the road to that recovery:

- Firstly, we have improved the cost base, removing cost which had been added previously and driving accountability and ownership of costs at a local level;
- Secondly, we have been successful in securing revenue growth opportunities, totalling over 5% of net new routes to be operated for the new school year;
- Thirdly, we have identified future development opportunities, to grow the business beyond its current size.

There remains a considerable amount of work to do across the operation. We continue to improve our management capability, we are simplifying our structures and processes, we need to improve our systems and management information, and we are working to respond better to our customers' needs. However, this is an encouraging start.

Total revenue declined by 2% to £253.7 million (2009: £259.1m). In US Dollars, revenue was $389.1 million (2009: $389.5m). Underlying revenue reduced by 3%, reflecting the previous net loss of over 500 routes for the last school year. However, action by the new management and a focus on delivering excellent customer service has reversed this trend.

With our business improvement programme now underway, cost reduction more than offset the decline in revenue. Normalised operating profit increased by 26% to £31.0 million (2009: £24.7m) and by 28% in local currency to $47.6 million (2009: $37.1m). Operating margin improved to 12.2% (2009: 9.5%) in this seasonally stronger first half, with lower operator wage and fuel costs offsetting increased depreciation/asset leasing and insurance costs.

In improving our cost base, we have identified $40 million of annual savings to be delivered by 2011. Over half of these flow from a reduction in overhead costs. We have reduced the number of roles by 180, following a refocusing of our recovery programme on projects with clear added value, and by adopting a simpler organisational structure. Three corporate locations have been consolidated into one. IT costs, which had increased markedly, are being right-sized. This programme will continue over the next 18 months as we invest in improving systems and processes. We will also gain savings through fleet and schedule optimisation. We have identified significant opportunities to reduce fleet size, progressively streamlining 'spare' vehicles and disposing of unused fleet, which incur maintenance and licensing costs. We further reduced driver costs, by nearly 2 percentage points of revenue, better managing non-route time.

Securing new revenue, we have had a successful bid season. 1,600 new routes were won, a net addition of over 700 new routes after contract losses. Contract retention remained above 90% and we also won a number of conversion contracts from direct school board operation. There has been no erosion of bidding margin, reflecting the quality of service we deliver. As a result of the new contracts, we will invest in a significant number of school buses during the second half of 2010.

In our future development, we are investing in GPS technology to improve bus utilisation and provide better customer information. We will target greater conversion of the majority of the school bus market which remains operated by the school boards themselves. We believe this offers significant benefit for school boards and ourselves. In addition, we will build on the increase in field trip and charter revenue achieved in the first half of the year, which supplements core home-to-school contracts.

UK Coach

National Express is the market leading scheduled coach operator in the UK, linking nearly 1,000 destinations. Its partnership with Eurolines, and its Airlinks and The Kings Ferry contract businesses provide a comprehensive service to its customers.

Half year ended 30 June	**2010** **£m**	**2009** **£m**
Revenue	118.2	114.2
Operating profit	10.3	10.6
Operating margin	8.7%	9.3%

UK Coach saw a steady start to the year, a seasonally quieter period and following a record profit in 2009. Revenue growth strengthened, supported by additional investment in marketing, operations and enhanced services which adversely impacted margin. Pricing is fiercely competitive, not least with advance booked rail tickets. However, the unrivalled strength and value proposition of the National Express brand, combined with a flexible operating cost model, is proving resilient in the challenging economic conditions.

Revenue in the first half year was £118.2 million (2009: £114.2m). Express coaches saw an underlying passenger revenue increase of 2%, reflecting good Easter and May bank holiday campaigns. Airport and Hotel Hoppa saw an increase in passenger volumes. London and cross-country services were steady, despite significant competition from rail, as additional network coverage has seen us gain volume against new competition on South Coast routes. Online search and booking activity has increased and we continue to invest in greater internet distribution capability, whilst maintaining our broad sales channel presence.

In our contract business, The Kings Ferry's Connections service for London commuters enjoyed strong growth. Airlinks won new business at Gatwick during monorail refurbishment. Rail replacement contract profitability reduced, reflecting less network engineering disruption. Whilst the volcanic ash cloud adversely impacted our Express airport services, The Kings Ferry ensured passengers could attend crucial events, including the Europa League football, whilst Eurolines repatriated 28,000 people by increasing capacity on its scheduled services, and in the UK around 6,000 people travelled by coach between London and Scotland over a four day period.

Divisional normalised operating profit was broadly flat at £10.3 million (2009: £10.6m), reflecting increased marketing spend, the cost of the new Birmingham Coach Station and route investment. Operating margin reduced to 8.7% (2009: 9.3%). Cost reduction continues after the successful 2009 programme, with the overall UK management organisation simplified to achieve more direct reporting lines. There was some increase in outsourced costs, primarily in fuel, offset by retendering of some supply contracts.

A number of new growth opportunities have been secured. The new Birmingham Coach Station is proving a success with customers and now houses divisional and corporate management teams. We are introducing self-service ticket machines at Victoria Coach Station, increasing customer convenience while reducing costs. In September we will complete our new vehicle tracking technology roll-out across the Express coach fleet. This will give passengers up-to-the minute information on live schedules, as well as driving operational benefits for the Group.

UK Bus

National Express is the market leader in the UK's largest urban bus market outside London, operating 1,600 buses in the West Midlands. We also deliver bus services in Dundee, as well as the Midland Metro tram service.

Half year ended 30 June	**2010 £m**	**2009 £m**
Revenue	127.1	165.0
Operating profit	10.9	11.2
Operating margin	8.6%	6.8%

Up to 2009, UK Bus revenue growth had slowed and margin declined as costs rose sharply. In the first half of 2010, initial improvement in margin has been achieved, benefiting from the sale of the low value-add Travel London business and a reduction in operating costs from improved network efficiency. A comprehensive improvement programme is being implemented which should benefit from the second half of 2010 onwards. Over time, this should restore margins to at least the average for the UK bus industry.

Revenue in the first half year dropped markedly to £127.1 million (2009: £165.0m), reflecting the sale of Travel London in June 2009 which accounted for £36.3 million of revenue in 2009. Underlying revenue in the West Midlands reduced by 1%, as passenger volume growth was offset by a 5% reduction in operating mileage, the first part of a network optimisation programme to improve efficiency and move capacity to high demand corridors. As a result, passenger revenue per mile increased by 4%. Fare yield fell slightly as prices were held to encourage travel. Concessionary fare income was broadly flat, reflecting the renewal of the scheme with Centro, the West Midlands Integrated Transport Authority.

Normalised operating profit was £10.9 million (2009: £11.2m). The fall was wholly due to 2009 including a profit of £1.7 million from Travel London. Underlying profit improved by £1.4 million, with the benefit of improved network efficiency, together with lower fuel costs and ongoing delivery of cost reduction. Offsetting this were a reduced recovery of fuel duty and higher unit driver wage costs, following a previous three year award. Excluding Travel London, operating margin increased from 7.4% to 8.6%.

The Bus improvement programme is focused on three key areas:

- Delivering a package of revenue and service improvements – previous fare rises have skewed yield management and resulted in uneconomic capacity on the bus network. This package will restructure fares (freezing the cash single fare and rebalancing the multi-trip travel card), invest in new buses to reduce fleet age and increase Eco-friendliness, whilst delivering better passenger real time information and anti-social improvement measures;
- Better network utilisation – a comprehensive review of the West Midlands network to better reflect customer needs and optimise use of resources;
- Reducing operating costs – we will optimise our depot footprint; seek to improve cost efficiency of our wage structure; and roll out a pilot project to improve engineering efficiency where too many vehicles are off the road for too long.

Collectively, this programme will improve fleet availability whilst reducing its size, bring wage and operating costs in line with market norms and, most importantly, improve customer service. Fare changes, fleet investment and closure of the Lea Hall depot have already been implemented. We have also identified opportunities to improve performance by investing in our Coventry and Dundee operations, while addressing losses in the Midland Metro business. We continue to work closely with our stakeholders, signing the first multi-operator Voluntary Partnership Scheme to coordinate services in North Walsall and trialling new smart card technology in Dundee.

UK Rail

National Express operates two franchises in the UK, East Anglia and c2c, delivering industry leading operational performance and improvement

Half year ended 30 June	**2010 £m**	**2009 £m**
Revenue	311.5	627.7
Operating profit	16.1	2.5
Operating margin	5.2%	0.4%

Following the return of the loss-making East Coast franchise in November 2009, our two active franchises have continued to perform well in the first half of 2010. East Anglia won the Rail Innovation Award for Engineering, while c2c again delivered outstanding operational performance. Given our strong rail credentials, we welcome the UK government's review of franchising policy and are exploring opportunities to continue to operate the two franchises, following cancellation of the reletting process.

Revenue declined sharply to £311.5 million (2009: £627.7m). This was due to the hand back of the East Coast franchise, with underlying revenue in the retained franchises up 1%. Growth in c2c was good, benefiting from improved central London employment, as well as successful marketing of weekend travel. East Anglia has also benefited from construction activity on the Olympic sites and continues to be underpinned by 80% revenue support from the government.

Normalised operating profit increased to £16.1 million (2009: £2.5m), improving operating margin to 5.2% (2009: 0.4%). The prior year reflected the East Coast loss and profits from previous franchises which have now been finalised with government, with a net benefit to the 2010 comparative of £17.2 million. East Anglia saw an increased underlying franchise premium of £5.1 million in the first half of the year. Fare yield was flat on prior year, despite reducing regulated fares in January 2010.

We have continued to invest in improved customer service. East Anglia continues to deliver the government's investment programme to improve capacity during peak travel periods, with new rolling stock on target to be introduced in March 2011 and additional parking provided at many stations. c2c maintained its position as the most punctual train operator in the UK, with a record performance (PPM) of 96.7%.

We have identified how we believe we can best assist the government in its franchise review, offering best value for money by continuing to run our active franchises. We remain open to participating in future rail developments, subject to an adequate risk and reward structure being in place.

Basis of preparation
This financial information has been prepared in accordance with IFRS as adopted by the EU.

Definitions
Normalised results are defined as the statutory result before the following, as appropriate: profit or loss on the sale of businesses, exceptional profit or loss on disposal of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations.

Underlying revenue compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated.

Operating cash flow is intended to be the cash flow equivalent of normalised operating profit. It is defined as the statutory cash flow including the following: cash generated from operations and proceeds from disposal of property, plant and equipment, and less the following: finance lease additions, purchase of property, plant and equipment, purchase of intangible assets.

Net debt is defined as cash and cash equivalents (cash overnight deposits and other short-term deposits), and other debt receivables offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable.

Debt gearing ratio is the ratio of adjusted net debt (actual net debt adjusted for cash balances not generally available to the Group, translated at average exchange rates for the last twelve month period) to EBITDA (earnings before interest, tax, depreciation and amortisation) over the last twelve months.

Net interest expense is finance costs less finance income.

Net capital expenditure is the purchase of property, plant and equipment, and intangible assets, less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from UK rail franchise entry and exits and discontinued operations within these headings.

Cautionary statement
This Operating and Financial Review is intended to focus on matters which are relevant to the interests of shareholders of the Group. The purpose of the OFR is to assist shareholders in assessing the strategies adopted and performance delivered by the Group and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside of the Group’s control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Responsibility statement
We confirm that, to the best of our knowledge, this half-yearly financial report:

- Has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union;
- Includes a fair review of the information required by the Financial Services Authority’s Disclosure and Transparency Rules (“DTR”) 4.2.7R (indication of important events during the first six months and description of principal risks und uncertainties for the remaining six months of the year); and
- Includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

Dean Finch
Group Chief Executive

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2010

		Unaudited six months to 30 June						
	Note	**Total before intangible asset amortisation & exceptional items 2010 £m**	**Intangible asset amortisation & exceptional items 2010 £m**	**Total 2010 £m**	Total before intangible asset amortisation & exceptional items 2009 £m	Intangible asset amortisation & exceptional items 2009 £m	Total 2009 £m	Audited Year to 31 December Total 2009 £m
Continuing operations								
Revenue	**4**	**1,059.6**	**–**	**1,059.6**	1,424.5	–	1,424.5	2,711.1
Operating costs before intangible asset amortisation & exceptional items		**(963.9)**	**–**	**(963.9)**	(1,350.7)	–	(1,350.7)	(2,551.3)
Intangible asset amortisation	**5**	**–**	**(32.0)**	**(32.0)**	–	(30.6)	(30.6)	(60.4)
Exceptional items	**6**	**–**	**(19.2)**	**(19.2)**	–	(62.3)	(62.3)	(100.0)
Total operating costs		**(963.9)**	**(51.2)**	**(1,015.1)**	(1,350.7)	(92.9)	(1,443.6)	(2,711.7)
Group operating profit/(loss)	**4**	**95.7**	**(51.2)**	**44.5**	73.8	(92.9)	(19.1)	(0.6)
Loss on disposal of non-current assets		**–**	**–**	**–**	–	(5.2)	(5.2)	(7.4)
Profit/(loss) from operations		**95.7**	**(51.2)**	**44.5**	73.8	(98.1)	(24.3)	(8.0)
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.3**	**–**	**0.3**	0.1	–	0.1	(12.1)
Finance income	**7**	**2.5**	**–**	**2.5**	6.7	–	6.7	9.6
Finance costs	**7**	**(22.8)**	**–**	**(22.8)**	(24.9)	(5.7)	(30.6)	(73.0)
Profit/(loss) before tax		**75.7**	**(51.2)**	**24.5**	55.7	(103.8)	(48.1)	(83.5)
Tax (expense)/income	**8**	**(17.3)**	**12.2**	**(5.1)**	(12.9)	19.0	6.1	22.6
Profit/(loss) after tax for the period from continuing operations		**58.4**	**(39.0)**	**19.4**	42.8	(84.8)	(42.0)	(60.9)
Profit for the period from discontinued operations	**11**	**–**	**–**	**–**	–	5.4	5.4	8.2
Profit/(loss) for the period		**58.4**	**(39.0)**	**19.4**	42.8	(79.4)	(36.6)	(52.7)
Profit/(loss) attributable to equity shareholders		**58.2**	**(39.0)**	**19.2**	42.6	(79.4)	(36.8)	(53.5)
Profit attributable to minority interests		**0.2**	**–**	**0.2**	0.2	–	0.2	0.8
		58.4	**(39.0)**	**19.4**	42.8	(79.4)	(36.6)	(52.7)
Earnings/(loss) per share:*								
– basic earnings/(loss) per share	**10**			**3.8p**			(12.5p)	(17.6p)
– diluted earnings/(loss) per share	**10**			**3.7p**			(12.5p)	(17.6p)
Normalised earnings per share:								
– basic earnings per share	**10**	**11.4p**			14.5p			30.5p
– diluted earnings per share	**10**	**11.3p**			14.4p			30.4p
Earnings/(loss) per share from continuing operations:								
– basic earnings/(loss) per share	**10**			**3.8p**			(14.4p)	(20.3p)
– diluted earnings/(loss) per share	**10**			**3.7p**			(14.4p)	(20.3p)

*30 June 2009 earnings/(loss) per share has been restated for the bonus element of the rights issue.

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2010

	Unaudited six months to 30 June 2010 £m	Unaudited six months to 30 June 2009 £m	Audited year to 31 December 2009 £m
Profit/(loss) for the period	**19.4**	(36.6)	(52.7)
Other comprehensive income:			
Exchange differences on retranslation of net assets of foreign operations	**(45.5)**	(194.5)	(121.3)
Exchange differences on retranslation of foreign currency borrowings	**9.5**	66.8	42.6
Exchange differences on retranslation of minority interests	**(0.5)**	(0.8)	(0.4)
Actuarial losses on defined benefit pension plans	**(27.2)**	(35.8)	(18.1)
Gains on valuation of available for sale assets	**–**	3.7	–
Gain/(loss) on cash flow hedges taken to equity	**5.8**	(4.3)	0.2
Transfers to the income statement on cash flow hedges	**2.4**	44.0	82.0
	(55.5)	(120.9)	(15.0)
Income tax relating to components of other comprehensive income	**5.0**	(1.2)	(15.7)
Other comprehensive income for the period	**(50.5)**	(122.1)	(30.7)
Total comprehensive income for the period	**(31.1)**	(158.7)	(83.4)
Total comprehensive income attributable to:			
Equity shareholders	**(30.8)**	(158.1)	(83.8)
Minority interests	**(0.3)**	(0.6)	0.4
	(31.1)	(158.7)	(83.4)

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2010

	Note	**Unaudited 30 June 2010 £m**	Unaudited 30 June 2009 £m	Audited 31 December 2009 £m
Non-current assets				
Intangible assets		**1,267.7**	1,321.9	1,349.9
Property, plant and equipment		**645.9**	732.8	672.6
Financial assets – Available for sale	12	**7.2**	13.7	7.7
Financial assets – Derivative financial instruments	12	**5.4**	1.7	3.3
Investments accounted for using the equity method		**6.5**	6.6	6.7
Other receivables		**3.4**	4.2	4.0
Deferred tax asset		**50.0**	24.2	35.2
		1,986.1	2,105.1	2,079.4
Current assets				
Inventories		**16.8**	19.8	16.4
Trade and other receivables		**208.5**	262.3	226.7
Financial assets – Derivative financial instruments	12	**10.6**	0.8	5.9
Current tax assets		**5.2**	3.5	3.7
Cash and cash equivalents	14	**137.2**	129.7	105.8
		378.3	416.1	358.5
Total assets		**2,364.4**	2,521.2	2,437.9
Non-current liabilities				
Financial liabilities – Borrowings	14	**(624.9)**	(1,060.1)	(506.1)
Financial liabilities – Derivative financial instruments	12	**(1.9)**	(25.1)	(11.2)
Deferred tax liability		**(101.1)**	(108.4)	(99.0)
Other non-current liabilities		**(4.1)**	(37.9)	(21.6)
Defined benefit pension liability	13	**(77.0)**	(77.1)	(54.9)
Provisions		**(28.4)**	(31.9)	(22.0)
		(837.4)	(1,340.5)	(714.8)
Current liabilities				
Trade and other payables		**(467.2)**	(530.2)	(467.0)
Financial liabilities – Borrowings	14	**(114.1)**	(47.8)	(258.4)
Financial liabilities – Derivative financial instruments	12	**(20.6)**	(51.8)	(36.0)
Current tax liabilities		**(63.8)**	(36.2)	(56.8)
Provisions		**(49.9)**	(87.5)	(62.6)
		(715.6)	(753.5)	(880.8)
Total liabilities		(1,553.0)	(2,094.0)	(1,595.6)
Net assets		811.4	427.2	842.3
Shareholders' equity				
Called up share capital		25.6	7.7	25.6
Share premium account		532.7	196.5	533.2
Capital redemption reserve		0.2	0.2	0.2
Own shares		(14.1)	(15.2)	(14.6)
Other reserves		86.0	38.2	116.1
Retained earnings		175.3	194.5	175.8
Total shareholders' equity		805.7	421.9	836.3
Minority interest in equity		5.7	5.3	6.0
Total equity		811.4	427.2	842.3

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2010

	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 2010	25.6	533.2	0.2	(14.6)	116.1	175.8	**836.3**	6.0	**842.3**
Costs of rights issue	–	(0.5)	–	–	–	–	**(0.5)**	–	**(0.5)**
Own shares released to satisfy employee share schemes	–	–	–	1.1	–	(1.1)	**–**	–	**–**
Treasury shares purchased	–	–	–	(0.6)	–	–	**(0.6)**	–	**(0.6)**
Total comprehensive income for the period	–	–	–	–	(30.1)	(0.7)	**(30.8)**	(0.3)	**(31.1)**
Shared-based payments	–	–	–	–	–	1.3	**1.3**	–	**1.3**
At 30 June 2010	**25.6**	**532.7**	**0.2**	**(14.1)**	**86.0**	**175.3**	**805.7**	**5.7**	**811.4**

	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 equity £m
At 1 January 2009	7.7	195.7	0.2	(15.2)	133.7	257.2	579.3	6.1	585.4
Reclaim of VAT on historical share issue costs	–	0.8	–	–	–	–	0.8	–	0.8
Own shares released to satisfy employee share schemes	–	–	–	0.3	–	(0.3)	–	–	–
Treasury shares purchased	–	–	–	(1.6)	–	–	(1.6)	–	(1.6)
Treasury shares sold	–	–	–	1.3	–	(1.0)	0.3	–	0.3
Total comprehensive income for the period	–	–	–	–	(95.5)	(62.6)	(158.1)	(0.6)	(158.7)
Share-based payments	–	–	–	–	–	1.2	1.2	–	1.2
Dividends paid to minority interest	–	–	–	–	–	–	–	(0.2)	(0.2)
At 30 June 2009	**7.7**	**196.5**	**0.2**	**(15.2)**	**38.2**	**194.5**	**421.9**	**5.3**	**427.2**

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2010

	Note	**Unaudited six months to 30 June 2010 £m**	Unaudited six months to 30 June 2009 £m	Audited year to 31 December 2009 £m
Cash generated from operations	15	**107.5**	163.0	218.0
Tax (paid)/received		**(4.9)**	4.9	2.6
Net cash from operating activities		**102.6**	167.9	220.6
Cash flows from investing activities				
Deferred consideration for businesses (acquired)/disposed		**(0.3)**	0.9	0.7
Purchase of property, plant and equipment		**(17.8)**	(38.0)	(81.2)
Proceeds from disposal of property, plant and equipment		**2.4**	11.2	35.1
Payments to acquire intangible assets		**(1.6)**	(3.4)	(5.8)
Receipts from the disposal of available for sale investments		**–**	–	1.0
Receipts from disposal of business, net of cash disposed		**–**	32.3	28.4
(Payments)/receipts in respect of discontinued operations	11	**(0.8)**	4.3	5.5
Dividends received from associates		**–**	–	0.6
Interest received		**2.5**	6.7	9.6
Net cash (used in)/from investing activities		**(15.6)**	14.0	(6.1)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**–**	–	357.9
Payments incurred on issue of ordinary shares		**(3.9)**	–	-
Proceeds from sale of treasury shares		**–**	0.3	0.3
Purchase of treasury shares		**(0.6)**	(1.6)	(1.8)
Reclaim of VAT on historical share issue costs		**–**	0.8	0.8
Interest paid		**(34.8)**	(26.9)	(52.8)
Finance lease principal payments		**(8.6)**	(17.0)	(50.4)
Proceeds from issue of sterling bonds		**566.2**	–	-
Net loans repaid		**(571.6)**	(95.3)	(434.4)
Payments for the maturity of foreign currency swaps		**(0.9)**	(12.6)	(15.1)
Dividends paid to minority interests		**–**	(0.2)	(0.5)
Dividends paid to shareholders of the Company		**–**	–	(15.2)
Net cash used in financing activities		**(54.2)**	(152.5)	(211.2)
Increase in cash and cash equivalents		**32.8**	29.4	3.3
Opening cash and cash equivalents		**105.8**	105.9	105.9
Increase in cash and cash equivalents		**32.8**	29.4	3.3
Foreign exchange		**(1.4)**	(5.6)	(3.4)
Cash and cash equivalents		**137.2**	129.7	105.8

NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2010

1. Basis of preparation and accounting policies

These interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared using the accounting policies set out on pages 61 to 70 of the Group's 2009 statutory accounts except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting". Taxes on income in the interim periods are accrued using the tax rate that is expected to apply to total annual earnings.

The interim results are unaudited but have been reviewed by the Group's auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2009 have been extracted from the Annual Report and Accounts 2009 which has been filed with the Registrar of Companies. The audit report on the Annual Report and Accounts 2009 was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union.

2. Exchange rates

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

	Six months to 30 June 2010		Six months to 30 June 2009		Year to 31 December 2009	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.49**	**1.53**	1.65	1.50	1.62	1.56
Canadian dollar	**1.59**	**1.60**	1.91	1.80	1.70	1.78
Euro	**1.22**	**1.15**	1.17	1.12	1.13	1.12

If the results for the six months to 30 June 2009 had been retranslated at the average exchange rates for the six months to 30 June 2010, North America would have achieved normalised operating profit of £24.1m on revenue of £260.5m, compared to reported normalised operating profit of £24.7m on revenue of £259.1m and Spain would have achieved normalised operating profit of £27.7m on revenue of £255.0m compared to reported normalised operating profit of £28.6m on revenue of £263.2m.

3. Risks and uncertainties

The risks and uncertainties are described in the Operating and Financial Review that forms part of this Half-Yearly Report. Additional information on risks and uncertainties is contained in the Annual Report and Accounts 2009.

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 Spain. Within UK Rail, franchise agreement receipts from the Department for Transport Rail Division and local Passenger Transport Executives are treated as revenue.

Analysis by class and geography of business			Six months to 30 June		Year to 31 December	
	Revenue 2010 £m	**Operating result 2010 £m**	Revenue 2009 £m	Operating result 2009 £m	Revenue 2009 £m	Operating result 2009 £m
UK Bus	**127.1**	**10.9**	165.0	11.2	293.9	20.8
UK Coach	**118.2**	**10.3**	114.2	10.6	242.9	34.3
UK Rail	**311.5**	**16.1**	627.7	2.5	1,190.5	12.0
Intercompany elimination	**(3.3)**	**–**	(4.8)	–	(7.5)	–
UK operations	**553.5**	**37.3**	902.1	24.3	1,719.8	67.1
North American Bus	**253.7**	**31.0**	259.1	24.7	444.5	25.3
European Coach & Bus	**252.4**	**33.0**	263.2	28.6	546.8	76.5
Central functions	**–**	**(5.6)**	0.1	(3.8)	–	(9.1)
Result from continuing operations	**1,059.6**	**95.7**	1,424.5	73.8	2,711.1	159.8
Intangible asset amortisation		**(32.0)**		(30.6)		(60.4)
Exceptional items		**(19.2)**		(62.3)		(100.0)
Group operating profit/(loss)		**44.5**		(19.1)		(0.6)
Loss on disposal of non-current assets		**–**		(5.2)		(7.4)
Profit/(loss) from operations		**44.5**		(24.3)		(8.0)
Share of post tax results from associates and joint ventures		**0.3**		0.1		(12.1)
Net finance costs		**(20.3)**		(23.9)		(63.4)
Profit/(loss) before tax		**24.5**		(48.1)		(83.5)
Tax (expense)/income		**(5.1)**		6.1		22.6
Profit/(loss) after tax for the period from continuing operations		**19.4**		(42.0)		(60.9)
Profit for the period from discontinued operations		**–**		5.4		8.2
Profit/(loss) for the period		**19.4**		(36.6)		(52.7)

Intercompany sales are made by UK Coach to UK Rail. Inter-segment trading is undertaken on standard arm's length commercial terms.

In the year to 31 December 2009, non-operating exceptional items of £7.4m comprise a £5.6m loss on the disposal of Travel London, a £2.0m loss on the sale and lease-back of the Digbeth coach depot, and a £0.2m profit on disposal of concessions owned by ALSA.

5. Intangible asset amortisation

Intangible assets in UK Rail are subject to amortisation, which is charged on a straight-line basis to the end of the franchise, of £1.6m (2009 interim: £0.5m; 2009 full year: £1.0m). Intangible assets representing customer contracts have been subject to an amortisation charge in Spain of £23.2m (2009 interim: £28.0m; 2009 full year: £56.0m), in North America of £0.5m (2009 interim: £1.1m; 2009 full year: £1.6m), in UK Bus of £nil (2009 interim: £0.2m; 2009 full year: £0.2m) and in UK Coach of £0.1m (2009 interim: £0.2m, 2009 full year: £0.3m). Software intangible assets have been subject to an amortisation charge in North America of £6.6m (2009 interim: £0.6m, 2009 full year: £1.3m).

6. Exceptional items

Exceptional items are material items of income or expenditure which due to their nature and infrequency require, in the opinion of the Directors, 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 2010 exceptional costs of £5.9m for UK reorganisations (30 June 2009: £2.1m; 2009 full year: £13.6m) were incurred in UK Bus, UK Coach, UK Rail and Central Functions. Restructuring costs of £0.9m (30 June 2009: £0.6m; 2009 full year: £1.8m) were incurred in Spain. Restructuring and business transformation cessation costs of £12.4m (30 June 2009: £4.9m; 2009 full year: £15.7m) were incurred in North America.

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

	Six months to 30 June 2010 £m	Six months to 30 June 2009 £m	Year to 31 December 2009 £m
UK Bus	3.4	0.1	1.5
UK Coach	0.1	0.1	2.6
UK Rail	-	23.7	71.2
North America Bus	12.4	4.9	15.7
European Coach & Bus	0.9	0.6	1.8
Central Functions	2.4	32.9	7.2
Total continuing operations*	19.2	62.3	100.0

*Exceptional items in relation to discontinued operations are discussed in note 11

7. Net finance costs

	Six months to 30 June 2010			Six months to 30 June 2009			Year to 31 Dec 2009
	Normalised £m	**Exceptional £m**	**Total £m**	Normalised £m	Exceptional £m	Total £m	Total £m
Bank interest payable	**(9.2)**	**–**	**(9.2)**	(20.5)	(5.7)	(26.2)	(65.1)
Bond interest payable	**(10.9)**	**–**	**(10.9)**	–	–	–	–
Finance lease interest payable	**(2.1)**	**–**	**(2.1)**	(2.7)	–	(2.7)	(4.7)
Other interest payable	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)	(0.2)
Unwind of provision discounting	**(0.5)**	**–**	**(0.5)**	(1.6)	–	(1.6)	(3.0)
Finance costs	**(22.8)**	**–**	**(22.8)**	(24.9)	(5.7)	(30.6)	(73.0)
Finance income: Bank interest receivable	**2.5**	**–**	**2.5**	6.7	–	6.7	9.6
Net finance costs	**(20.3)**	**–**	**(20.3)**	(18.2)	(5.7)	(23.9)	(63.4)

Two new Sterling bonds of nominal value £350m and £225m were issued on the 13 January 2010 and 17 June 2010 respectively. The bonds have annual net effective interest rates of 6.54% and 6.86%. The issuance of the bonds reduces the reliance of the Group on its £800m syndicated bank loan facility (maturity 5th June 2011) which was refinanced on the 21st July 2010 with a new £500m syndicated bank loan facility (maturity 31st August 2014).

Bank interest receivable primarily consisted of interest from two US$100.0m denominated interest rate swaps.

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2010 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2010. The normalised tax charge of £17.3m (2009 interim: £12.9m; 2009 full year: £23.0m) represents an effective tax rate on normalised profit before tax, for continuing and discontinued operations, of 22.9% (2009 interim: 23%; 2009 full year: 19.8%). The total tax charge of £5.1m (2009 interim credit: £6.1m; 2009 full year credit: £22.6m) includes a deferred taxation credit of £6.0m (2009 interim credit: £5.9m; 2009 full year credit: £46.7m).

On 22 June 2010, the Chancellor of the Exchequer announced reductions in the standard UK rate of corporation tax by 1% per annum to a final rate of 24% on 1 April 2014. As the rate changes were not substantively enacted at the balance sheet date, no effect has been recorded in the figures presented. It is estimated that the annual 1% reductions will result in a deferred tax charge of approximately £1.1m per annum in each of the years 2010-2013, due to the existence of deferred tax assets in the UK. The rate change will also impact the amount of future UK cash tax payments by the Group.

9. Dividends paid and proposed

	Six months to 30 June 2010 £m	Six months to 30 June 2009 £m	Year to 31 December 2009 £m
Declared and paid during the period:			
Ordinary final dividend for 2008 paid of 10.00p per share	**–**	–	15.2

10. Earnings per share

	Six months to 30 June 2010	Six months to 30 June 2009	Year to 31 December 2009
Basic earnings/(loss) per share – continuing operations	**3.8p**	(14.4p)	(20.3p)
Basic earnings per share – discontinued operations	**–**	1.9p	2.7p
Basic earnings/(loss) per share – total	**3.8p**	(12.5p)	(17.6p)
Normalised basic earnings per share	**11.4p**	14.5p	30.5p
Diluted earnings/(loss) per share – continuing operations	**3.7p**	(14.4p)	(20.3p)
Diluted earnings per share – discontinued operations	**–**	1.9p	2.7p
Diluted earnings/(loss) per share – total	**3.7p**	(12.5p)	(17.6p)
Normalised diluted earnings per share	**11.3p**	14.4p	30.4p

Basic earnings/(loss) per share is calculated by dividing the profit attributable to equity shareholders of £19.2m (2009 interim: loss £36.8m; 2009 full year: loss £53.5m) 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/(loss) 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. For 2009, the weighted average number of ordinary shares for the purposes of calculating the diluted loss per share is identical to that used for the basic loss per share. This is because the adjustment for dilutive potential ordinary shares would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33 "Earnings per Share".

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

	Six months to 30 June 2010	Six months to 30 June 2009*	Year to 31 December 2009
Basic weighted average shares	**509,185,324**	293,590,903	303,385,680
Adjustment for dilutive potential ordinary shares	**1,855,307**	581,839	732,384
Diluted weighted average shares	**511,040,632**	294,172,742	304,118,064

*Restated for the bonus element of the rights issue.

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings/loss per share since, in the opinion of the Directors, they reflect the underlying performance of the business's operations more appropriately.

The reconciliation of total profit/(loss) to normalised profit for the financial period is as follows:

	Six months to 30 June 2010 £m	Six months to 30 June 2009 £m	Year to 31 December 2009 £m
Profit/(loss) attributable to equity shareholders	**19.2**	(36.8)	(53.5)
Profit from discontinued operations	**–**	(5.4)	(8.2)
Profit/(loss) from continuing operations attributable to equity shareholders	**19.2**	(42.2)	(61.7)
Intangible asset amortisation	**32.0**	30.6	60.4
Exceptional operating items	**19.2**	62.3	100.0
Loss on disposal of non-current assets	**–**	5.2	7.4
Share of associates and joint ventures	**–**	–	12.0
Exceptional finance cost	**–**	5.7	19.9
Tax relief on goodwill and exceptional items	**(12.2)**	(19.0)	(45.6)
Normalised profit from continuing operations	**58.2**	42.6	92.4
Normalised profit attributable to equity shareholders	**58.2**	42.6	92.4

11. Discontinued operations

On 9 January 2009, the Group completed the sale of the Dot2Dot business which was classified as a discontinued operation for the period to 30 June 2009. No further charges were incurred in the six months ended 30 June 2010. In the six months to 30 June 2009 closure costs were incurred in relation to Dot2Dot of £0.6m. In addition, a credit of £6.0m was recognised in relation to a settlement of outstanding claims from the exit of the Australian operations.

The cash flows from discontinued operations for the six months to 30 June 2010 include an outflow of £0.8m (2009 interim: £1.2m) in relation to the settlement of legacy Dot2Dot liabilities. No further cash flows were incurred in 2010. The 2009 cash flows include a net outflow of £1.5m for the North America Public Transit business relating to an industry-wide litigation settlement in respect of working time regulations and an inflow of £5.8m in relation to the exit from Australian operations.

The results of the Group's discontinued operations for the six months ended 30 June 2010 are presented below together with the comparative data for the six months ended 30 June 2009.

	Dot2Dot		North America Public Transit		Australia		**Total**	
For six months ended	**30 June 2010 £m**	30 June 2009 £m	**30 June 2010 £m**	30 June 2009 £m	**30 June 2010 £m**	30 June 2009 £m	**30 June 2010 £m**	30 June 2009 £m
Exceptional items	–	(0.6)	–	–	–	6.0	–	5.4
(Loss)/profit from discontinued operations	–	(0.6)	–	–	–	6.0	–	5.4
Net cash (outflow)/inflow from :								
Operating activities		(1.2)	–	–	–	–	-	(1.2)
Investing activities	(0.8)	–	–	(1.5)	–	5.8	**(0.8)**	4.3
Earnings per share								
Basic earnings per share from discontinued operations							–	3.6p
Diluting earnings per share from discontinued operations							–	3.6p

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 fuel prices, foreign currency exchange rates and interest rates. 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 means of derivative financial instruments.

As at 30 June 2010 the Group's portfolio of hedging instruments included fuel price swaps and foreign exchange forward contracts. 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 earnings denominated in foreign currency.

These derivative financial instruments are held in the balance sheet at fair value, as determined by the third party financial institutions with which the Group holds the instruments.

In addition, the Group holds two US$100.0 million denominated interest rate swaps which mature in mid-September 2010. These interest rate swaps are accounted for at fair value through profit or loss.

Financial assets and liabilities in the balance sheet:	**At 30 June 2010 £m**	At 30 June 2009 £m	At 31 December 2009 £m
Non-current			
Fuel price swaps	**5.4**	1.7	3.3
Derivative financial assets	**5.4**	1.7	3.3
Current			
Fuel price swaps	**5.6**	0.8	5.6
Foreign exchange forward contracts	**5.0**	–	0.3
Derivative financial assets	**10.6**	0.8	5.9
Non-current			
Fuel price swaps	**1.9**	10.6	3.8
Interest rate swaps	**–**	8.1	–
Foreign exchange forward contracts	**–**	6.4	7.4
Derivative financial liabilities	**1.9**	25.1	11.2
Current			
Foreign exchange forward contracts	**11.8**	0.2	0.3
Fuel price swaps	**7.0**	31.1	11.5
Interest rate swaps	**1.8**	20.5	24.2
Derivative financial liabilities	**20.6**	51.8	36.0

Other financial assets in the balance sheet include 'Financial assets – Available for sale' of £7.2m (2009 interim: £13.7m; 2009 full year: £7.7m) which represent the Group's available for sale investments in unlisted companies.

Foreign currency borrowings are included in 'Financial liabilities – Borrowings' which are analysed in note 14.

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 Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme, a funded defined benefit scheme. Central Function's 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 six months to 30 June 2010 was £8.6m (30 June 2009: £12.2m; 2009 full year: £24.2m), of which £7.3m (30 June 2009: £10.2m; 2009 full year: £20.3m) relates to the defined benefit schemes and £1.3m (30 June 2009: £2.0m; 2009 full year: £3.9m) relates to the defined contribution schemes.

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

	At 30 June 2010 £m	At 30 June 2009 £m	At 31 December 2009 £m
UK Bus	**(68.8)**	(55.3)	(46.4)
UK Coach	**(5.0)**	(6.8)	(5.2)
UK Rail	**(1.7)**	(13.5)	(1.9)
Other	**(1.5)**	(1.5)	(1.4)
Total	**(77.0)**	(77.1)	(54.9)

The UK Rail defined benefit pension liability is net of the franchise adjustment of £88.0m (30 June 2009: £119.2m; 2009 full year: £81.7m). During the period, the assumption for the expected NXEC franchise exit was revised, resulting in an actuarial gain on the franchise adjustment relating to the pension liabilities under the NXEC section of the RPS. Details of the franchise adjustment are included in note 34 to the Annual Report and Accounts 2009.

The net defined benefit pension liability was calculated based on the following assumptions:

	Six months ended 30 June 2010			Year ended 31 December 2009		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**4.25%**	**4.25%**	**4.25%**	4.5%	4.5%	4.5%
Rate of increase in pensions	**3.25%**	**3.25%**	**3.25%**	3.5%	3.5%	3.5%
Discount rate	**5.3%**	**5.5%**	**5.5%**	5.75%	5.75%	5.75%
Inflation rate	**3.25%**	**3.25%**	**3.25%**	3.5%	3.5%	3.5%

14. Net debt

	At 1 January 2010 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	**At 30 June 2010 £m**
Cash and cash equivalents	105.8	32.8	(1.4)	–	**137.2**
Other debt receivable	0.8	–	(0.1)	–	**0.7**
Bank loans	(687.7)	572.5	13.1	(1.0)	**(103.1)**
Finance lease obligations	(75.6)	8.6	(1.3)	–	**(68.3)**
6.250% 2017 sterling bond	–	(344.5)	–	(0.3)	**(344.8)**
6.625% 2020 sterling bond	–	(221.7)	–	–	**(221.7)**
Other debt payable	(1.2)	–	0.1	–	**(1.1)**
Net debt	(657.9)	47.7	10.4	(1.3)	**(601.1)**

	At 1 January 2009 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	**At 30 June 2009 £m**
Cash and cash equivalents	105.9	29.4	(5.6)	–	129.7
Other debt receivable	0.9	(0.1)	(0.1)	–	0.7
Loan notes	(0.8)	–	–	–	(0.8)
Bank loans	(1,150.8)	95.4	56.9	(1.2)	(999.7)
Finance lease obligations	(133.9)	17.0	10.5	–	(106.4)
Other debt payable	(1.1)	–	0.1	–	(1.0)
Net debt	(1,179.8)	141.7	61.8	(1.2)	(977.5)

Current ‘Financial liabilities – Borrowings’ of £114.1m (30 June 2009: £47.8m; 31 December 2009: £258.4m) comprises £nil of loan notes (30 June 2009: £0.8m; 31 December 2009: £nil), £16.1m of finance lease obligations (30 June 2009: £41.7m; 31 December 2009: £17.9m) and £98.0m of bank loans (30 June 2009: £5.3m; 31 December 2009: £240.5m).

Non-current ‘Financial liabilities – Borrowings’ of £624.9m (30 June 2009: £1,060.1m; 31 December 2009: £506.1m) comprises £52.2m of finance leases (30 June 2009: £64.7m; 31 December 2009: £57.7m), £5.1m of bank loans (30 June 2009: £994.4m; 31 December 2009: £447.2m), £566.5m of sterling bonds (30 June 2009: £nil; 31 December 2009: £nil) and £1.1m other debt payable (30 June 2009: £1.0m; 31 December 2009: £1.2m)

Included in cash and cash equivalents are restricted balances of £27.7m (30 June 2009: £25.2m; 31 December 2009: £16.8m) held by the Train Operating Companies.

Other non cash movements in net debt represent amortisation of loan arrangement fees of £1.0m (30 June 2009: £1.2m; 31 December 2009: £5.6m) and amortisation of bond arrangement fees of £0.3m (30 June 2009: £nil; 31 December 2009: £nil).

15. Cash flow statement

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

	Six months to 30 June 2010 £m	Six months to 30 June 2009 £m	Year to 31 December 2009 £m
Net cash inflow from operating activities			
Profit/(loss) before tax from continuing operations	**24.5**	(48.1)	(83.5)
Profit before tax from discontinued operations	**–**	5.4	7.3
Net finance costs	**20.3**	23.9	63.4
Loss on disposal of non-current assets (continuing operations)	**–**	5.2	7.4
Profit on disposal of non-current assets (discontinuing operations)	**–**	–	(7.3)
Share of post tax results from associates and joint ventures under the equity method	**(0.3)**	(0.1)	12.1
Depreciation of property, plant and equipment	**48.9**	55.1	108.0
Amortisation of leasehold property prepayment	**–**	–	0.1
Intangible asset amortisation	**32.0**	30.6	60.4
Amortisation of property, plant and equipment grants	**(0.9)**	(1.0)	(2.0)
(Loss)/profit on disposal of non-current assets (in operating profit)	**(0.1)**	–	1.5
Share-based payments	**1.3**	1.2	1.9
(Increase)/decrease in inventories	**(0.6)**	1.0	6.3
Decrease in receivables	**12.0**	35.6	116.3
(Decrease)/increase in payables	**(18.5)**	17.6	(58.7)
(Decrease)/increase in provisions	**(11.1)**	36.6	(15.2)
Cash generated from operations	**107.5**	163.0	218.0

16. Changes in commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2010 were £115.2m (31 December 2009: £17.1m).

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 2010, the Group has issued UK Rail performance bonds of £25.8m (31 December 2009: £25.8m) and UK Rail season ticket bonds of £60.8m (31 December 2009: £84.4m). The Group has other performance bonds which include the £16.7m (31 December 2009: £17.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £87.5m (31 December 2009: £76.8m) and the rest of Europe of £20.6m (31 December 2009: £25.4m). Letters of credit have been issued to support insurance retentions of £69.9m (31 December 2009: £59.8m).

17. Related party transactions

Brian Stock left the Group on 31 December 2009 and is no longer a related party.

Otherwise there have been no material changes to the related party balances disclosed in the Annual Report and Accounts 2009 and there have been no transactions which have materially affected the financial position or performance of the Group in the six months to 30 June 2010.

18. Post balance sheet events

On 21st July 2010, following the bond issues referred to in note 7, the Group refinanced its £800m syndicated bank loan facility (maturity 5th June 2011) with a new £500m syndicated bank loan facility (maturity 31st August 2014).

19. New Standards and Interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 1 (revised) ‘First time adoption’
- Amendments to IFRS 1 for additional exemptions
- IFRS 2 (Amendment) “Share-based payment group cash-settled transactions”
- IFRS 3 (Revised) “Business combinations”
- Amendments to IFRIC 9 and IAS 39
- Improvements to IFRSs 2009
- IAS 27 (Revised) “Consolidated and separate financial statements”
- IAS 39 (Amendment) “Financial Instruments: Recognition and Measurement – Eligible Hedged Items”
- IFRIC 17 “Distributions of Non-cash Assets to Owners”
- IFRIC 18 “Transfers of Assets from Customers”

Adoption of the new standards and interpretations did not have a material impact on the financial position or performance of the Group.

INDEPENDENT REVIEW REPORT TO NATIONAL EXPRESS GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Interim Group Income Statement, Interim Group Statement of Comprehensive Income, Interim Group Balance Sheet, Interim Group Statement of Changes in Equity, Interim Group Cash Flow Statement and the related notes 1 to 19. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
29 July 2010