National Express Group

Interim report 2003

Strengthening partnerships

Financial highlights

- Turnover from continuing operations up 9% to £1,258.8m
- Operating profit from continuing operations before goodwill and exceptional items up 13% to £57.8m
- Normalised profit before tax up 11% to £41.4m
- Normalised diluted earnings per share up 5% to 23.7p
- Interim dividend increased by 5% to 8.5p
- On-going operating cash flow remained strong at £70.7m
- Continuing EBITDA interest cover before exceptional items of 7.5 times

Operational highlights

- Rail patronage up 5%
- Bid for the Greater Anglia franchise submitted to Strategic Rail Authority ("SRA")
- Negotiations commencing on two-year extensions for Great Northern part of the Wagn franchise, Silverlink and Wessex franchises
- Coach patronage up 1%
- Investment of £24m in 170 new buses for Travel West Midlands
- Continued commitment to partnerships with local authorities in the West Midlands
- Increased underlying profits and margin improvement in US Student transportation

I am pleased to report the Group's results for the six months ended 30 June 2003. Our operations made good progress during this period with continued strong cash flow generated by all our businesses.

In Birmingham, the new Bullring shopping development opened this month. Over the past two years Travel West Midlands has faced challenging trading conditions as a result of this redevelopment. We look forward to stability returning to our bus services.

We remain focused on improving the quality of our UK Trains division. The SRA's rail refranchising process provides some exciting opportunities. On 1 September we submitted our bid for the Greater Anglia franchise and, at the end of October, we will be submitting our ScotRail bid. We await the final sign-off of our two-year extension for our Central Trains franchise which is expected at the end of this month. We welcome the SRA's announcement relating to the two-year extension discussions for the Great Northern part of the Wagn franchise, Silverlink and Wessex franchises.

Following the announcement at the beginning of August regarding the Wales and Borders franchise, we will work to ensure a smooth handover of this franchise at the end of this year. I would like to take this opportunity to thank all the Wales and Borders staff for their efforts during our tenure.

Within the Coach division, a number of important new initiatives have taken place including the introduction of yield managed fares and the roll-out of our new £1 low fares. We have also continued to focus on growing direct sales channels, particularly the internet.

Our overseas operations have performed in line with our expectations. The student transportation market remains competitive but we are pleased with our progress during the first half of the year.

Negotiations continue around the restructuring of the Eurostar operations. During the first half of the year, Eurostar's trading performance was significantly below its management's expectations. We are working towards an end to our involvement in Eurostar by the end of the year.

Safety remains a key feature of our business and is a paramount consideration for all management across our worldwide operations.

Financial report

Turnover from continuing operations for the six months to 30 June 2003 was up 9% to £1,258.8m (2002: £1,153.8m). Operating profit from continuing operations before exceptional costs and the amortisation of goodwill was up 13% to £57.8m (2002: £51.3m). Normalised profit before tax increased by 11% to £41.4m (2002: £37.2m).

Normalised diluted earnings per ordinary share were up 5% to 23.7p (2002: 22.5p restated following the disposal of our Australian train and trams business).

At 30 June, continuing EBITDA interest cover before exceptional items was 7.5 times (2002: 8.8 times). On-going operating cash flow from continuing operations during the first six months remained strong at £70.7m (2002: £67.4m). Net debt at 30 June increased to £379.4m after paying £48m to indemnify the performance bonds in respect of our withdrawal from Australian train and trams.

Dividend

An interim dividend of 8.5p per ordinary share, an increase of 5% over the 2002 interim dividend of 8.1p, will be paid on 17 October 2003 to shareholders on the register on 26 September 2003.

Current trading and outlook

We are pleased with our performance for the period and have made an encouraging start to the second half.

The opening of the Bullring shopping development in Birmingham is welcomed and we have in place marketing strategies to promote our bus network to maximise passenger growth. In our Coach division the summer season has started well. We are excited by the opportunities that exist within the rail refranchising process. We have submitted our bid for the Greater Anglia franchise and look forward to submitting our ScotRail bid at the end of October. Overseas, we believe that there are further growth opportunities in North America.

Michael Davies Chairman
11 September 2003

Buses

Travel West Midlands is the UK's largest regional bus company; its fleet of 1,900 buses covers more than 600 routes. It employs 5,500 people and incorporates Travel Dundee and Midland Metro.

Turnover was £103.8m (2002: £102.0m) with operating profit of £22.0m (2002: £23.8m). The reduction is primarily due to the continued financing of new buses through operating leases.

Birmingham city centre reopened last week following two years of redevelopment work. Working in partnership with the Bullring marketing team and Birmingham City Council, we are launching new "Return to Birmingham" and "Making Travel Easier" campaigns to promote the network, ticket prices, timetables and journey planning assistance to customers.

A total of 170 new buses, representing an investment of £24m, will be delivered by the end of the year. Thirty new buses were introduced into Travel Coventry during the period. In addition smartcard technology has been fitted to the Travel Coventry fleet and trials of the new technology are underway. A total of 35,000 smartcards have been issued to date making travel easier and quicker for customers.

We are working closely with Centro to invest further funds in transport infrastructure to improve journey times. We are strongly committed to the extension of quality partnerships in line with local transport plans.

Trains

We are the largest operator of train franchises in the UK. We operate c2c, Central Trains, Gatwick Express, Midland Mainline, ScotRail, Silverlink, Wagn, Wessex and the Wales & Borders franchise which we will be relinquishing later this year. The division employs 12,300 people excluding Wales & Borders personnel.

	Turnover		Operating profit/(loss)	
	2003 £m	2002 £m	2003 £m	2002 £m
London and the South East	**274.0**	246.2	**7.8**	5.6
Long Distance/Intercity	**81.1**	67.7	**5.7**	5.1
Regional Services	**447.5**	395.4	**(5.6)**	(5.7)
Other	**21.0**	18.5	**(0.6)**	(0.9)
Total	**823.6**	727.8	**7.3**	4.1

The UK Trains division had an encouraging six months with operating profit of £7.3m (2002: £4.1m). We are pleased to report that overall patronage across our Trains division for the period was up 5% on last year.

Performance was mixed during the period. Whilst Silverlink's performance benefited from an upgrade of its fleet, the West Coast Main Line infrastructure upgrade has impacted service levels with buses replacing services on the London to Birmingham route on a regular basis.

Midland Mainline's punctuality and reliability continued to be impacted by Network Rail infrastructure issues. We are undertaking a series of reviews with Network Rail to address this. Delays to services are also taking place on a daily basis as a result of the Channel Tunnel Rail Link work at St Pancras, which is impacting on the quality of service that we can provide to our passengers out of this terminal.

At Central Trains, improvements in operational performance were achieved despite significant congestion on the network particularly around Birmingham New Street station. At ScotRail, significant improvements in performance were achieved over the period.

London and the South East

Turnover for the six months was £274.0m (2002: £246.2m) with an operating profit of £7.8m (2002: £5.6m). We were particularly pleased with the consistent performance on our London commuter businesses which saw patronage growth of 6.4% compared with other London operators where growth averaged 3.5%.

Specifically in the London market, leisure patronage was boosted through joint marketing schemes linked into major London tourist venues.

Despite the challenges of the West Anglia Route Modernisation which has required bus replacement services, patronage on the Stansted Express grew by 14.2%. New marketing programmes have been implemented at Gatwick Express in conjunction with low-cost airline operators.

Long Distance/Intercity

Turnover for the six months was £81.1m (2002: £67.7m) with an operating profit of £5.7m (2002: £5.1m). We are pleased with this performance but there is still work to be done to improve punctuality and reliability.

In mid-May we introduced a new Manchester to London service at the request of the SRA, offering alternative travel options during the West Coast Main Line upgrade. This service was further extended at the end of June. Passenger numbers on this service continue to increase.

Regional services

Turnover for the six months was £447.5m (2002: £395.4m) with an operating loss of £5.6m (2002: loss of £5.7m).

From the end of September, Central Trains will take over the operation of services from the Midlands to Cardiff and Liverpool, adding new intercity services to the business. We are preparing our bid for the ScotRail franchise and are currently undertaking consultation with key stakeholders.

Coaches

The Coach division provides Britain's only scheduled express coach network and serves more than 1,700 destinations. Its airport operations provide premier, high-frequency scheduled coach services between all the UK's major airports, as well as airside coaching services. Eurolines offers value-for-money European travel by coach. The division employs 1,800 people.

Turnover was £85.3m (2002: £84.2m) and operating profit was £2.3m (2002: £2.0m). Patronage levels increased by 1%. This was a very creditable performance given an overall reduction in in-bound travel into the UK during the period.

Improved cost control, focus on direct sales channels and the continued extension of our best value fares from £1 on seven popular routes have contributed to an increase in patronage. During this period we have continued to roll-out the new branding.

In association with the Department for Transport, a concessionary travel scheme for the over 60s and the disabled was launched at the beginning of May. Since the launch, over 650,000 passengers have benefited from the scheme.

In mid-June we announced, in partnership with Birmingham City Council, the construction of a new 21-bay coach station on the Ludgate site in central Birmingham. We will invest £8m in the new facility which will be open in summer 2005. A planning application for the project will be submitted in late September.

North America

The North American division consists of student transportation, transit operations and Stewart Airport in New York State. The division provides services in more than 300 school districts and local transit authorities in 30 states and two Canadian provinces. It operates a fleet of 14,100 vehicles and employs 22,000 people.

	Turnover		Operating profit	
	2003 $m	2002 $m	2003 $m	2002 $m
Student	**208.4**	166.7	**37.6**	27.9
Public Transit	**140.7**	139.9	**1.9**	0.5
Total	**349.1**	306.6	**39.5**	28.4

Turnover in the Student transportation division for the first six months was $208.4m (2002: $166.7m) and operating profit was up 35% to $37.6m (2002: $27.9m). Our US operations have grown revenues by 8% and increased margins.

Against the background of a competitive bid season, a number of quality and cost initiatives were completed. The focus in 2003 is to ensure retention of key contracts while selectively targeting growth opportunities.

In Canada, Stock Transportation continued its strong performance since acquisition in July 2002. New government funding will bring greater benefits for this business. In addition, the increased flexibility of the fleet across the US and Canadian markets is improving efficiency.

Turnover in the Public transit division was $140.7m (2002: $139.9m) and operating profit was $1.9m (2002: $0.5m). We are reviewing underperforming contracts and seeking price adjustments for those contracts that are to be retendered. We are focused on driving cost out of this business and benefiting from economies of scale.

Insurance costs remain an issue but we are striving to improve profitability further through addressing all other cost areas.

Australia

In Australia, we operate the bus brands Blue Ribbon, National Bus Company, Southern Coast Transit and Westbus in Brisbane, Perth, Melbourne and Sydney. 1,900 people are employed by this division.

Turnover for our Australian Bus division totalled £29.8m (2002: £28.4m), with an operating profit of £1.7m (2002: £1.9m).

In July the Deed of Company Arrangement for our Australian train and tram franchises was approved, completing the orderly handover of these businesses. We expect to incur no further charges as a result of the withdrawal from our Australian rail division.

Our bus operations continue to perform in line with expectations.

Phil White Chief Executive
11 September 2003

Half year at a glance

Normalised operating profit from continuing operations increased to £57.8m (2002: £51.3m) on turnover of £1,258.8m (2002: £1,153.8m). Normalised diluted earnings per share rose to 23.7p (2002: 22.5p). Group on-going operating cash flow remained strong at £70.7m with all divisions generating an operating cash inflow. We have declared a 5% increase in the interim dividend to 8.5p per share (2002: 8.1p).

The UK Bus division operating profit fell to £22.0m (2002: £23.8m). An increase in the number of buses financed by operating leases increased net financing costs. Although the funding cost is charged against operating profit, the financing attainable through operating leases remains attractive.

Our UK Trains division experienced an encouraging six months with patronage growth of 5% improving operating profit to £7.3m (2002: £4.1m). London and South East train operating companies ("TOCs") have performed well against a backdrop of falling employment in the South East, to increase passenger revenue through a combination of revenue protection measures and volume growth, particularly on the Stansted Express.

Patronage in our UK Coach division for the first six months was impacted by a reduction in in-bound UK travel, but yield management on ticketing and reductions in our cost base have produced an increase in operating profit to £2.3m (2002: £2.0m).

The North American Bus division improved operating profit by £7.0m at constant exchange rates, through the acquisition of Stock Transportation in July 2002, new routes operated by Student transportation and our focus on the cost pressures within the Public transit division. After foreign exchange the division achieved an increase in operating profit of £5.0m to £24.5m (2002: £19.5m).

Our Australian Bus division has continued in line with our expectations, with the lower margins on rail replacement work and increasing staff costs reducing operating profit to £1.7m (2002: £1.9m).

The Deed of Company Arrangement for our Australian train and tram franchises has recently been approved, completing our orderly handover of these businesses. We expect to incur no further charges as a result of the withdrawal from Australian Trains.

Share of operating losses of associates

The Group share of operating losses from associates increased to £3.7m (2002: £2.6m). Revenue growth at Eurostar UK fell below expectations and our share of the operating loss increased to £3.5m (2002: £1.9m). Eurostar has been particularly affected by competition from low cost airlines, and has experienced a 15.6% reduction in turnover compared with the same period in 2002. Our share of the operating loss at Midland Metro improved to £0.2m (2002: £0.7m).

Interest

Net interest payable was £12.7m (2002: £9.2m) reflecting the increase in net debt following the purchase of Stock Transportation in July 2002 for cash consideration of £74.9m and payments totalling £48.0m in the first half of 2003 to indemnify the providers of the performance bonds in respect of our withdrawal from Australian Trains. EBITDA cash interest cover before exceptional items from continuing operations was 7.5 times (2002: 8.8 times), compared with the full year 2002 figure of 9.5 times.

Goodwill and exceptional items

Goodwill amortisation increased to £22.4m (2002: £22.0m) with the amortisation of £53.7m of goodwill arising on the acquisition of Stock Transportation in July 2002 partially offset by the weakening US dollar. Exceptional costs of £1.2m (2002: £0.7m) solely comprise franchise bid costs in both 2003 and 2002.

Tax

The tax charge on normalised profit before tax of £41.4m (2002: £37.2m) was £9.5m (2002: £8.6m), which represents an effective tax rate of 23.0% (2002: 23.0%). This tax rate principally reflects the benefit of continuing low effective tax rates on overseas earnings.

Cash flow

The Group generated £70.7m of on-going operating cash flow from continuing operations (2002: £67.4m).

Divisional cash flow

	UK Bus £m	UK Coaches £m	UK Trains £m	North American Bus £m	Australian Bus £m	Total £m
Operating profit before exceptionals	22.0	2.3	7.3	24.5	1.7	**57.8**
Depreciation	5.1	2.2	10.5	12.3	1.8	**31.9**
EBITDA	27.1	4.5	17.8	36.8	3.5	**89.7**
Working capital movement	(1.8)	3.8	(12.3)	13.4	1.3	**4.4**
On-going net cash inflow from operations	25.3	8.3	5.5	50.2	4.8	**94.1**
Net capital expenditure	(8.9)	(0.8)	(3.4)	(8.4)	(1.9)	**(23.4)**
On-going operating cash flow	16.4	7.5	2.1	41.8	2.9	**70.7**
Exceptional items	–	–	(1.2)	–	–	**(1.2)**
Other item	–	(5.0)	–	–	–	**(5.0)**
Operating cash flow	16.4	2.5	0.9	41.8	2.9	**64.5**

Operating cash flow represents "Net cash inflow from operating activities", plus "Receipts from the sale of tangible assets", less " Finance lease additions" and "Payments to acquire tangible assets".

The strong cash conversion in our North American Bus division is the result of an improvement in trade receivable collections and working capital movements in insurance reserves. It also includes a phasing effect on school buses that will be acquired in July for the new school year.

Net capital expenditure of £23.4m (2002: £58.0m) includes £8.9m (2002: £13.5m) of investment in the UK Bus fleet, £8.4m (2002: £14.2m) on North American school buses and £nil (2002: £15.5m) on infrastructure and rolling stock in the Australian Trains division. It also includes £3.4m (2002: £nil) of additions purchased under finance leases, comprising £0.1m (2002: £nil) in UK Coaches, £0.3m (2002: £nil) in UK Trains, and £3.0m (2002: £nil) in North American Bus. The other item for UK Coaches comprises the £5.0m injection into the Coach division pension scheme on 11 March 2003 to improve the funding level.

Balance sheet

Net assets increased to £266.2m (31 December 2002: £262.6m). Net debt rose from £334.6m at the start of the year to £379.4m at 30 June 2003, principally because of payments totalling £48.0m to indemnify the providers of the performance bonds in respect of our withdrawal from Australian Trains.

Accounting policies

We continued to apply the transitional arrangements of Financial Reporting Standard ("FRS") 17, "Retirement Benefits", and plan to move directly to the International Accounting Standard equivalent (IAS 19) in 2005 following the Accounting Standards Board's decision to defer full adoption of FRS 17.

Adam Walker Finance Director
11 September 2003

Group profit and loss account

For the six months ended 30 June 2003	Note	Unaudited six months to 30 June: Total before goodwill and exceptional items 2003 £m	Goodwill and exceptional items 2003 £m	Total 2003 £m	Total before goodwill and exceptional items 2002 £m	Goodwill and exceptional items 2002 £m	Total 2002 £m	Audited year to 31 December Total 2002 £m
Turnover								
– continuing operations		**1,258.8**	**–**	**1,258.8**	1,153.8	–	1,153.8	2,412.4
– discontinued operations		**–**	**–**	**–**	84.9	–	84.9	159.9
Turnover	3	**1,258.8**	**–**	**1,258.8**	1,238.7	–	1,238.7	2,572.3
Other operating income		**5.4**	**–**	**5.4**	5.7	–	5.7	10.8
Other operating costs before goodwill and exceptional items		**(1,206.4)**	**–**	**(1,206.4)**	(1,195.4)	–	(1,195.4)	(2,452.2)
Goodwill amortisation and impairment	4	**–**	**(22.4)**	**(22.4)**	–	(22.0)	(22.0)	(58.7)
Other exceptional items	5	**–**	**(1.2)**	**(1.2)**	–	(0.7)	(0.7)	(5.0)
Total operating costs		**(1,206.4)**	**(23.6)**	**(1,230.0)**	(1,195.4)	(22.7)	(1,218.1)	(2,515.9)
Group operating profit		**57.8**	**(23.6)**	**34.2**	49.0	(22.7)	26.3	67.2
– continuing operations		**57.8**	**(23.6)**	**34.2**	51.3	(22.7)	28.6	67.1
– discontinued operations		**–**	**–**	**–**	(2.3)	–	(2.3)	0.1
Group operating profit		**57.8**	**(23.6)**	**34.2**	49.0	(22.7)	26.3	67.2
Share of operating losses of associates		**(3.7)**	**–**	**(3.7)**	(2.6)	–	(2.6)	(6.6)
Total operating profit		**54.1**	**(23.6)**	**30.5**	46.4	(22.7)	23.7	60.6
Loss on closure of businesses	6	**–**	**–**	**–**	–	–	–	(126.1)
Profit/(loss) on ordinary activities before interest		**54.1**	**(23.6)**	**30.5**	46.4	(22.7)	23.7	(65.5)
Net interest payable		**(12.7)**	**–**	**(12.7)**	(9.2)	–	(9.2)	(20.1)
Profit/(loss) on ordinary activities before taxation		**41.4**	**(23.6)**	**17.8**	37.2	(22.7)	14.5	(85.6)
Tax on profit/(loss) on ordinary activities	7	**(9.5)**	**2.1**	**(7.4)**	(8.6)	2.2	(6.4)	(20.3)
Profit/(loss) after taxation		**31.9**	**(21.5)**	**10.4**	28.6	(20.5)	8.1	(105.9)
Minority interest		**0.6**	**–**	**0.6**	–	–	–	0.6
Profit/(loss) for the financial period		**32.5**	**(21.5)**	**11.0**	28.6	(20.5)	8.1	(105.3)
Dividends		**(11.5)**	**–**	**(11.5)**	(10.7)	–	(10.7)	(32.4)
Retained profit/(loss)		**21.0**	**(21.5)**	**(0.5)**	17.9	(20.5)	(2.6)	(137.7)
Basic earnings/(loss) per share	8			**8.3p**			6.2p	(80.0p)
Normalised basic earnings per share	8	**24.5p**			23.6p			62.9p
Diluted earnings/(loss) per share	8			**8.0p**			5.9p	(80.0p)
Normalised diluted earnings per share	8	**23.7p**			22.5p			60.3p

Group balance sheet

At 30 June 2003	Note	Unaudited 30 June 2003 £m	Unaudited 30 June 2002 £m	Audited 31 December 2002 £m
Fixed assets				
Intangible assets		**449.5**	472.6	467.7
Tangible assets		**422.4**	529.5	420.5
Investment and interests in associates		**25.7**	23.0	25.3
		897.6	1,025.1	913.5
Current assets				
Stock		**20.3**	22.4	19.7
Debtors	9	**278.0**	291.7	359.8
Cash at bank and in hand		**79.1**	97.3	93.7
		377.4	411.4	473.2
Creditors: amounts falling due within one year	10	**(517.5)**	(587.8)	(659.7)
Net current liabilities		**(140.1)**	(176.4)	(186.5)
Total assets less current liabilities		**757.5**	848.7	727.0
Creditors: amounts falling due after more than one year	11	**(424.6)**	(384.7)	(360.0)
Provisions for liabilities and charges		**(66.7)**	(63.0)	(104.4)
Net assets		**266.2**	401.0	262.6
Capital reserves				
Called-up share capital		**6.8**	6.7	6.7
Share premium account		**44.7**	44.6	44.7
Share capital to be issued		**0.1**	0.2	0.2
Merger reserve		**15.4**	15.4	15.4
Capital reserve		**–**	–	0.4
Revaluation reserve		**0.8**	0.8	0.8
Profit and loss account		**193.5**	327.7	189.6
Equity shareholders' funds		**261.3**	395.4	257.8
Equity minority interest		**4.9**	5.6	4.8
		266.2	401.0	262.6

Group statement of cash flows

For the six months ended 30 June 2003	Note	Unaudited six months to 30 June 2003 £m	Unaudited six months to 30 June 2002 £m	Audited year to 31 December 2002 £m
Net cash inflow from operating activities	12(a)	**87.9**	70.6	175.5
Net interest paid		**(9.9)**	(9.6)	(17.1)
Interest element of finance lease rentals		**(2.1)**	(1.7)	(1.9)
Return on investments and servicing of finance		**(12.0)**	(11.3)	(19.0)
UK corporation tax paid		**(13.8)**	(0.1)	(9.4)
Overseas tax paid		**(0.4)**	(0.1)	(2.4)
Taxation		**(14.2)**	(0.2)	(11.8)
Payments to acquire tangible assets		**(25.7)**	(59.2)	(91.6)
Receipts from sale of tangible assets		**5.7**	1.2	7.4
Receipts from sale of/(payments to acquire) shares to satisfy employee share scheme		**1.3**	0.7	(2.7)
Payments to acquire other investments		**–**	(0.4)	(1.2)
Capital expenditure and financial investment		**(18.7)**	(57.7)	(88.1)
Receipts from the sale of businesses		**–**	–	2.9
Payments in respect of/cash disposed in businesses closed/sold		**(49.6)**	–	(3.3)
Payments to acquire businesses		**(4.7)**	–	(74.9)
Cash acquired in businesses purchased		**–**	–	2.2
Deferred consideration for businesses acquired		**(0.4)**	(0.4)	(2.4)
Acquisitions and disposals		**(54.7)**	(0.4)	(75.5)
Equity dividends paid		**(21.7)**	(19.2)	(29.9)
Cash outflow before financing activities		**(33.4)**	(18.2)	(48.8)
Management of liquid resources				
Cash withdrawn from/(paid in to) short-term deposits		**14.4**	3.6	(50.4)
Financing				
Issue of share capital		**–**	1.0	1.0
Cash (outflow)/inflow from lease financing		**(6.1)**	22.7	20.3
Repayment of loan notes		**–**	–	(0.9)
Loans advanced		**9.1**	–	32.0
Loans repaid		**–**	(0.6)	–
Net cash inflow from financing		**3.0**	23.1	52.4
(Decrease)/increase in cash	12(b)	**(16.0)**	8.5	(46.8)

Group statement of total recognised gains and losses

For the six months ended 30 June 2003	Unaudited six months to 30 June 2003 £m	Unaudited six months to 30 June 2002 £m	Audited year to 31 December 2002 £m
Profit/(loss) for the financial period	**11.0**	8.1	(105.3)
Exchange differences on foreign currency net investments	**4.0**	0.2	(2.7)
Total recognised gains and losses relating to the period	**15.0**	8.3	(108.0)

Reconciliation of movements in Group equity shareholders' funds

For the six months ended 30 June 2003	Unaudited six months to 30 June 2003 £m	Unaudited six months to 30 June 2002 £m	Audited year to 31 December 2002 £m
Profit/(loss) for the financial period	**11.0**	8.1	(105.3)
Dividends	**(11.5)**	(10.7)	(32.4)
Exchange differences on foreign currency net investments	**4.0**	0.2	(2.7)
New share capital issued for cash	**–**	1.0	1.0
Goodwill realised	**–**	–	0.4
Net addition/(reduction) to shareholders' funds	**3.5**	(1.4)	(139.0)
Equity shareholders' funds at 1 January	**257.8**	396.8	396.8
Equity shareholders' funds	**261.3**	395.4	257.8

Segmental analysis

	Unaudited six months to 30 June				Audited year to 31 December	
Analysis by class of business	Turnover 2003 £m	Operating profit 2003 £m	Turnover 2002 £m	Operating profit 2002 £m	Turnover 2002 £m	Operating profit 2002 £m
UK Bus	**103.8**	**22.0**	102.0	23.8	208.7	49.8
UK Trains	**823.6**	**7.3**	727.8	4.1	1,553.2	33.9
UK Coaches	**85.3**	**2.3**	84.2	2.0	184.5	12.2
UK operations	**1,012.7**	**31.6**	914.0	29.9	1,946.4	95.9
North American Bus	**216.3**	**24.5**	211.4	19.5	408.0	32.6
Australian Bus	**29.8**	**1.7**	28.4	1.9	58.0	2.3
Continuing operations	**1,258.8**	**57.8**	1,153.8	51.3	2,412.4	130.8
Discontinued operations – Australian Trains	**–**	**–**	84.9	(2.3)	159.9	0.1
	1,258.8	**57.8**	1,238.7	49.0	2,572.3	130.9
Goodwill amortisation		**(22.4)**		(22.0)		(45.2)
Goodwill impairment		**–**		–		(13.5)
Exceptional items		**(1.2)**		(0.7)		(5.0)
Group operating profit		**34.2**		26.3		67.2
Share of operating losses of associates		**(3.7)**		(2.6)		(6.6)
Total operating profit		**30.5**		23.7		60.6
Loss on closure of a business		**–**		–		(126.1)
Profit/(loss) on ordinary activities before interest		**30.5**		23.7		(65.5)

1 Basis of preparation

These accounts have been prepared using the accounting policies set out in the Group's 2002 statutory accounts.

The Group withdrew from its Australian Trains division in December 2002 and the results for this division have been disclosed as discontinued operations in the profit and loss account.

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 (as amended). The figures for the year to 31 December 2002 have been extracted from the Annual Report 2002 which has been filed with the Registrar of Companies. The audit report on the Annual Report 2002 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 2003		Six months to 30 June 2002		Year to 31 December 2002	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.65**	**1.61**	1.52	1.45	1.61	1.51
Canadian dollar	**2.24**	**2.36**	–	–	2.54	2.47
Australian dollar	**2.46**	**2.63**	2.72	2.72	2.86	2.78

If the results for the six months to 30 June 2002 were retranslated at the average exchange rates for the six months to 30 June 2003, North America would have achieved profit of £17.5m on turnover of £190.0m, and Australian Bus profit of £2.0m on turnover of £29.4m.

3 Turnover

The turnover of the Group comprises revenue from road passenger transport, train passenger services, airport operations and related activities in the UK, North America and Australia. Within the UK Trains division, franchise agreement receipts from the Strategic Rail Authority and local Passenger Transport Executives within the West Midlands region and Scotland are treated as turnover. During the first half year, franchise agreement receipts amounted to £334.1m (2002 interim: £311.1m; 2002 full year: £634.9m). Before the Group's withdrawal from the Australian Trains business in December 2002, franchise agreement receipts from the Victorian Department of Public Transport in Australia totalled £28.4m at 2002 interim and £62.5m at 2002 full year.

4 Goodwill amortisation and impairment

Goodwill amortisation can be analysed as follows:

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
UK Trains	**11.5**	11.5	23.2
UK Coaches	**0.5**	0.3	0.8
North American Bus	**9.8**	9.3	19.4
Australian Bus	**0.6**	0.9	1.8
Goodwill amortisation	**22.4**	22.0	45.2
Goodwill impairment: Australian Bus	**–**	–	13.5
	22.4	22.0	58.7

All goodwill amortisation relates to continuing businesses.

5 Exceptional items

Exceptional items can be analysed as follows:

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
UK Trains	**1.2**	0.7	5.0

All exceptional operating costs relate to continuing businesses, and solely comprise franchise bid costs.

6 Loss on closure of businesses

The loss on closure of businesses during the second half of 2002 of £126.1m, net of expenses, comprises £125.9m on the withdrawal from the Australian Trains business and £0.2m on the disposal of Eurolines Nederland BV and the Multisystems IT division.

7 Taxation

Tax on profit on ordinary activities for the first half year has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2003. The tax charge of £9.5m (2002 interim: £8.6m; 2002 full year: £24.6m) represents an effective tax rate on profit on ordinary activities, excluding goodwill and exceptional items, of 23.0% (2002 interim: 23.0%; 2002 full year: 23.0%). It includes overseas taxation of £1.8m (2002 interim: £0.1m; 2002 full year: £3.4m), and deferred taxation of £0.3m (2002 interim: £0.8m; 2002 full year: £6.3m).

8 Earnings per share

	Six months to 30 June 2003	Six months to 30 June 2002	Year to 31 December 2002
Basic earnings/(loss) per share	**8.3p**	6.2p	(80.0)p
Normalised basic earnings per share	**24.5p**	23.6p	62.9p
Diluted earnings/(loss) per share	**8.0p**	5.9p	(80.0)p
Normalised diluted earnings per share	**23.7p**	22.5p	60.3p

Basic earnings/(loss) per share is calculated by dividing the profit for the financial period of £11.0m (2002 interim: £8.1m; 2002 full year loss £105.3m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period. For the year to 31 December 2002, the weighted average number of ordinary shares for the purpose 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 FRS 14, "Earnings per share".

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

	Six months to 30 June 2003	Six months to 30 June 2002	Year to 31 December 2002
Basic weighted average shares	**132,595,076**	130,979,091	131,602,152
Adjustment for dilutive potential ordinary shares	**4,282,761**	6,657,664	5,622,274
Diluted weighted average shares	**136,877,837**	137,636,755	137,224,426

The normalised basic and normalised diluted earnings per share has been calculated in addition to the basic and diluted earnings per share required by FRS 14 since, in the opinion of the Directors, it reflects the financial performance of the core business more appropriately.

The normalised basic and normalised diluted earnings per share for the six months ended 30 June 2002 and the year ended 31 December 2002 exclude the earnings from discontinued operations. They have not been adjusted to reflect the interest earned on the cash proceeds from the disposal of the discontinued operations.

8 Earnings per share continued

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
Profit/(loss) for the financial period	**11.0**	8.1	(105.3)
Loss/(earnings) from discontinued operations	**–**	2.3	(0.1)
Goodwill amortisation	**22.4**	22.0	58.7
Exceptional operating costs	**1.2**	0.7	5.0
Exceptional loss of associate	**–**	–	2.6
Loss on closure of businesses	**–**	–	126.1
Tax relief on goodwill and exceptional items	**(2.1)**	(2.2)	(4.3)
Normalised profits for the financial period	**32.5**	30.9	82.7

Goodwill amortisation in the year to 31 December 2002 includes a £13.5m impairment during the second half of 2002 relating to Australian Bus.

9 Debtors

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
Trade debtors	**147.2**	139.1	192.8
Amounts due from associates	**8.8**	4.5	4.7
Other debtors	**45.3**	88.8	78.1
Prepayments and accrued income	**76.7**	59.3	84.2
	278.0	291.7	359.8

Included within other debtors is £4.6m (30 June 2002: £8.0m; 31 December 2002: £4.7m) and included within prepayments is £5.9m (30 June 2002: £1.6m; 31 December 2002: £1.7m) which is recoverable after more than one year.

10 Creditors: amounts falling due within one year

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
Loan notes	**8.8**	9.9	9.1
Bank loans	**–**	39.4	53.2
Bank overdrafts	**15.4**	–	–
Trade creditors	**147.0**	167.4	201.6
Amounts owed to associates	**0.2**	0.9	0.1
Finance lease obligations	**14.5**	8.2	10.0
Corporation tax	**17.6**	17.1	25.3
Social security and other taxation	**16.5**	15.2	21.7
Accruals and deferred income	**286.0**	319.0	317.0
Proposed dividend	**11.5**	10.7	21.7
	517.5	587.8	659.7

11 Creditors: amounts falling due after more than one year

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
Bank loans	**378.3**	309.3	308.0
Finance lease obligations	**41.9**	51.6	48.0
Accruals and deferred income	**4.4**	23.8	4.0
	424.6	384.7	360.0

12 Cash flow reconciliation

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
Group operating profit	**34.2**	26.3	67.2
Depreciation of tangible assets	**31.9**	34.9	71.5
Goodwill amortisation	**22.4**	22.0	45.2
Goodwill impairment	**–**	–	13.5
Increase in stocks	**(0.6)**	(1.3)	(0.8)
Decrease/(increase) in debtors	**81.6**	72.9	(4.8)
(Decrease)/increase in creditors	**(87.3)**	(23.5)	41.9
Increase/(decrease) in provisions	**6.0**	(60.7)	(57.6)
Other movements	**(0.3)**	–	(0.6)
Net cash inflow from operating activities	**87.9**	70.6	175.5

(b) Reconciliation of net cash flow to movement in net debt:

	Six months to 30 June 2003 £m	Six months to 30 June 2002 £m	Year to 31 December 2002 £m
(Decrease)/increase in cash in the period	**(16.0)**	8.5	(46.8)
Cash inflow from movement in debt and lease financing	**(3.0)**	(22.1)	(51.4)
Cash (inflow)/outflow from movement in liquid resources	**(14.4)**	(3.6)	50.4
Change in net debt resulting from cash flows	**(33.4)**	(17.2)	(47.8)
Change in net debt resulting from non cash flows	**(11.4)**	10.7	28.2
Movement in net debt in period	**(44.8)**	(6.5)	(19.6)
Opening net debt	**(334.6)**	(315.0)	(315.0)
Net debt	**(379.4)**	(321.5)	(334.6)

Changes in net debt resulting from non cash flows represent £8.0m exchange loss movements (2002 interim: £10.7m gain; 2002 full year: £29.0m gain) and £3.4m finance lease additions (2002 interim: £nil; 2002 full year: £0.8m).

Independent review report to National Express Group PLC

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2003 which comprises the Group profit and loss account, Group balance sheet, Group statement of cash flows, Group statement of total recognised gains and losses, Reconciliation of movements in Group equity shareholders' funds, Segmental analysis and the related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board. To the fullest extent permitted by the 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 Interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

Ernst & Young LLP
London
11 September 2003

Online shareholder communications

Shareholders can choose to vote by proxy and to receive communications and documents, including the Annual Report, Notice of Meeting and Proxy Form, electronically. This helps us to reduce distribution and printing costs.

In order to sign up for this service you will need to access the Company's Registrars' online service, at www.shareview.co.uk. This is a secure site where you are able to view your shareholdings. You will need your eight-digit shareholder reference number, which is shown on your share certificate or dividend voucher.

To sign up to receive documents electronically

- Log on to www.shareview.co.uk
- Click on "Create a portfolio" and follow the simple instructions – you will need your shareholder reference number.
- Once you have completed the registration process and selected your own personal identification number (PIN) a unique User ID will be posted to you.
- Once you have registered and notified our Registrars of your e-mail address, we will send you an e-mail each time that shareholder documentation has been published on our website, and provide you with a link to the page on the website where it may be found.
- If you are already registered with Shareview, you do not need to register again but should check that your mailing preference is shown as "e-mail".

To vote by proxy electronically

You may also choose to vote by proxy electronically at the Annual General Meeting (AGM) of the Company held every year. Further details of how to vote electronically at the 2004 AGM will be included with the Annual Report and Accounts distributed in March next year.

Should you have any questions about signing up for online shareholder communications please contact our Registrars, Lloyds TSB Registrars, on 0870 601 5366.

Please note that if you wish to continue to receive communications from the Company through the post YOU NEED DO NOTHING.

Notes on online shareholder communications

If you wish to have your e-mail address changed or no longer wish to receive shareholder documentation in electronic form, please amend your details through www.shareview.co.uk. You should always notify Lloyds TSB Registrars of any change to your name, address or e-mail address.

The Company cannot be held responsible for any failure in transmission beyond its control. However, in the event that Lloyds TSB Registrars become aware that an electronic notification has not been successful, a further attempt will be made. In the event that the transmission is still unsuccessful a copy of the documentation will be mailed to you in paper form.

No special programs or software are required to view documents online. However, before choosing to receive documents electronically you should ensure that you have the appropriate equipment and computer capabilities.

Providing a facility to communicate with shareholders online is available to all shareholders on equal terms.

Please note that any electronic communication sent by you to the Company or the Registrars that is found to contain a computer virus will not be accepted. The Company and Lloyds TSB Registrars will take all reasonable precautions to ensure that no viruses are present in any communication sent out but cannot accept responsibility for loss or damage arising from the opening or use of any e-mail or attachments.

Dividends and financial calendar

Dividends

Event	Date
Interim dividend record date	26 September 2003
Interim dividend payment date	17 October 2003
Final dividend record date	April 2004
Final dividend payment date	May 2004

Financial calendar

Event	Date
Preliminary results announced	February 2004
Annual General Meeting	5 May 2004

Corporate information

Secretary and registered office
A J McDonald
National Express Group PLC
75 Davies Street
London W1K 5HT
Tel +44 (0)20 7529 2000
Fax+44 (0)20 7529 2100
e-mail info@natex.co.uk
www.nationalexpressgroup.com

Registered number
2590560

Registrar
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Shareholder helpline 0870 601 5366

Principal bankers
HSBC Bank plc
8 Canada Square
London E14 5HQ

Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Corporate solicitors
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers
Merrill Lynch International Limited
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Dresdner Kleinwort Wasserstein
PO Box 560
20 Fenchurch Street
London EC3P 3DB

Auditors
Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

Designed and produced by C&FD. Printed in England by Cousin.