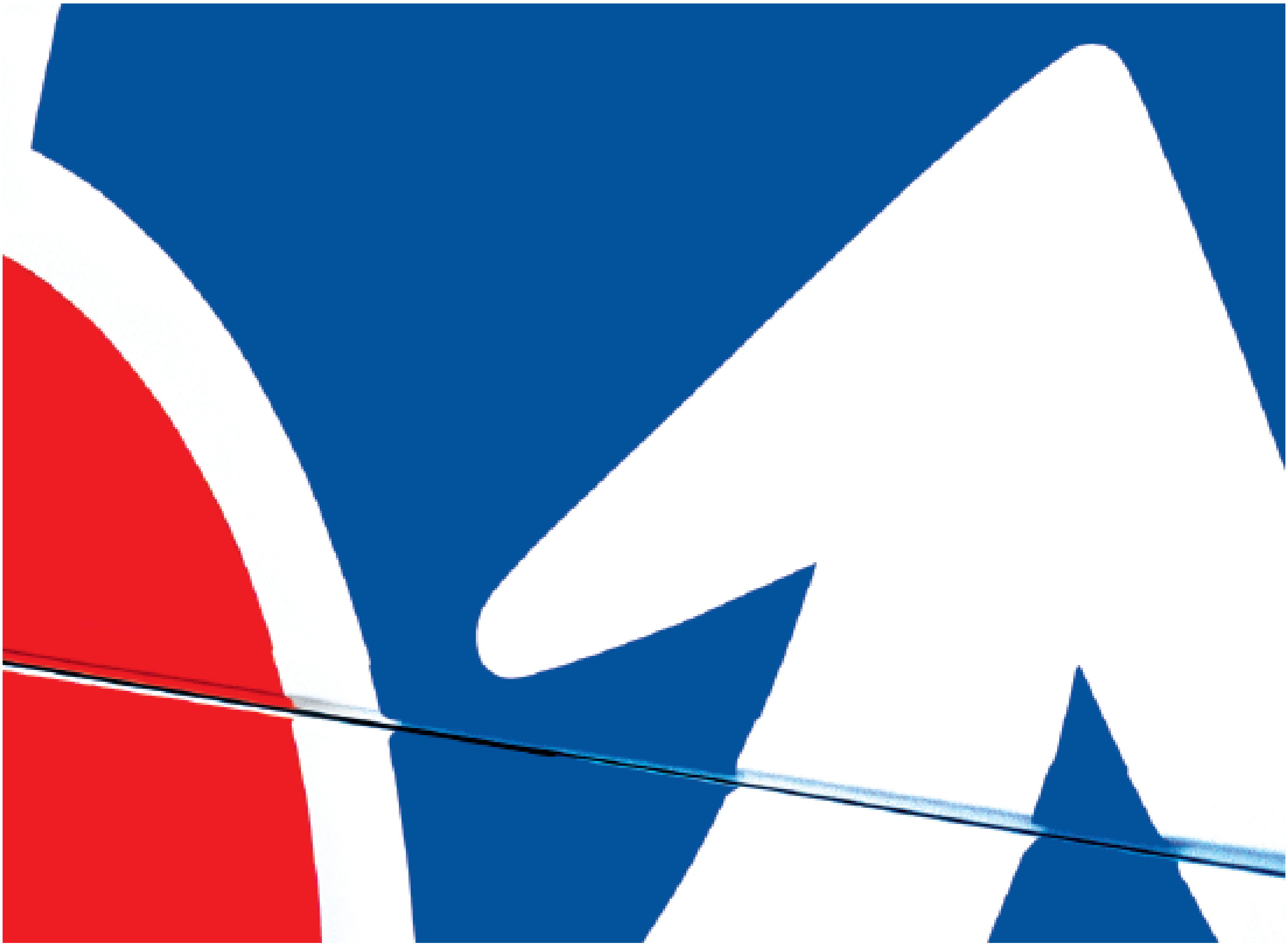
National Express Group

INTERIM REPORT 2004

PEOPLE GET ON WITH US...



OUR HIGHLIGHTS...

FINANCIAL HIGHLIGHTS

- Turnover of £1,266.7m (2003: £1,258.8m)
- Normalised operating profit*up 9.4% to £61.9m (2003: £56.6m***)
- Normalised profit before tax* up 19.2% to £47.9m (2003: £40.2m***)
- Normalised diluted earnings per share* up 16.9% to 27.0 pence (2003: 23.1 pence***)
- Interim dividend up 10% to 9.35 pence per share (2003: 8.5 pence)
- On-going operating cash flow** of £127.8m (2003: £70.7m)
- Effective net debt** reduced by £123.2m since year end to £184.6m
- Normalised Group margins* increased to 4.9% (2003: 4.5%)

OPERATIONAL HIGHLIGHTS

- Good performance from Travel West Midlands on the back of continued investment;
- Travel London integration progressing well with further growth opportunities;
- Passenger growth of 6% in coaches;
- Rail punctuality and reliability above Government targets;
- Rail passenger growth of 5%;
- Successful launch of the 'one' rail franchise;
- Constructive negotiations with the Strategic Rail Authority ("SRA") nearing completion for a two year extension for our Silverlink franchise;
- Successful bidding season and contract renewals in the United States;
- Public Transit recovery continues.

* excluding goodwill, exceptional items and tax relief thereon as appropriate

** operating cash flow and effective net debt as defined on pages 11 and 9 respectively

*** as restated for change in classification (see note 2 on page 17)

CHAIRMAN'S STATEMENT

I am pleased to report the Group's results for the six months ended 30 June 2004. National Express Group is a people business which is committed to encouraging greater use of public transport. We are focused on investing in and developing further all our employees to improve the quality of the service we offer our customers.

David Ross
Non Executive
Chairman

Trading in the period has been strong with all our divisions performing in line with expectations. We have increased normalised operating profit by over 9.4% and normalised diluted earnings per share by 16.9%. I am pleased to announce that the interim dividend has been increased by 10% to 9.35 pence per share. This is backed by excellent cash flow and a substantial reduction in the Group's level of debt in the first half.

In January, we were delighted to be awarded the Greater Anglia rail franchise which began operation on 1 April under the new brand name of 'one'. This showcase franchise brings together three separate train companies into a single rail business. We are excited by the potential for this business and the market in which it operates.

We are nearing completion of constructive negotiations with the SRA of a two year extension for our Silverlink franchise.

We have not retained the ScotRail train franchise where we had a good track record for performance, investment and customer service. With the transfer of this business in mid October, we would like to thank all our ScotRail employees for all their hard work under our ownership and wish them the best for the future.

On 15 July, the Secretary of State for Transport published the White Paper, "The Future of Rail" focusing on the future strategy for the rail industry. The proposals are based on the provision of a railway run by public and private sector partnerships. We welcome plans to simplify the structure of the rail industry and initiatives that provide a closer working relationship between all stakeholders.

On 20 July, a further White Paper, "The Future of Transport – a network for 2030" was published. This document outlines the valuable role played by buses in improving public transport and in reducing congestion. The paper recognises that in most areas,

TRADING IN THE PERIOD HAS BEEN STRONG WITH ALL OUR DIVISIONS PERFORMING IN LINE WITH EXPECTATIONS

CHAIRMAN'S STATEMENT

bus services can be better provided through a partnership approach between local authorities and operators.

During the first half our rail performance continued to improve and, as a result, there was a 5% increase in the number of customers travelling. Travel West Midlands produced another set of solid results and our coach division generated a 6% growth in passengers. Across all our UK businesses we continue to work on ways to stimulate passenger growth and improve customer service including "Getaway Giveaway", our summer free rail ticket promotion, introduction of NX TV on coaches and the launch of Saverbus, our low fare initiative, in the West Midlands.

Overseas, progress has been encouraging. In the United States our student bus business had a successful bidding season and in Public Transit operating costs continue to be driven down.

FINANCIAL REPORT Turnover for the six months to 30 June 2004 was £1,266.7 million (2003: £1,258.8 million). Normalised operating profit increased by 9.4% to £61.9 million (2003: £56.6 million***). Normalised profit before tax increased by 19.2% to £47.9 million (2003: £40.2 million***).

Normalised diluted earnings per share were up 16.9% to 27.0 pence (2003: 23.1 pence***).

For the six months to 30 June, EBITDA interest cover before exceptional items was 9.2 times (2003: 6.8 times***), where EBITDA is disclosed in the Finance Director's review. On-going operating cash flow during the first six months was excellent at £127.8 million (2003: £70.7 million). Effective net debt** at 30 June decreased to £184.6 million (2003: £379.4 million).

DIVIDEND An interim dividend of 9.35 pence per share, an increase of 10% over the 2003 interim dividend of 8.5 pence per share, will be paid on 1 October 2004 to shareholders on the register on 3 September 2004.

CURRENT TRADING AND OUTLOOK
Trading in the second half is in line with expectations. We are operationally and financially strong. We have excellent cash flow and we will continue to invest in organic growth as well as seeking additional opportunities for each of our core divisions.

TRADING IN THE SECOND HALF IS IN LINE WITH EXPECTATIONS. WE ARE OPERATIONALLY AND FINANCIALLY STRONG

BUSES

Phil White
Chief Executive

TURNOVER WAS £115.1 MILLION (2003: £103.8 MILLION) WITH OPERATING PROFIT OF £21.1 MILLION (2003: £22.1 MILLION***), A REDUCTION PARTLY DRIVEN BY THE CONTINUED FINANCING OF BUSES THROUGH OPERATING LEASES.

In the West Midlands, we continue to focus on making bus travel easier for all our customers. We have undertaken a full review of the West Midlands bus network and are testing a number of new products to stimulate the market. This has already resulted in the introduction of a new value for money proposition, Saverbus, which provides a low value flat fare service from Bromford to the centre of Birmingham. We are also conducting feasibility studies on bus rapid transit services and limited stop premium express services.

We continue to work with Centro and Birmingham City Council on the roll-out of a statutory quality partnership before the end of the year on Route 67. This service runs between the centre of Birmingham and Castle Vale and will see the introduction of eleven new articulated buses all equipped with real time information systems.

Following the partial closure of the Bullring bus mall, we are discussing our preferred solution with Birmingham City Council which will result in the full opening of the two-way system. We believe that this will encourage further travel into the city centre.

Following the successful launch of the Coventry Concordat in December 2003, we recently signed a Dundee Concordat formalising and consolidating the working relationship between Travel Dundee and Dundee City Council with the aim of encouraging further bus travel.

We are pleased with our entry into London and are making good progress. We are focused on improving the profitability of this operation by restructuring the business and by renewing contracts on improved terms. Since acquisition, we have been awarded three new contracts, bringing the total number to 15. To accommodate extra business, we will be operating from the newly refurbished Walworth bus garage in Camberwell this Autumn.

Investment in Travel West Midlands continues with a further 130 new low-floor easy-access buses being delivered by the end of this year. In 2004 the entire Travel Dundee fleet will be low-floor easy-access with CCTV coverage – 11 years ahead of the Government's deadline.

INVESTMENT IN TRAVEL WEST MIDLANDS CONTINUES WITH A FURTHER 130 NEW LOW-FLOOR EASY-ACCESS BUSES BEING DELIVERED BY THE END OF THIS YEAR

TRAINS

THE UK TRAINS DIVISION PERFORMED WELL IN THE FIRST SIX MONTHS WITH TURNOVER OF £838.6 MILLION (2003: £823.6 MILLION) AND AN INCREASED NORMALISED OPERATING PROFIT OF £15.7 MILLION (2003: £9.0 MILLION***), AS OUR LOSS MAKING REGIONAL FRANCHISES, CENTRAL AND SCOTRAIL, WERE OPERATED UNDER NEW SUBSIDY TERMS. WE CONTINUE TO FOCUS ON IMPROVING THE QUALITY OF OUR RAIL PORTFOLIO AND IMPROVING ITS PROFITABILITY.

In addition to patronage being up 5%, we were particularly pleased we delivered operational performance above the Government's Public Performance Measure ("PPM") target of 85%. This is a significant development and one that was achieved through our local management teams working closely with Network Rail.

LONDON AND THE SOUTH EAST

Turnover for the six months was £348.6 million (2003: £274.6 million) with a normalised operating profit of £5.9 million (2003: £8.8 million***). The reduction in operating profit arose primarily from the seasonality of the 'one' franchise and the reduction of subsidy receipts.

The 'one' franchise was launched by the Secretary of State for Transport on 1 April 2004. Five trains and 20 stations were rebranded as 'one' in record time for the launch. During the first three months of operation, we have focused on integrating the three businesses into one business and preparing to deliver the committed franchise improvements. Operational performance over the period has been excellent. Due to the seasonality of this business and its high travelcard usage, a contribution from this franchise will come through in the second half. We are working with the Competition Commission on their enquiry and hope to achieve a speedy resolution to this matter.

Silverlink continues to suffer from the impact of the West Coast Route Modernisation upgrade but we are working with Network Rail to minimise the impact on our customers. We anticipate signing a two year franchise extension shortly.

At c2c, we have introduced the first driver only operation on the rail network since privatisation. This brings further performance improvement and cost efficiencies to the business together with additional customer service staff at stations.

Great Northern's excellent performance saw an 11.3% increase in passenger revenue.

Patronage levels at Gatwick Express improved on the back of innovative marketing with the low cost airlines. However, franchise payments to the SRA continued to impact on the financial performance of the operation.

WE CONTINUE TO FOCUS ON IMPROVING THE QUALITY OF OUR TRAIN PORTFOLIO

	Turnover		Normalised operating profit/(loss)	
	2004 £m	2003 £m	**2004 £m**	2003*** £m
London and the South East	**348.6**	274.6	**5.9**	8.8
Long Distance/ Intercity	**106.3**	93.1	**6.0**	5.9
Regional Services	**383.7**	455.9	**5.1**	(4.5)
Franchise bid costs	**–**	–	**(1.3)**	(1.2)
Total	**838.6**	823.6	**15.7**	9.0

LONG DISTANCE/INTERCITY Turnover for the six months was £106.3 million (2003: £93.1 million) with a normalised operating profit of £6.0 million (2003: £5.9 million***).

Midland Mainline ("MML") experienced a solid six months. During this period it delivered its best operational performance for four years. This was a considerable achievement against the backdrop of the Channel Tunnel Rail Link construction work at St Pancras which resulted in a number of MML services moving during Easter 2004 to a new purpose-built interim station. From mid September this year, our operations will be impacted by the start of the Thameslink blockade when MML and Thameslink Trains will be sharing the St Pancras facility for almost eight months.

In May, we introduced the first of our new four-car Meridian trains into the fleet. These have been well received by our customers. Fifteen more four-car units are due to come into service during 2004. Refurbishment of our high speed train fleet is due for completion in the second half of the year. In consultation with the SRA, MML's London to Manchester service has been extended to September on this route. We are currently evaluating the impact of the SRA's Route Utilisation Strategy for the Midland Mainline and the East Midlands on MML's services.

REGIONAL SERVICES Turnover for the six months was £383.7 million (2003: £455.9 million) with a normalised operating profit of £5.1 million (2003: loss of £4.5 million***). Improved profitability arose following the award of a two year franchise extension at Central Trains and the seven period extension agreed for ScotRail.

At Central Trains, financial performance was good, particularly as we now run more trains as a result of services transferred from Virgin and Wales and Borders at the end of last year. At the end of July 2004, we opened our new Customer Service Academy in Birmingham which will provide a dedicated training facility for all our staff at Central Trains.

Following the completion of the transfer of the Wales and Borders franchise in December 2003, Wessex Trains has been reorganised to give greater focus on its local constituency and stakeholders. We have further refined the operations to introduce new timetables and improved service levels.

The performance of ScotRail over the period was exceptional and led to the award of "Operator of the Year" at the recent National Transport Awards. Eight new Turbostars were introduced onto the Edinburgh to Glasgow route, increasing peak seating capacity by nearly 40%. In addition, new automatic ticket gates commenced operation at selected major stations aimed at reducing fare evasion. Consequently, as the incumbent with a good track record, we were disappointed to hear the outcome of the ScotRail franchise competition in early June. We are working on a smooth handover of the business on 17 October 2004.

We are pleased with the performance of our trains division and look forward to improving its quality of earnings from increased patronage growth. To stimulate further growth we will be launching the industry's first "Getaway Giveaway" promotion across most of our Train Operating Companies. This promotion, which will be launched in early August, will offer seven million free rail tickets to customers and we believe that such an initiative will encourage further use of our rail services.

WE ARE PLEASED WITH THE PERFORMANCE OF OUR TRAINS DIVISION AND LOOK FORWARD TO IMPROVING ITS QUALITY OF EARNINGS FROM INCREASED PATRONAGE GROWTH

COACHES

TURNOVER WAS £87.8 MILLION (2003: £85.3 MILLION) AND NORMALISED OPERATING PROFIT WAS £4.2 MILLION (2003: £2.9 MILLION***). THIS EXCELLENT RESULT, THE BEST EVER ACHIEVED BY THIS DIVISION, RESULTED FROM A 6% INCREASE IN PASSENGER NUMBERS WHICH AROSE FROM EXTENDING THE APPEAL OF COACH TRAVEL BY ROLLING OUT BEST VALUES FARES AND THE LAUNCH OF A MAJOR TV CAMPAIGN.

We continued to invest in the quality of the fleet and, in September, we will bring into service our latest state-of-the-art vehicles incorporating climate control, all leather seating and on-board television entertainment. We are also introducing new "Coachcom" technology which will improve the overall customer experience by providing real-time arrival and departure information as well as improving capacity management, by allowing real-time reservations to maximise seat utilisation.

We are now planning a major redevelopment of our coach station in Birmingham. Work is expected to start in early 2005 with a new landmark facility opening in summer 2006.

Eurolines has introduced new services from Birmingham to Paris via Oxford. The Eurolines Plus service will see the introduction of new longer 13.7 metre coaches increasing capacity by 25% whilst at the same time offering customers extra legroom and on-board entertainment.

The peak season has started well with events such as the Glastonbury festival resulting in good passenger growth. We believe that by improving the quality of the product offering and promoting these developments to new customer market sectors, we can continue to grow this further.

THIS EXCELLENT RESULT, THE BEST EVER ACHIEVED BY THIS DIVISION, RESULTED FROM A 6% INCREASE IN PASSENGER NUMBERS

NORTH AMERICA

THE RESULTS OF THE NORTH AMERICAN DIVISION WERE PARTICULARLY ENCOURAGING ALTHOUGH THE REPORTED PROFITS WERE IMPACTED BY THE WEAKENING DOLLAR.

Turnover in the Student Transportation division for the first six months was $207.4 million (2003: $208.4 million) and normalised operating profit was $37.9 million (2003: $37.6 million***). During the last six months, Durham School Services achieved new business wins in California, Connecticut and Texas. Performance in Canada continued to be encouraging and we will be exploring further growth opportunities within this market.

At Durham School Services, although competitive pressures remain, we improved our retention rates as well as winning additional business. Whilst financial pressures on school districts continue we have responded well by implementing further steps to reduce costs.

Turnover in Public Transit was $142.2 million (2003: $140.7 million) and normalised operating profit was $5.5 million (2003: $1.9 million***). On-going focus on operating efficiencies and improved productivity has driven this strong improvement in results. We continue to benefit from engineering and procurement efficiencies. We are driving improvements in risk management through the installation of an on-board TV monitoring system, "drivecam". This records driving standards and performance.

We are working closely with the Las Vegas RTC, a major public transit client, and in early July ten bus rapid transit vehicles were introduced into our operation. These state-of-the-art vehicles incorporate optical guidance, hybrid diesel/electric propulsion, external video cameras and use of on-street payment machines, reducing the need for on-board fare collection.

We believe that concentration on cost efficiencies and opportunities for acquisition across North America will underpin the future growth of this division.

	Turnover		Normalised operating profit	
	2004 $m	2003 $m	**2004 $m**	2003*** $m
Student	**207.4**	208.4	**37.9**	37.6
Public Transit	**142.2**	140.7	**5.5**	1.9
Total	**349.6**	349.1	**43.4**	39.5

THE RESULTS OF THE NORTH AMERICAN DIVISION WERE PARTICULARLY ENCOURAGING

AUSTRALIA

TURNOVER FOR OUR AUSTRALIAN BUS DIVISION TOTALLED £33.4 MILLION (2003: £29.8 MILLION), WITH A NORMALISED OPERATING PROFIT OF £1.2 MILLION (2003: £1.7 MILLION***), PRIMARILY DUE TO REDUCED PASSENGER LEVELS IN NEW SOUTH WALES. WE ARE PARTICIPATING IN AN INDUSTRY REFORM PROCESS, INITIATED BY THE NEW SOUTH WALES GOVERNMENT, TO ADDRESS THIS ISSUE.

In Perth, Southern Coast Transit continued to perform well. In Queensland and Victoria, new contracts were agreed with the respective Governments, putting these operations on a more stable and viable footing.

ASSOCIATES We continue to seek an exit from our investment in Eurostar but do not anticipate achieving this by the end of the year.

Adam Walker
Finance Director

Half year at a glance

I am particularly pleased that the progress the Group made last year has continued into 2004. The Group achieved a strong growth in normalised* operating profit of 9.4%, up to £61.9m (2003: £56.6m***). Normalised diluted earnings per share were 27.0p (2003: 23.1p***), an increase of 16.9%. The Group continued to generate strong operating cash flow across all our divisions. In the six months to 30 June 2004 effective net debt** reduced by £123.2m to £184.6m.

UK BUS The normalised operating margin was 19.7% (2003: 21.3%***) excluding Travel London which achieved a break even result on turnover of £8.1m. With the continuing congestion in Birmingham dampening patronage, the turnover increase of 3.1% was just about adequate to cover the increases in driver numbers required to maintain workable manning levels and the higher accident costs. The reduction in normalised operating profit is largely due to the increase in operating lease charges as compared with the equivalent depreciation charges and the change in the methodology applied to the concessionary fare scheme. Good progress has been made in Travel London in implementing the management controls we require.

UK COACH Increased volumes and additional services resulted in a significant improvement in normalised operating profit with the margin increasing to 4.8% (2003: 3.4%***). However, the seasonality of this operation means that the majority of the profit is earned in the second half of the year. We continued to benefit from the enhanced management information which enables us to match services more effectively with demand.

UK TRAINS Normalised operating profit was significantly higher in UK Trains, with our Regional operations moving into profit as we benefited from the commencement of the two year extension at Central Trains and the seven month extension at ScotRail. The normalised operating margin improved to 1.3% (2003: loss of 1.0%***). In London and the South East normalised operating margins of 1.7% (2003: 3.2%***) were lower as a result of reduced subsidies in the existing businesses and the fact that

* Where we refer to a normalised result, this is defined as the statutory result before the following as appropriate: charges for goodwill amortisation, exceptional items and tax relief on certain North American goodwill amortisation and exceptional items.

** Effective net debt is defined as net debt excluding the £42.7m (June 2003: £nil; Dec 2003: £18.7m) of cash deposits secured as a bond, which retains the interest earned, in respect of future rolling stock maintenance at ScotRail.

*** As restated for change in classification (see page 17) in 'one' (which commenced operation in April) revenue levels are seasonally low. With turnover boosted by the Manchester service, which runs until September, the normalised operating margin at Long Distance/Intercity was 5.6% (2003: 6.3%***). The normalised operating profit is stated net of a £1.3m (2003: £1.2m) charge for franchise bid costs. These costs have previously been disclosed as operating exceptional items.

NORTH AMERICA In local currency terms, Student Transportation maintained profit but improved the normalised operating margin to 18.3% (2003: 18.0%***) as turnover was slightly lower reflecting the previous year's bid results. The softening of the US dollar reduced the normalised operating profit by £2.5m. We continue to focus on driving down costs, particularly in making more effective use of the fleet. Public Transit performed much better with higher normalised operating profits of US$5.5m (2003: US$1.9m***). However, the margin of 3.8% (2003: 1.3%***) remains unsatisfactory and we continue to focus on making efficiencies and mitigating the exposure to "shock loss" accident claims.

AUSTRALIA BUS The normalised operating margin reduced to 3.6% (2003: 5.7%***) as a result of patronage decline in New South Wales which is being addressed by the Industry Review. The division continued to return cash to the Group.

CENTRAL FUNCTIONS This year we have separated out our central charges from the business segments both to provide greater transparency and to align the external reporting with how we run the business.

SHARE OF OPERATING LOSSES OF ASSOCIATES The Group's share of operating losses from associates increased to £4.3m (2003: £3.7m).

Eurostar UK has produced strong year on year revenue growth following the opening of the first section of the Channel Tunnel Rail Link. However, losses did not improve by as much as the benchmark set in our operating contract and therefore our share of the operating loss increased to £4.2m (2003: £3.5m). We continue to seek an exit from Eurostar which we believe is in the best interests of shareholders.

Our share of the operating loss at Midland Metro improved to £0.1m (2003: £0.2m).

INTEREST Our interest charge benefited from the strong cash conversion achieved in the first half of 2004, with the lower levels of net debt reducing net interest payable to £9.7m (2003: £12.7m). EBITDA interest cover before exceptional items improves to 9.2 times (2003: 6.8 times***), compared to the full year 2003 figure of 7.6 times***.

GOODWILL AND EXCEPTIONAL ITEMS The amortisation charge for the six months on the goodwill arising from the acquisition of Prism plc in December 2000 has been increased by £5.0m to £16.5m to ensure that the capitalised value of goodwill in the future will be supportable by the remaining franchises. The overall goodwill amortisation increased to £26.4m (2003: £22.4m) owing to the increase of the Prism amortisation, off-set by the weakening US dollar.

Exceptional costs of £5.3m (2003: £nil***) arose in the UK Trains division. The integration of the three legacy TOCs into 'one' resulted in start up costs and redundancy charges. The Group incurred

WE HAVE IMPROVED THE GROUP'S OPERATING MARGIN WITH PROFITS BACKED BY STRONG CASH FLOW

redundancy, property and pension charges following the merger of Qjump with the Trainline.com. Redundancy costs were incurred at Maintrain as a result of the decision to cease tendering for external work and focus on improving service to Central Trains and Midland Mainline.

TAX The tax charge on normalised profit before tax of £47.9m (2003: £40.2m) was £11.2m (2003: £9.2m), which represents an effective tax rate of 23.4% (2003: 23.0%). This tax rate principally reflects the benefit of continuing low effective tax rates on overseas earnings and the utilisation of brought forward losses.

CASH FLOW The Group generated £127.8m of on-going operating cash flow (2003: £70.7m).

All divisions continued to convert profit into cash to a significant degree. The working capital in UK Trains benefited from the fact that in the first half year we receive seven of the year's thirteen subsidy receipts and from delays in settling performance payments with the SRA.

Other items include a net inflow of £27.7m upon the commencement of the 'one' rail franchise, net of the unwind of certain working capital balances at the Wales and Borders franchise which we exited in December 2003. Off-setting this are payments of £1.8m relating to rail franchise bid costs and £3.7m relating to UK Trains exceptional items.

Net capital expenditure of £18.1m (2003: £23.4m) included £6.5m (2003: £8.9m) of investment in UK Bus (35 vehicles), £6.2m (2003: £3.4m) in UK Trains and £5.3m (2003: £8.4m) in North America (207 school buses). This includes £6.3m (2003: £3.4m) of additions purchased under finance leases.

After interest, dividends, tax and corporate activity the net funds inflow was £118.0m, before a foreign exchange gain of £5.2m. The effective net debt has reduced by £123.2m since 1 January 2004 to £184.6m. The published net debt of £141.9m is stated after taking into account £42.7m of cash deposits secured in respect of future rolling stock maintenance at ScotRail. The Group has no effective right to the interest as an amount is added to the bonded cash which is equivalent to the interest earned. The cash will transfer with the ScotRail franchise when it leaves the Group in October this year.

We anticipate a partial reversal of the favourable half year cash flows in the second half of 2004 for a number of reasons. Firstly, the Group's capital expenditure program will be heavily weighted towards the second half of the year; in particular there will be an intake of approximately 700 vehicles (£30m) in North America and the UK. Secondly, we anticipate there will be a cash outflow from unwinding the working capital position of the ScotRail franchise. Finally, the UK Trains division is expected to settle outstanding performance payments with the SRA and wind down the additional Manchester services operated by Midland Mainline.

ACCOUNTING POLICIES We have adopted the accounting policy for treasury shares stipulated by Urgent Issues Task Force ("UITF") statement 38. The new accounting policy requires those shares held for employee benefit trusts be deducted from shareholders' funds as "Treasury shares", where as previously these shares were held as investment assets. The prior year comparatives have been restated resulting in a reduction in the net book value of investments and reserves of £6.1m at 30 June 2003, and £5.2m at 31 December 2003.

We continue to make progress on our conversion to International Financial Reporting Standards which we will adopt for the year to 31 December 2005.

Divisional cash flow

	UK Bus £m	UK Coach £m	UK Trains £m	North American Bus £m	Australian Bus £m	Central functions £m	Total £m
Normalised operating profit	21.1	4.2	15.7	23.8	1.2	(4.1)	61.9
Depreciation and (profit)/loss on disposal	5.0	3.1	12.6	10.4	1.9	0.3	33.3
Amortisation of fixed asset grants	–	–	(5.6)	–	–	–	(5.6)
EBITDA	26.1	7.3	22.7	34.2	3.1	(3.8)	89.6
Working capital movement	(2.0)	1.7	45.7	4.4	1.4	8.2	59.4
Eurostar	–	–	–	–	–	(3.1)	(3.1)
On-going net cash inflow from operations	24.1	9.0	68.4	38.6	4.5	1.3	145.9
Net capital expenditure	(6.5)	(0.1)	(6.2)	(5.3)	–	–	(18.1)
On-going operating cash flow	17.6	8.9	62.2	33.3	4.5	1.3	127.8
Other items							22.2
Operating cash flow							150.0

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"

GROUP PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

		Unaudited six months to 30 June						Audited Year to 31 December
	Note	Total before goodwill & exceptional items 2004 £m	Goodwill & exceptional items 2004 £m	Total 2004 £m	Total before goodwill & exceptional items 2003* £m	Goodwill & exceptional items 2003* £m	Total 2003* £m	Total 2003* £m
Turnover								
– continuing operations		**1,258.6**	**–**	**1,258.6**	1,258.8	–	1,258.8	2,566.1
– acquisitions		**8.1**	**–**	**8.1**	–	–	–	–
Turnover	4	**1,266.7**	**–**	**1,266.7**	1,258.8	–	1,258.8	2,566.1
Other operating income		**4.7**	**–**	**4.7**	5.4	–	5.4	10.9
Other operating costs before goodwill and exceptional items		**(1,209.5)**	**–**	**(1,209.5)**	(1,207.6)	–	(1,207.6)	(2,447.7)
Goodwill amortisation	5	**–**	**(26.4)**	**(26.4)**	–	(22.4)	(22.4)	(45.7)
Exceptional items	6	**–**	**(5.3)**	**(5.3)**	–	–	–	–
Total operating costs		**(1,209.5)**	**(31.7)**	**(1,241.2)**	(1,207.6)	(22.4)	(1,230.0)	(2,493.4)
– continuing operations		**61.9**	**(31.7)**	**30.2**	56.6	(22.4)	34.2	83.6
– acquisitions		**–**	**–**	**–**	–	–	–	–
Group operating profit	2	**61.9**	**(31.7)**	**30.2**	56.6	(22.4)	34.2	83.6
Share of operating losses of associates		**(4.3)**	**–**	**(4.3)**	(3.7)	–	(3.7)	(4.1)
Profit on ordinary activities before interest		**57.6**	**(31.7)**	**25.9**	52.9	(22.4)	30.5	79.5
Net interest payable		**(9.7)**	**–**	**(9.7)**	(12.7)	–	(12.7)	(25.0)
Profit on ordinary activities before taxation		**47.9**	**(31.7)**	**16.2**	40.2	(22.4)	17.8	54.5
Tax on profit/(loss) on ordinary activities	7	**(11.2)**	**2.8**	**(8.4)**	(9.2)	1.8	(7.4)	(12.5)
Profit after taxation		**36.7**	**(28.9)**	**7.8**	31.0	(20.6)	10.4	42.0
Minority interest		**0.9**	**–**	**0.9**	0.6	–	0.6	1.0
Profit for the financial period		**37.6**	**(28.9)**	**8.7**	31.6	(20.6)	11.0	43.0
Dividends		**(12.8)**	**–**	**(12.8)**	(11.5)	–	(11.5)	(35.1)
Retained (loss)/profit		**24.8**	**(28.9)**	**(4.1)**	20.1	(20.6)	(0.5)	7.9
Basic earnings per share	8			**6.4p**			8.3p	32.1p
Normalised basic earnings per share	8	**27.8p**			23.8p			58.4p
Diluted earnings per share	8			**6.2p**			8.0p	31.2p
Normalised diluted earnings per share	8	**27.0p**			23.1p			56.7p

* Restated for change in classification (see note 2)

GROUP BALANCE SHEET

At 30 June 2004

	Note	**Unaudited 30 June 2004 £m**	Unaudited 30 June 2003* £m	Audited 31 December 2003* £m
Fixed assets				
Intangible assets		**370.1**	449.5	404.6
Tangible assets		**383.4**	422.4	405.6
Investments and interests in associates		**10.2**	19.6	7.3
		763.7	891.5	817.5
Current assets				
Stock		**18.5**	20.3	17.3
Debtors	9	**269.0**	278.0	343.7
Cash at bank and in hand		**182.5**	79.1	97.0
		470.0	377.4	458.0
Creditors: amounts falling due within one year	10	**(595.1)**	(517.5)	(601.0)
Net current liabilities		**(125.1)**	(140.1)	(143.0)
Total assets less current liabilities		**638.6**	751.4	674.5
Creditors: amounts falling due after more than one year	11	**(300.3)**	(424.6)	(347.3)
Provisions for liabilities and charges		**(74.6)**	(66.7)	(58.8)
Net assets		**263.7**	260.1	268.4
Capital and reserves				
Called up share capital		**6.9**	6.8	6.8
Share premium account		**45.8**	44.7	45.1
Share capital to be issued		**–**	0.1	0.1
Treasury shares		**(5.3)**	(6.1)	(5.2)
Merger reserve		**15.4**	15.4	15.4
Revaluation reserve		**0.8**	0.8	0.8
Profit and loss account		**196.6**	193.5	200.7
Equity shareholders' funds		**260.2**	255.2	263.7
Equity minority interest		**3.5**	4.9	4.7
		263.7	260.1	268.4

* Restated for change in accounting policy for treasury shares (see note 2)

GROUP STATEMENT OF CASH FLOWS

For the six months ended 30 June 2004

	Note	**Unaudited six months to 30 June 2004 £m**	Unaudited six months to 30 June 2003 £m	Audited year to 31 December 2003 £m
Net cash inflow from operating activities	*13(a)*	**170.6**	87.9	182.8
Net interest paid		**(7.4)**	(9.9)	(19.1)
Interest element of finance lease rentals		**(2.4)**	(2.1)	(3.9)
Return on investments and servicing of finance		**(9.8)**	(12.0)	(23.0)
UK corporation tax paid		**(2.1)**	(13.8)	(22.2)
Overseas tax paid		**(1.0)**	(0.4)	(0.1)
Taxation		**(3.1)**	(14.2)	(22.3)
Payments to acquire tangible fixed assets		**(16.0)**	(25.7)	(48.0)
Receipts from sale of tangible fixed assets		**1.7**	5.7	12.9
(Payments to acquire)/receipts from sale of shares to satisfy employee share schemes		**(0.1)**	1.3	2.1
Receipts in respect of other investments		**–**	–	8.1
Capital expenditure and financial investment		**(14.4)**	(18.7)	(24.9)
Receipts from the sale of businesses		**–**	–	0.8
Payments in respect of businesses sold/closed		**(0.8)**	(49.6)	(49.8)
Payments to acquire businesses		**(0.2)**	(4.7)	(4.7)
Cash acquired in businesses purchased		**19.1**	–	–
Deferred consideration for businesses disposed		**0.4**	–	–
Deferred consideration for businesses acquired		**(4.9)**	(0.4)	(0.4)
Acquisitions and disposals		**13.6**	(54.7)	(54.1)
Equity dividends paid		**(23.6)**	(21.7)	(33.2)
Cash inflow/(outflow) before financing activities		**133.3**	(33.4)	25.3
Management of liquid resources				
Cash (paid in to)/withdrawn from short term deposits		**(42.3)**	14.4	14.2
Financing				
Issue of share capital		**0.7**	–	0.4
Cash inflow/(outflow) from lease financing		**29.7**	(6.1)	(13.8)
Repayment of loan notes		**(0.9)**	–	(0.7)
Loans advanced		**–**	9.1	–
Loans repaid		**(100.6)**	–	(26.1)
Net cash (outflow)/inflow from financing		**(71.1)**	3.0	(40.2)
Increase/(decrease) in cash	*13(b)*	**19.9**	(16.0)	(0.7)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the six months ended 30 June 2004

	Unaudited six months to 30 June 2004 £m	Unaudited six months to 30 June 2003 £m	Audited year to 31 December 2003 £m
Profit for the financial period	**8.7**	11.0	43.0
Exchange differences on foreign currency net investments	–	4.0	2.8
Total recognised gains and losses	**8.7**	15.0	45.8

RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

For the six months ended 30 June 2004

	Unaudited six months to 30 June 2004 £m	Unaudited six months to 30 June 2003 £m	Audited year to 31 December 2003 £m
Profit for the financial period	**8.7**	11.0	43.0
Dividends	**(12.8)**	(11.5)	(35.1)
Exchange differences on foreign currency net investments	–	4.0	2.8
New share capital issued for cash	**0.7**	–	0.4
Net (addition)/reduction in treasury shares*	**(0.1)**	(0.4)	0.5
Net (reduction)/addition to shareholders' funds	**(3.5)**	3.1	11.6
Equity shareholders' funds at 1 January*	**263.7**	252.1	252.1
Equity shareholders' funds	**260.2**	255.2	263.7

* Restated for change in accounting policy for treasury shares (see note 2)

SEGMENTAL ANALYSIS

For the six months ended 30 June 2004

Analysis by class of business

	Unaudited six months to 30 June				Audited year to 31 December	
	Turnover 2004 £m	**Operating profit 2004 £m**	Turnover 2003 £m	Operating profit 2003* £m	Turnover 2003 £m	Operating profit 2003* £m
UK Bus – continuing operations	**107.0**	**21.1**	103.8	22.1	211.9	47.5
– acquisitions	**8.1**	**–**	–	–	–	–
UK Trains	**838.6**	**15.7**	823.6	9.0	1,702.4	33.4
UK Coach	**87.8**	**4.2**	85.3	2.9	186.6	16.1
UK operations	**1,041.5**	**41.0**	1,012.7	34.0	2,100.9	97.0
North American Bus	**191.8**	**23.8**	216.3	24.5	400.1	37.0
Australian Bus	**33.4**	**1.2**	29.8	1.7	65.1	3.4
Central functions	**–**	**(4.1)**	–	(3.6)	–	(8.1)
	1,266.7	**61.9**	1,258.8	56.6	2,566.1	129.3
Goodwill amortisation		**(26.4)**		(22.4)		(45.7)
Exceptional items		**(5.3)**		–		–
Group operating profit		**30.2**		34.2		83.6
Share of operating losses of associates		**(4.3)**		(3.7)		(4.1)
Profit on ordinary activities before interest		**25.9**		30.5		79.5

* Restated for change in classification (see note 2)

1. BASIS OF PREPARATION

These accounts have been prepared using the accounting policies set out in the Group's 2003 statutory accounts with the exception of UITF 38 "Accounting for ESOP Trusts" (see note 2). Changes have also been made to the classification of the segmental analysis of the Group's operating profit (see note 2).

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 2003 have been extracted from the Annual Report 2003 which has been filed with the Registrar of Companies. The audit report on the Annual Report 2003 was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. CHANGE IN SEGMENTAL ANALYSIS CLASSIFICATION AND ACCOUNTING POLICY

Two changes have been made to the Group's segmental analysis classification:

(a) The costs incurred bidding for franchises in our UK Trains division are now classified as operating costs. These costs were previously classified as operating exceptional items.

(b) Costs incurred in operating the Group management function are now disclosed separately as Central functions. These were previously allocated across the divisions. The change in classification is intended to align our external reporting with our internal management reporting.

The segmental analysis as restated, and as reported, is as follows:

		Unaudited six months to 30 June			Audited year to 31 December	
		Operating profit 2004	Operating profit 2003		Operating profit 2003	
	Details above	**£m**	As restated £m	As reported £m	As restated £m	As reported £m
UK Bus – continuing operations	(b)	**21.1**	22.1	22.0	47.5	47.2
– acquisitions		**–**	–	–	–	–
UK Trains	(a), (b)	**15.7**	9.0	7.3	33.4	32.0
UK Coach	(b)	**4.2**	2.9	2.3	16.1	15.0
UK operations		**41.0**	34.0	31.6	97.0	94.2
North American Bus	(b)	**23.8**	24.5	24.5	37.0	37.0
Australian Bus	(b)	**1.2**	1.7	1.7	3.4	3.4
Central functions	(b)	**(4.1)**	(3.6)	–	(8.1)	–
		61.9	56.6	57.8	129.3	134.6
Goodwill amortisation		**(26.4)**	(22.4)	(22.4)	(45.7)	(45.7)
Exceptional items – UK Train bid costs	(a)	**–**	–	(1.2)	–	(5.3)
Other exceptional items		**(5.3)**	–	–	–	–
Group operating profit		**30.2**	34.2	34.2	83.6	83.6

UITF 38, "Accounting for ESOP Trusts", has been adopted with effect from 1 January 2004. The adjusted accounting policy is that shares held in respect of employee benefit trusts should be deducted from shareholders' funds as "Treasury shares". Prior to 1 January 2004 these shares were held as investment assets.

The prior year comparatives have been restated to comply with UITF 38, resulting in a reduction in the net book value of investments and reserves of £6.1m at 30 June 2003, and £5.2m at 31 December 2003.

3. EXCHANGE RATES

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

	Six months to 30 June 2004		Six months to 30 June 2003		Year to 31 December 2003	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.82**	**1.82**	1.65	1.61	1.79	1.64
Canadian dollar	**2.43**	**2.43**	2.24	2.36	2.32	2.31
Australian dollar	**2.60**	**2.46**	2.46	2.63	2.37	2.53

If the results for the six months to 30 June 2003 were retranslated at the average exchange rates for the six months to 30 June 2004, North America would have achieved normalised operating profit of £22.1m on turnover of £193.1m and Australia Bus normalised operating profit of £1.8m on turnover of £31.8m.

4. 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 half year to 30 June 2004, franchise agreement receipts amounted to £275.7m (2003 interim: £334.1m; 2003 full year: £684.0m).

5. GOODWILL AMORTISATION

Goodwill amortisation is analysed as follows:

	Six months to 30 June 2004 £m	Six months to 30 June 2003 £m	Year to 31 December 2003 £m
UK Trains	**16.5**	11.5	24.3
UK Coach	**0.5**	0.5	0.9
North American Bus	**8.8**	9.8	19.4
Australian Bus	**0.6**	0.6	1.1
Goodwill amortisation	**26.4**	22.4	45.7

All goodwill amortisation relates to continuing businesses.

6. EXCEPTIONAL ITEMS

Exceptional items are analysed as follows:

	Six months to 30 June 2004 £m	Six months to 30 June 2003* £m	Year to 31 December 2003* £m
UK Trains	**5.3**	–	–

* Restated for change in classification (see note 2)

The exceptional costs were incurred at 'one' (the integration of the three legacy TOCs resulted in start up costs and redundancy charges), Qjump (redundancy, property and pension charges following the merger with the Trainline.com) and Maintrain (redundancy costs incurred as a result of the decision to cease tendering for external work and focus on improving service to Central Trains and Midland Mainline).

7. TAXATION

Tax on profit on ordinary activities for the half year to 30 June 2004 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2004. The tax charge of £11.2m (2003 interim*: £9.2m; 2003 full year*: £23.1m) represents an effective tax rate on profit on ordinary activities, excluding goodwill and exceptional items, of 23.4% (2003 interim: 23.0%; 2003 full year: 23.0%). It includes overseas taxation of £3.6m (2003 interim: £1.8m; 2003 full year: £5.1m), and deferred taxation of £3.2m (2003 interim: £0.3m; 2003 full year: £4.1m credit).

* Restated for change in classification (see note 2)

8. EARNINGS PER SHARE

	Six months to 30 June 2004	Six months to 30 June 2003*	Year to 31 December 2003*
Basic earnings per share	**6.4p**	8.3p	32.1p
Normalised basic earnings per share	**27.8p**	23.8p	58.4p
Diluted earnings per share	**6.2p**	8.0p	31.2p
Normalised diluted earnings per share	**27.0p**	23.1p	56.7p

* Restated for change in classification (see note 2)

Basic earnings per share is calculated by dividing the profit for the financial period of £8.7m (2003 interim: £11.0m; 2003 full year: £43.0m) 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.

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

	Six months to 30 June 2004	Six months to 30 June 2003	Year to 31 December 2003
Basic weighted average shares	**135,226,325**	132,595,076	133,765,928
Adjustment for dilutive potential ordinary shares	**3,750,931**	4,282,761	3,951,354
Diluted weighted average shares	**138,977,256**	136,877,837	137,717,282

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

8. EARNINGS PER SHARE (continued)

Normalised profits for the financial period are:	**Six months to 30 June 2004 £m**	Six months to 30 June 2003* £m	Year to 31 December 2003* £m
Profit for the financial period	**8.7**	11.0	43.0
Goodwill amortisation	**26.4**	22.4	45.7
Exceptional items	**5.3**	–	–
Tax relief on goodwill and exceptional items	**(2.8)**	(1.8)	(10.6)
Normalised profits for the financial period	**37.6**	31.6	78.1

* Restated for change in classification (see note 2)

9. DEBTORS

	At 30 June 2004 £m	At 30 June 2003 £m	At 31 December 2003 £m
Trade debtors	**129.6**	147.2	175.3
Amounts due from associates	**12.2**	8.8	9.2
Other debtors	**59.1**	45.3	75.4
Prepayments and accrued income	**68.1**	76.7	83.8
	269.0	278.0	343.7

Included within other debtors is £2.2m (30 June 2003: £4.6m; 31 December 2003: £2.8m) and included within prepayments is £5.7m (30 June 2003: £5.9m; 31 December 2003: £5.9m) which is recoverable after more than one year.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 30 June 2004 £m	At 30 June 2003 £m	At 31 December 2003 £m
Loan notes	**7.6**	8.8	8.4
Bank loans	**–**	–	19.9
Bank overdrafts	**0.9**	15.4	0.2
Trade creditors	**147.8**	147.0	160.1
Amounts owed to associates	**0.3**	0.2	0.2
Finance lease obligations	**20.9**	14.5	11.6
Corporation tax payable	**21.0**	17.6	18.4
Social security and other taxation	**15.0**	16.5	16.4
Accruals and deferred income	**188.6**	169.7	169.4
Other creditors	**180.2**	116.3	172.8
Proposed dividend	**12.8**	11.5	23.6
	595.1	517.5	601.0

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	At 30 June 2004 £m	At 30 June 2003 £m	At 31 December 2003 £m
Bank loans	**218.4**	378.3	304.5
Finance lease obligations	**77.6**	41.9	41.5
Other creditors	**4.3**	4.4	1.3
	300.3	424.6	347.3

12. NET BORROWINGS

	At 30 June 2004 £m	At 30 June 2003 £m	At 31 December 2003 £m
Due within one year			
Loan notes	**7.6**	8.8	8.4
Bank loans	**–**	–	19.9
Bank overdrafts	**0.9**	15.4	0.2
Finance lease obligations	**20.9**	14.5	11.6
	29.4	38.7	40.1
Due within one to two years			
Finance lease obligations	**20.3**	10.2	12.2
Due within two to five years			
Bank loans	**218.4**	378.3	304.5
Finance lease obligations	**45.2**	31.1	27.7
	263.6	409.4	332.2
Due by instalment after five years			
Finance lease obligations	**12.1**	0.6	1.6
Total borrowings	**325.4**	458.9	386.1
Cash at bank and in hand	**(182.5)**	(79.1)	(97.0)
Other debt receivable	**(1.0)**	(0.4)	–
Net borrowings	**141.9**	379.4	289.1

Secured borrowings within the Group (representing finance leases) total £98.5m (30 June 2003: £56.4m; 31 Dec 2003: £53.1m).

Included in cash at bank and in hand are restricted balances of £119.0m (30 June 2003: £28.8m; 31 Dec 2003: £62.7m) held by the train operating companies which can only be used to settle their own liabilities. Within the restricted balances is £42.7m (30 June 2003: £nil; 31 Dec 2003: £18.7m) of cash deposits secured against a bond issued in respect of future rolling stock maintenance at ScotRail Railways Limited. The Group does not earn interest on these monies as an amount equal to the interest earned on the deposit is added to the bond.

13. NOTES TO THE CASH FLOW STATEMENT

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

	Six months to 30 June 2004 £m	Six months to 30 June 2003 £m	Year to 31 December 2003 £m
Group operating profit	**30.2**	34.2	83.6
Depreciation of tangible fixed assets	**33.6**	31.9	64.7
Amortisation of fixed asset grants	**(5.6)**	(1.3)	(3.0)
Profit on disposal of fixed assets	**(0.3)**	(0.3)	(1.5)
Goodwill amortisation	**26.4**	22.4	45.7
(Increase)/decrease in stocks	**(1.0)**	(0.6)	2.0
Decrease in debtors	**87.7**	81.6	17.6
Increase/(decrease) in creditors	**2.8**	(86.0)	(34.2)
(Decrease)/increase in provisions	**(3.2)**	6.0	7.9
Net cash inflow from operating activities	**170.6**	87.9	182.8

The net cash flows from operating activities include outflows of £1.5m from acquisitions.

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

	Six months to 30 June 2004 £m	Six months to 30 June 2003 £m	Year to 31 December 2003 £m
Increase/(decrease) in cash in the period	**19.9**	(16.0)	(0.7)
Cash outflow/(inflow) from movement in debt and lease financing	**71.8**	(3.0)	40.6
Cash outflow/(inflow) from movement in liquid resources	**42.3**	(14.4)	(14.2)
Change in net debt resulting from cash flows	**134.0**	(33.4)	25.7
Change in net debt resulting from acquisitions and disposals	**(9.2)**	–	–
Change in net debt resulting from non cash flows	**22.4**	(11.4)	19.8
Movement in net debt in the period	**147.2**	(44.8)	45.5
Opening net debt	**(289.1)**	(334.6)	(334.6)
Net debt	**(141.9)**	(379.4)	(289.1)

Changes in net debt resulting from non cash flows represent £5.2m exchange gain movements (30 June 2003: £8.0m loss; 31 December 2003: £10.0m gain), £0.5m loan arrangement fees (30 June 2003: £nil; 31 December 2003: £0.9m), £6.3m finance lease additions (30 June 2003: £3.4m; 31 December 2003: £8.0m) and £24.0m of cash deposits secured as a bond in respect of future rolling stock maintenance at ScotRail Railways Limited (30 June 2003: £nil; 31 December 2003: £18.7m).

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 2004 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 13. 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 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 2004.

Ernst & Young LLP
London
29 July 2004

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 2005 AGM will be included with the Annual Report and Accounts distributed 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 COMMUNICATION

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	3 September 2004
Interim dividend payment date	1 October 2004
Final dividend record date	April 2005
Final dividend payment date	May 2005

FINANCIAL CALENDAR

Event	Date
Preliminary results announced	February 2005
Annual General Meeting	3 May 2005

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