National Express Group

Interim Report 2001

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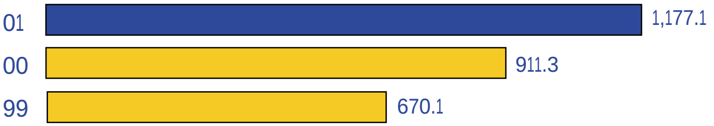
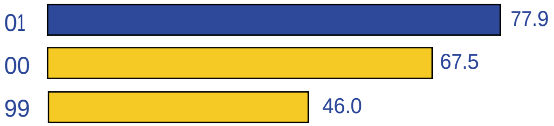
Highlights

Unaudited six months to 30 June 2001

Turnover (£m)



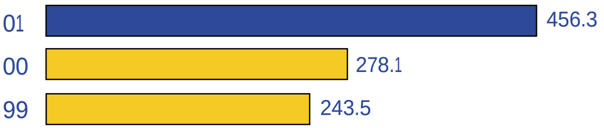
Operating profit
before goodwill and exceptionals (£m)



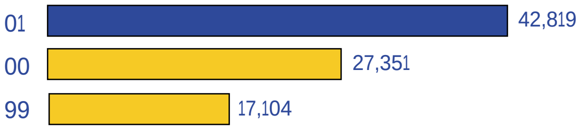
Diluted earnings per share
– normalised (p)

Dividends per share (p)

Net assets (£m)

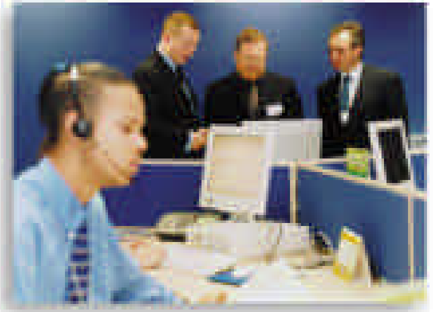


Average number of employees



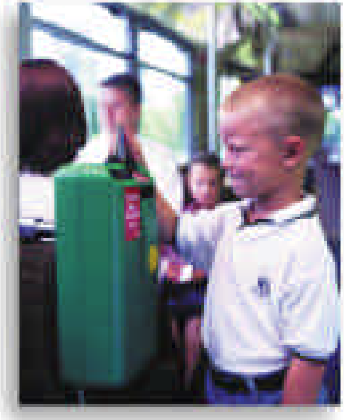
Highlights of the half year

This has been another successful six months for the Group. We have again delivered a good set of results.



Technology

The Rt Hon John Spellar MP, Minister for Transport, opened our new 30,000 sq ft customer contact centre for the coach division in Birmingham in early summer. This facility will enable customers to purchase tickets by phone or internet, provide valuable internet and direct sales support, handle customer enquiries and support third party agents.

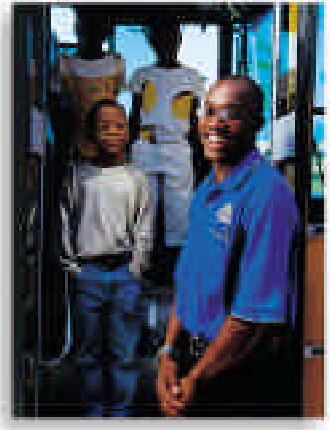


Services

In Australia there is continued focus on fare evasion. Passengers are encouraged to validate tickets for every journey.

Investment

Spring saw the introduction of the first buses in the UK fitted with Euro III engines bringing the cleanest buses in the UK into the West Midlands. These buses are fitted with revolutionary Eco-busting particulate traps which helps to keep exhaust emission levels to a minimum.



Specialist services

The Student Transportation division was rebranded as "Durham School Services" emphasising the national spread and the special needs expertise of the division.

Training

Work has commenced on the construction of the Midland Mainline new Customer Service Academy based in Derby. Once completed, the academy will operate as a multi purpose centre for recruitment, induction, customer service and skills development for rail staff within the Group.

Commitment

Wales and West illustrated its commitment to the geographies over which its services run by launching a series of branded trains depicting local tourist attractions and themes.

Technology

NavTrak floating vehicle data technology has been installed on over 500 of the National Express scheduled coach fleet. The new technology provides intelligent traffic information. This tracker information will enable the reliability of services to be monitored thereby providing better customer information and services.

Information

We have spearheaded the introduction of a new portable ticketing system across the UK rail network. New portable ticketing units, incorporating leading edge technology, will provide greater flexibility, efficiency and improved service levels for passengers and staff.

Financial highlights

- Turnover up 29.2% to £1,177.1m (2000: £911.3m)
- Operating profit from continuing businesses up 20.9% to £76.8m (2000: £63.5m)
- Normalised profit before tax up 20% to £60.5m (2000: £50.4m)
- Restated normalised diluted earnings per share up 21.2% to 33.7p (2000: 27.8p)
- Interim dividend up 12.3% to 7.3p (2000: 6.5p)
- Operating cash flow of £82.4m (2000: £44.4m)
- EBITDA interest cover of 6.4 times on continuing activities (2000: 5.2 times)
- Net assets of £456.3m (2000: £278.1m)
- Net debt at 30 June of £370.4m (2000: £415.3m)
- Disposal of airports division for £241.0m

Operational highlights

- Train passenger revenue back to pre-Hatfield levels;
- Compensation received from Railtrack has so far mitigated the revenue shortfall incurred;
- Delivery of the first buses in the UK to be fitted with Euro III engines, bringing the cleanest buses on the road in the UK;
- Expansion of the USA division through renewals and conversions and rebranding of Student Transportation;
- Further improvements in punctuality and efficiency in the Australian bus division and rebranding of the trains division;
- New franchise proposals for Silverlink extension and ScotRail re-profiling submitted to the SRA with Central Trains submission to follow shortly; and
- Investment in new technology including the launch of an on-line booking service for train tickets, a new £1m customer contact centre for the coach division and the introduction of global positioning system technology onto the coach fleet.

Chairman's statement

I am pleased to announce a good set of results for the six months to 30 June 2001. These are very creditable given the challenges that our businesses have faced over the period, particularly within UK trains.

The year started well with the completion in March of the sale of our airports division for £241m to Manchester Airport PLC. The proceeds from this transaction have been used to reduce debt in the short term. Longer term the proceeds will be used to fund further expansion of the Group.

Solid progress was made within the bus and coach divisions. In our bus division external cost pressures were addressed by agreeing a longer term pay award, focusing the business to meet the changing demands of our customers as well as hedging our fuel purchases. We support Government initiatives to widen the scope of Fuel Duty Rebate to coaching and, as a result, we are preparing to introduce half-price fares for senior citizens.

The performance of our trains division continues to be affected by the network disruption following Hatfield. In the run up to Easter we saw patronage levels back to the levels experienced pre-Hatfield, but our rate of progress continues to be affected particularly with leisure travel on Central Trains and ScotRail. We are concentrating on marketing plans to address these issues and return patronage growth to the railways.

In the USA, we are increasing our market share by strengthening our geographic concentration and increasing our foothold through conversions and renewals, wherever possible at higher margins.

In Australia, a major rebranding of the train and tram division took place and the delivery of refurbished rolling stock is underway. Considerable effort has been made on upgrading the quality of the bus fleet and improving the efficiency of services and the quality of depot facilities.

Technology continues to drive significant passenger benefits. To support the growth of direct sales, we are investing in the use of technology in the provision of customer information and developing new sales channels.

Financial results

Turnover for the six months to 30 June 2001 was up 29.2% to £1,177.1m (2000: £911.3m). Operating profit, before exceptional costs and the amortisation of goodwill, increased by 15.4% to £77.9m (2000: £67.5m). Profit before tax, exceptional costs and goodwill was up 20% to £60.5m (2000: £50.4m).

Exceptional operating costs were £2.6m relating largely to the consolidation of the London-based train operations, following the acquisition of Prism Rail in September last year.

Normalised diluted earnings per ordinary share, restated to exclude discontinued activities, increased by 21.2% to 33.7p (2000: restated 27.8p).

At 30 June, EBITDA interest cover was 6.5 times (2000: 5.6 times). Cash generation from operations during the first six months remained strong at £82.4m (2000: £44.4m). Net debt at 30 June was £370.4m (2000: £415.3m) and net assets were £456.3m (2000: £278.1m). Gearing at 30 June was 81% compared with 149% at the same time last year.

Dividend

An interim dividend of 7.3p per ordinary share – up 12.3% on the 2000 interim dividend of 6.5p – will be paid on 19 October 2001 to shareholders on the register on 21 September 2001.

Board changes

During the past six months, three new Non Executive Directors joined the Board, following the retirement of Clive Myers and James Watson at the AGM.

Tim Stevenson and David Ross joined at the beginning of February. In addition, I was delighted to announce the appointment in May of Sue Lyons OBE as a Non Executive Director. Sue has over 25 years' experience in the engineering and manufacturing industries primarily at Rolls Royce where she was latterly Managing Director, Defence (Europe). She brings an extensive range of skills from industry.

Safety

We are committed to investing in and playing our part in improving levels of safety across the Group. Our principal objective is to ensure that employees, passengers and the general public are kept free of injury arising from our operations.

In the trains division, we continue to implement the recommendations of the Uff and Cullen reports. We are focusing on reducing the number of signals passed at danger ("SPADs") with better route briefing of drivers, defensive driving training and working with Railtrack to make changes to the signalling infrastructure, where appropriate. The installation of the train protection and warning system is on schedule. All our trains will be fitted with this system by the end of 2003.

During the period, an accident reduction programme has been successfully introduced at Travel West Midlands ("TWM"). In addition a "Well Driven" scheme was implemented across the coach division to raise awareness of the standards of driving.

In the USA and Australia safety training was rolled out to all our operational units to establish consistent standards across all companies and, as a result, accidents have been reduced.

Current trading and outlook

We are very pleased with our progress during the first half.

Trading within our bus and coach divisions continues to be encouraging. In our trains division, passenger revenue has returned to pre-Hatfield levels and we are focusing on stimulating further demand to return growth to the railways. In addition, we have put a proposal to the SRA to re-profile our ScotRail franchise and are preparing a similar submission for Central Trains. We welcome the Secretary of State's blueprint for the development of the railways and the improvement of services and believe that short term franchise extensions can bring real benefits where major infrastructure upgrades are not required. As a result we have also put a proposal to the SRA to extend our Silverlink franchise by two years.

Overseas, there are additional opportunities to strengthen our position within the USA and Australian markets.

We continue to deliver good growth from our operations despite external challenges. We are seeking new opportunities to grow our business and remain optimistic about the outcome for the year.

Michael Davies *Chairman*
12 September 2001

Chief Executive's review of operations

Buses

Travel West Midlands ("TWM") is the leading bus operator in the West Midlands; its fleet of 1,800 buses covers more than 450 routes. It employs 5,400 staff and incorporates Travel Dundee and Midland Metro.

Patronage over the six month period was stable, a considerable achievement given the ongoing redevelopment that is being undertaken in Birmingham city centre.

Turnover and operating profit were up 4% and 5% in the first half to £103.1m (2000: £99.1m) and £26.5m (2000: £25.2m) respectively. Yields improved through rerouting, pricing and marketing activity. In addition, value-added tickets continued to be rolled out including the Daysaver 4, a group saver ticket, which now accounts for over 2% of all journeys. We continue to promote the benefits of travel by bus in the West Midlands by improving services to new destinations, such as regional hospitals and new shopping centres.

A new five year pay deal for TWM drivers was agreed early in the year and, within the context of a tight labour market, we continue to look at innovative ways to attract and retain staff, including offering training and educational programmes. More than 50% of our drivers have now enrolled for NVQ2, the agreed standard for the bus industry, and already over 30% of drivers are accredited, which is ahead of the undertakings given by the industry.

We have also taken delivery of over 105 out of our total order of 180 buses, with five new buses being delivered every week. These are the first buses in the UK fitted with Euro III engines – the latest low emission engine currently on the market making them the cleanest buses on the road in the UK. We are investing in the quality of our fleet with 700 CCTVs now installed on our buses, enhancing safety for both passengers and staff.

We continue to work closely with local councils throughout the West Midlands on the implementation of the bus priority schemes and infrastructure investments. As part of this initiative, TWM has introduced new vehicles onto two Showcase routes.

Trains

We are the largest operator of train franchises in the UK. We operate nine train franchises: c2c, Central Trains, Gatwick Express, Midland Mainline, ScotRail, Silverlink, WAGN, Wales and West and Valley Lines. The division employs 15,000 people.

Total turnover, including franchise receipts, was up 44.3% to £672.6m (2000: £466.1m) and operating profit before goodwill and exceptional costs increased by 45% to £20.3m (2000: £14.0m).

In May we appointed Ian Buchan as the new Chief Executive of our trains division. He is responsible for the operation and performance of the train activities including its e-retailing activities. Ian, who reports to Ray O'Toole, our Chief Operating Officer (UK), has more than 30 years' experience in public transport.

In common with the rest of the industry, the performance of our trains division over the six month period was severely affected by disruption to the network on the back of the Hatfield accident. Recovery was further hit by the duration of the foot and mouth outbreak, which has discouraged leisure travel both within and into the UK.

Immediately following Hatfield, significant numbers of emergency speed restrictions ("ESRs") were imposed across the network and these affected the vast majority of our train services. A large proportion of the ESRs subsequently remained in place for several months with Central Trains, ScotRail, Midland Mainline ("MML") and WAGN being worst affected. Silverlink and WAGN still continue to be affected by engineering work. In the run up to Easter, patronage recovery was encouraging, however, leisure sector patronage growth has since slowed which has had a negative effect on Central Trains and ScotRail where up to 60% of patronage is from the leisure market.

We are encouraging people back onto the railways through marketing initiatives which include low fare offers and promotion of back to normal service levels. We are also working with Railtrack to improve performance and service levels which continue to be disappointing.

Compensation received from Railtrack has so far mitigated revenue shortfall incurred. We continue our discussions with our insurers and will pursue all avenues to ensure that all our losses are recovered. We believe, however, that a year's growth on rail has been lost.

We welcome the Secretary of State's consultative paper on rail refranchising. We believe that short term franchise extensions can bring real benefits where major infrastructure upgrades are not required, however we remain convinced that only longer term franchises are viable where major infrastructure upgrades are required. Short term extensions would therefore benefit selected franchises such as Central Trains, ScotRail and Silverlink.

As a result of this consultative paper we have put proposals to the SRA to extend Silverlink's franchise. Following the after effects of Hatfield we have also submitted a proposal to re-profile our ScotRail franchise and are preparing a similar proposal for Central Trains. We await a further announcement from the SRA on the new Wales & Borders and Wessex franchises, which we are establishing for the SRA, before deciding whether or not to submit proposals for these franchises.

As part of our two year franchise extension, MML is shortly to place a £135m order for 20 new 125mph trains which are due for introduction onto the service from 2004. We are also in negotiations with Railtrack about funding the £60m MML infrastructure upgrade.

We have spearheaded the introduction of a new portable ticketing system to be used by our train staff across the rail network. The new portable ticketing units, incorporating leading-edge technology, will provide greater flexibility, efficiency and improved passenger information and service levels. Marking the first significant change in ticketing technology on the railway system since 1984, we have been instrumental in developing a unit that can be used by all train companies. The technology is being trialled on Gatwick Express and, subject to evaluation, will be rolled out to our other TOCs over the coming months. We anticipate other railway operators will participate in this initiative.

In April, we established a new e-retailing unit within the trains division. This unit is responsible for the division's internet retailing strategy and is instrumental in the £6m development of our on-line ticket booking service for train tickets across the UK which will be launched later this month. We continue to work on other retail sales developments, including upgrading retail outlets at our stations.

Over the six month period more of our new trains were delivered. At c2c, 25 out of the remaining 56 trains have been delivered and at ScotRail, seven out of the remaining 40 have arrived with the balance of trains on both services due by the end of this year. At Gatwick Express the full complement of eight trains is finally in service and they have been received very favourably by our passengers.

Elsewhere in our trains division we have merged our London commuter TOCs, Silverlink, WAGN and c2c, to form London Lines, which will ensure that synergies and best practice are implemented across these businesses. Following the launch last year of the Airport Express marketing and sales alliance with BAA, Stansted Express now forms part of Airport Express and benefits from the joint marketing of rail-air transfer links to and from London. We continue to meet with the RMT with a view to finding a resolution to the driver only operation dispute that is ongoing on c2c services.

In July, Eurostar reported continuing year-on-year growth in the first half of 2001 with sales up 3%.

Coaches

The coach division provides Britain's only scheduled express coach network and serves more than 1,200 destinations. AirLinks, the airport coach service, operates premier, high-frequency scheduled coach services between all the UK's major airports, as well as airside coaching services. The division has 2,000 employees.

The coach division produced a good performance in the first six months, benefiting from the impact of disruption to rail services. Turnover was up 5.7% to £85.4m (2000: £80.8m) and operating profit increased by 19% to £1.9m (2000: £1.6m).

The express coaching division continued to invest in improving services on key routes as well as in new technology. Direct sales and call centre sales now account for more than 23% of total sales. To cater for this increased demand, in July The Rt Hon John Spellar MP, Minister for Transport, opened a new 30,000 sq ft customer contact centre for the division in Birmingham. This will enable customers to buy tickets by phone or internet, provide valuable internet and direct sales support, handle customer enquiries and support third party agents. 47% of coach division sales are now through our own sales channels, compared with 37% for the whole of 2000.

In addition, the Group continues to invest in its coach facilities. Work began on the £3m redevelopment of the new coach station in Manchester, which will open in April 2002 and is scheduled to accommodate the demand generated by the Commonwealth Games in June 2002.

In June we agreed to fit the ITIS "NavTrak" in-vehicle tracking product on all scheduled coach routes using GPS technology. Information collected from this service, including vital traffic flow information, will enable us to increase the reliability of services and to track vehicles better, thereby improving customer information.

AirLinks, our airport coach business, continued to consolidate the businesses acquired during 2000. In addition, new scheduled routes are being created, for example, the linking of Luton and Stansted Airports with the West Midlands. To cater for this extension, 14 new air-conditioned vehicles for Jetlink scheduled coach operations were purchased.

At Eurolines sales were impacted by a reduction in in-bound tourists from North America as a result of the foot and mouth outbreak and were flat. Despite this Eurolines has continued to extend its range of European destinations and UK departure points.

USA

The USA division consists of student transportation and transit operations. It employs 16,800 people, operates from 1,621 locations and has a fleet of 11,377 vehicles.

Turnover for the first six months was strong, up 49.8% to £202.5m (2000: £135.2m) and operating profit was up 32.5% to £22.0m (2000: £16.6m), including a full six month contribution from School Services and Leasing ("SS&L").

During the period, whilst there was some pressure on margins through labour and fuel costs, we were more than able to offset these by winning and retaining contracts. There is evidence of increased tightening of school board budgets leading to outsourcing of school bus services. This could accelerate the privatisation of school bus operations in North America.

Student Transportation continues to focus on improving the margins on existing contracts at renewal and growing the overall market through conversions. Our geographic concentration was strengthened with renewals and conversions, particularly in the MidWest and Texas, through contracts outsourced by school boards. To accommodate this growth and replace existing vehicles £17m will be spent on buying school buses during the current year. The start-up of the new school year has gone well and we have integrated the new contracts successfully. On a like-for-like basis turnover in the division grew by 6%.

In June, we rebranded Student Transportation "Durham School Services", emphasising the combined strengths of Durham and SS&L. This initiative was conducted following extensive brand equity analysis and we now have a consistent identity across North America on signage, customer videos, uniforms, training materials and vehicles.

The performance of Public Transit was encouraging. New operations commenced in Seattle, San Jose and Denver. Paratransit operations grew strongly. Jim Long was promoted to Chief Operating Officer of Public Transit to work alongside Terry Van Der Aa who became Chairman.

Australia

In Australia, we are the largest private operator of train, tram and bus services with operations in Brisbane, Melbourne, Sydney and Perth, under the rail brands M>Train, M>Tram and V/Line and the bus brands Blue Ribbon, National Bus Company, Southern Coast Transit and Westbus. 4,200 staff are employed by the division.

Turnover for our Australian operations totalled £106.7m (2000: £115.1m) with operating profit of £6.1m (2000: £6.1m).

Turnover was down in our Australian trains division due to the £9.9m decline in the franchise payment. Turnover in the first half of last year was boosted due to passengers bringing forward their ticket purchases to avoid the introduction of the goods and service tax ("GST"). This has resulted in this half year's turnover reduction which will be made up in the second half of this year.

Under the M>Service Improvement Program we are introducing 62 new trains and 59 trams, the first of which will start operating in Victoria from late 2002.

On 1 October 2001, the Victorian metropolitan train and tram businesses will become M>Train and M>Tram and a wide range of initiatives will be rolled out to deliver increased customer benefits. On V/Line, a range of services which cover the leisure market are being introduced to increase recreational travel.

We have continued to invest in the business to improve punctuality and efficiency and passenger comfort of our services. The high level of fare evasion and the poor state of the ticketing system continues to affect passenger revenues. We are working with our fellow franchisees in Melbourne and the Victorian government to address this.

We have significantly strengthened the senior management of our bus division. John Lee, who joined from the State Rail Authority of New South Wales, was appointed Managing Director of our bus operations in Queensland and New South Wales. Peter Jones, who oversaw the provision of bus services during the Olympic Games, was appointed Operations Director.

Performance within the bus division was encouraging as passenger numbers and margins both increased. Service development and patronage growth of 14% is being achieved at Southern Coast Transit, in Perth with good patronage growth of 2.2% also achieved in Melbourne. Encouragingly, passenger numbers in Sydney were stable, after the exceptional surge in the local economy brought by the Olympics. However, student numbers continue to rise as many schools recruit from wider catchment areas of western Sydney. This demand is likely to continue during the next few years.

We undertook a full review of Westbus' network and as a result we have rescheduled its services, improving reliability and service delivery. Following the successful launch of the newly branded low-floor midibuses, the livery is now being adopted for Westbus and its sister company, NBC Victoria. Investments have included the delivery of 27 super low-floor air conditioned buses, as part of a total order of 52 this year for Sydney and Melbourne. Perth also benefited from the introduction of 14 new buses.

We continue to focus on improving services and increasing the use of public transport particularly in Western Australia, and also in Victoria where public transport patronage is growing faster than it has done historically.

Phil White *Chief Executive*
12 September 2001

Group profit and loss account

	Note	Total before goodwill and exceptional items 2001 £m	Goodwill and exceptional items 2001 £m	Total after goodwill and exceptional items 2001 £m	Total before goodwill and exceptional items 2000 £m	Goodwill and exceptional items 2000 £m	Total after goodwill and exceptional items 2000 £m	Audited year to 31 December 2000 Total after goodwill and exceptional items £m
		Unaudited six months to 30 June						
Turnover								
– continuing operations		**1,170.3**	**–**	**1,170.3**	896.3	–	896.3	1,968.6
– discontinued operations		**6.8**	**–**	**6.8**	15.0	–	15.0	34.0
Turnover	3	**1,177.1**	**–**	**1,177.1**	911.3	–	911.3	2,002.6
Other operating income		**6.8**	**–**	**6.8**	8.7	–	8.7	13.4
Other operating costs		**(1,106.0)**	**(2.6)**	**(1,108.6)**	(852.5)	(20.9)	(873.4)	(1,891.5)
Goodwill	5	**–**	**(20.0)**	**(20.0)**	–	(7.3)	(7.3)	(22.7)
Total operating costs		**(1,106.0)**	**(22.6)**	**(1,128.6)**	(852.5)	(28.2)	(880.7)	(1,914.2)
Operating profit		**77.9**	**(22.6)**	**55.3**	67.5	(28.2)	39.3	101.8
– continuing operations		**76.8**	**(22.6)**	**54.2**	63.5	(28.2)	35.3	88.7
– discontinued operations		**1.1**	**–**	**1.1**	4.0	–	4.0	13.1
Operating profit		**77.9**	**(22.6)**	**55.3**	67.5	(28.2)	39.3	101.8
Share of operating losses of associated undertakings		**(1.1)**	**–**	**(1.1)**	(1.8)	–	(1.8)	(1.8)
Profit/(loss) on sale of businesses	4	**–**	**95.2**	**95.2**	–	(0.4)	(0.4)	(1.0)
Profit on ordinary activities before interest		**76.8**	**72.6**	**149.4**	65.7	(28.6)	37.1	99.0
Net interest payable		**(16.3)**	**–**	**(16.3)**	(15.3)	–	(15.3)	(34.0)
Profit on ordinary activities before taxation		**60.5**	**72.6**	**133.1**	50.4	(28.6)	21.8	65.0
Tax on profit on ordinary activities	6	**(13.0)**	**2.6**	**(10.4)**	(12.2)	8.9	(3.3)	(12.9)
Profit after tax		**47.5**	**75.2**	**122.7**	38.2	(19.7)	18.5	52.1
Minority interest		**–**	**–**	**–**	(0.1)	–	(0.1)	(0.7)
Profit attributable to shareholders		**47.5**	**75.2**	**122.7**	38.1	(19.7)	18.4	51.4
Dividends		**(9.4)**	**–**	**(9.4)**	(7.6)	–	(7.6)	(26.3)
Retained profit		**38.1**	**75.2**	**113.3**	30.5	(19.7)	10.8	25.1
Earnings per share – basic	7			**95.4p**			16.0p	43.4p
– diluted	7			**88.6p**			14.6p	39.7p
– normalised diluted	7			**33.7p**			27.8p	63.7p

Group balance sheet

	Unaudited 30 June 2001 £m	Unaudited 30 June 2000 £m	Audited 31 December 2000 £m
Fixed assets			
Intangible assets	**526.1**	278.8	523.7
Tangible assets	**513.0**	549.6	653.6
Investments and interests in associated undertakings	**27.3**	21.7	27.3
	1,066.4	850.1	1,204.6
Current assets			
Stock	**21.1**	15.6	20.7
Debtors	**290.8**	230.1	327.1
Cash at bank and in hand	**68.0**	93.8	53.8
	379.9	339.5	401.6
Creditors: amounts falling due within one year	**(569.4)**	(522.4)	(751.1)
Net current liabilities	**(189.5)**	(182.9)	(349.5)
Total assets less current liabilities	**876.9**	667.2	855.1
Creditors: amounts falling due after more than one year	**(397.8)**	(365.2)	(458.2)
Provisions for liabilities and charges	**(22.8)**	(23.9)	(19.6)
	456.3	278.1	377.3
Capital and reserves			
Called up share capital	**6.6**	5.9	6.5
Share premium account	**43.1**	35.9	40.5
Share capital to be issued	**0.4**	0.4	0.4
Merger reserve	**37.3**	–	57.3
Capital reserve	**–**	17.0	17.0
Revaluation reserve	**17.5**	17.9	17.5
Profit and loss account	**347.1**	196.7	233.6
Equity shareholders' funds	**452.0**	273.8	372.8
Equity minority interest	**4.3**	4.3	4.5
	456.3	278.1	377.3

Group statement of cash flows

	Note	Unaudited six months to 30 June 2001 £m	Unaudited six months to 30 June 2000 £m	Audited year to 31 December 2000 £m
Net cash inflow from operating activities	8	**82.4**	44.4	167.5
Net interest paid		**(21.5)**	(16.0)	(17.6)
Interest element of finance lease rentals		**(0.5)**	(0.4)	(1.6)
Returns on investments and servicing of finance		**(22.0)**	(16.4)	(19.2)
UK corporation tax paid		**(3.7)**	(6.4)	(24.8)
Overseas tax paid		**(0.5)**	(1.2)	(1.8)
Taxation		**(4.2)**	(7.6)	(26.6)
Payments to acquire tangible assets		**(63.1)**	(42.0)	(89.3)
Receipts from sale of tangible assets		**3.7**	1.8	3.6
Purchase of shares to satisfy employee share scheme		**–**	(1.5)	(1.6)
Payments to acquire other investments		**–**	(8.6)	(13.1)
Capital expenditure and financial investment		**(59.4)**	(50.3)	(100.4)
Receipts from the sale of businesses		**232.4**	–	–
Payments to acquire businesses		**(0.5)**	(52.4)	(283.0)
Net cash of businesses purchased or sold		**(1.8)**	0.1	52.6
Deferred consideration for businesses acquired		**(1.0)**	–	–
Acquisitions and disposals		**229.1**	(52.3)	(230.4)
Equity dividends paid		**(18.2)**	(14.2)	(22.0)
Cash inflow/(outflow) before financing activities		**207.7**	(96.4)	(231.1)
Management of liquid resources:				
Cash withdrawn from short term deposits		**6.6**	7.3	19.4
Financing				
Issue of share capital		**2.7**	0.1	4.9
Repayment of capital element of finance lease rentals		**(1.9)**	(3.6)	(4.4)
Movement on bank deposits relating to loan notes		**–**	–	3.1
Net loans (repaid)/advanced		**(194.5)**	69.5	187.5
Net cash (outflow)/inflow from financing		**(193.7)**	66.0	191.1
Increase/(decrease) in net cash	8	**20.6**	(23.1)	(20.6)

Group statement of total recognised gains and losses

	Unaudited six months to 30 June 2001 £m	Unaudited six months to 30 June 2000 £m	Audited year to 31 December 2000 £m
Profit attributable to members of the parent company	**122.7**	18.4	51.4
Exchange differences on foreign currency net investments	**(1.0)**	–	(0.5)
Total recognised gains and losses	**121.7**	18.4	50.9

Reconciliation of movements in Group equity shareholders’ funds

	Unaudited six months to 30 June 2001 £m	Unaudited six months to 30 June 2000 £m	Audited year to 31 December 2000 £m
Total recognised gains and losses	**121.7**	18.4	50.9
Dividends	**(9.4)**	(7.6)	(26.3)
New share capital issued for cash	**2.7**	0.2	4.9
New share capital issued for non cash consideration	**–**	–	80.5
Goodwill realised on disposals	**(35.8)**	–	–
Net addition to shareholders’ funds	**79.2**	11.0	110.0
Equity shareholders’ funds at 1 January	**372.8**	262.8	262.8
Equity shareholders’ funds	**452.0**	273.8	372.8

Segmental analysis

Analysis by class of business

	Unaudited six months to 30 June				Audited year to 31 December	
	Turnover 2001 £m	Operating profit 2001 £m	Turnover 2000 £m	Operating profit 2000 £m	Turnover 2000 £m	Operating profit 2000 £m
Buses	**103.1**	**26.5**	99.1	25.2	200.1	50.6
Trains	**672.6**	**20.3**	466.1	14.0	1,058.6	34.1
Coaches	**85.4**	**1.9**	80.8	1.6	186.8	11.3
UK operations	**861.1**	**48.7**	646.0	40.8	1,445.5	96.0
USA	**202.5**	**22.0**	135.2	16.6	301.6	32.7
Australia	**106.7**	**6.1**	115.1	6.1	221.5	13.3
Continuing operations	**1,170.3**	**76.8**	896.3	63.5	1,968.6	142.0
Discontinued operations – Airports	**6.8**	**1.1**	15.0	4.0	34.0	13.1
	1,177.1	**77.9**	911.3	67.5	2,002.6	155.1
Exceptional items		**(2.6)**		(20.9)		(30.6)
Goodwill		**(20.0)**		(7.3)		(22.7)
		55.3		39.3		101.8

Notes to the interim accounts

1 Basis of preparation

These unaudited accounts, which do not constitute statutory accounts, have been prepared using accounting policies set out in the Group's 2000 statutory accounts. The 2000 accounts received an unqualified auditors' report and have been delivered to the Registrar of Companies.

2 Exchange rates

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

	Six months to 30 June 2001		Six months to 30 June 2000		Year to 31 December 2000	
	Closing rate	Average rate	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.41**	**1.46**	1.51	1.57	1.49	1.51
Australian dollar	**2.77**	**2.74**	2.52	2.58	2.69	2.63

3 Turnover

The turnover of the Group comprises revenue from road passenger transport, airport operations, train passenger services and related activities in the UK, USA and Australia. Within the trains division, franchise agreement payments 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 payments amounted to £259.6m (2000 interim: £221.2m; 2000 full year: £482.6m) in the UK and £29.4m (2000 interim: £39.3m; 2000 full year: £69.6m) from the Victoria Department of Public Transport in Australia.

4 Exceptional items

The analysis of exceptional operating costs is as follows:

	Six months to 30 June 2001 £m	Six months to 30 June 2000 £m	Year to 31 December 2000 £m
Buses	**–**	1.6	1.6
Trains	**2.2**	1.7	8.0
USA	**–**	0.7	2.1
Australia	**0.4**	0.4	2.4
Other	**–**	16.5	16.5
	2.6	20.9	30.6

All exceptional operating costs relate to continuing businesses.

Exceptional operating costs primarily represent reorganisation costs, including reorganisations following the acquisition of businesses, other than £16.5m of costs arising in the six months to 30 June 2000 in respect of the settlement, with no admission of liability, of litigation in the USA.

The profit on sale of businesses during the first half year of £95.2m, net of expenses, arises on the sale of the airports division for gross sale proceeds of £241m. It includes the benefit of £35.8m negative goodwill taken to reserves on the acquisition of the airports (the release of which has no effect on net assets or shareholders' funds).

< back to Group profit and loss account

5 Goodwill amortisation

	Six months to 30 June 2001 £m	Six months to 30 June 2000 £m	Year to 31 December 2000 £m
Trains	**10.7**	–	6.0
Coaches	**0.2**	0.2	0.2
USA	**8.4**	6.3	15.2
Australia	**0.7**	0.8	1.3
	20.0	7.3	22.7

All goodwill amortisation relates to continuing businesses.

6 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 2001. The tax charge of £10.4m (2000 interim: £3.3m; 2000 full year £12.9m) represents an effective tax rate on profit on ordinary activities, excluding goodwill and exceptional items, of 21.5% (2000 interim: 24.2%; 2000 full year 21.5%). It includes overseas taxation of £1.4m (2000 interim: £2.5m; 2000 full year £0.5m).

7 Earnings per share

The 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 earnings for the six months ended 30 June 2000 and the year ended 31 December 2000 have been restated to exclude the earnings from discontinued operations.

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 31 December 2000
(i) Basic earnings per share	**95.4p**	16.0p	43.4p

The calculation of basic earnings per share is based on earnings of £122.7m (2000 interim: £18.4m; 2000 full year: £51.4m) and on 128,604,613 ordinary shares, being the weighted average number of ordinary shares in issue in the period (2000 interim: 114,761,359; 2000 full year: 118,393,605).

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 31 December 2000
(ii) Diluted basic earnings per share	**88.6p**	14.6p	39.7p

The calculation of diluted earnings per share is based on earnings of £122.7m (2000 interim: £18.4m; 2000 full year: £51.4m) and on the weighted average number of dilutive potential ordinary shares in issue during the period, which was 138,445,553 (2000 interim: 126,441,704; 2000 full year: 129,584,841).

	Six months to 30 June 2001	Restated Six months to 30 June 2000	Restated Year to 31 December 2000
(iii) Normalised diluted earnings per share	**33.7p**	27.8p	63.7p

The calculation of normalised diluted earnings per share is based on normalised earnings of £46.6m (2000 interim: £35.1m; 2000 full year: £82.5m) and on the weighted average number of dilutive potential ordinary shares in issue during the period, which was 138,445,553 (2000 interim: 126,441,704; 2000 full year: 129,584,841).

< back to Group profit and loss account

7 Earnings per share continued

The reconciliation of the weighted average number of shares in issue during the period is as follows:

	Six months to 30 June 2001 Number	Six months to 30 June 2000 Number	Year to 31 December 2000 Number
Basic weighted average shares	**128,604,613**	114,761,359	118,393,605
Adjustment for dilutive potential ordinary shares	**9,840,940**	11,680,345	11,191,236
Diluted weighted average shares	**138,445,553**	126,441,704	129,584,841

The analysis of normalised profit after tax and minority interest is as follows:

	Six months to 30 June 2001 £m	Restated Six months to 30 June 2000 £m	Restated Year to 31 December 2000 £m
Profit after tax and minority interest	**122.7**	18.4	51.4
Earnings from discontinued operations	**(0.9)**	(3.0)	(10.4)
Exceptional operating costs	**2.6**	20.9	30.6
Goodwill amortisation	**20.0**	7.3	22.7
(Profit)/loss on sale of businesses	**(95.2)**	0.4	1.0
Tax on exceptional items and goodwill	**(2.6)**	(8.9)	(12.8)
	46.6	35.1	82.5

8 Cash flow reconciliations

The reconciliation of the operating profit to net cash flow from operating activities is as follows:

	Six months to 30 June 2001 £m	Six months to 30 June 2000 £m	Year to 31 December 2000 £m
Operating profit	**55.3**	39.3	101.8
Depreciation of tangible assets	**29.9**	20.6	43.9
Goodwill amortisation	**20.0**	7.3	22.7
Increase in stocks	**(0.5)**	(0.7)	(1.5)
Decrease/(increase) in debtors	**36.4**	(12.1)	(57.1)
(Decrease)/increase in creditors	**(62.8)**	(10.1)	61.7
Increase/(decrease) in provisions	**4.1**	0.3	(4.3)
Other movements	**–**	(0.2)	0.3
Net cash inflow from operating activities	**82.4**	44.4	167.5

The reconciliation of net cash flow to movement in net debt is as follows:

	Six months to 30 June 2001 £m	Six months to 30 June 2000 £m	Year to 31 December 2000 £m
Increase/(decrease) in cash in period	**20.6**	(23.1)	(20.6)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**196.4**	(65.9)	(186.2)
Cash inflow from movement in liquid resources	**(6.6)**	(7.3)	(19.4)
Change in net debt resulting from cash flows	**210.4**	(96.3)	(226.2)
Non cash movements in net debt	**(24.2)**	(3.1)	(14.5)
Movement in net debt in period	**186.2**	(99.4)	(240.7)
Opening net debt	**(556.6)**	(315.9)	(315.9)
Net debt	**(370.4)**	(415.3)	(556.6)

Non cash movements in net debt primarily represent exchange movements.

< back to Group profit and loss account   < back to Group statement of cash flow

Report of the Auditors

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2001 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 8. 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.

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 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 2001.

Ernst & Young LLP *London*
12 September 2001

Dividends and financial calendar

	Event	Date
Dividends	Interim dividend record date	21 September 2001
	Interim dividend payment date	19 October 2001
	Final dividend record date	April 2002
	Final dividend payment date	May 2002
Financial calendar	Preliminary results announced	March 2002
	Annual General Meeting	May 2002

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