National
Express
Group

INTERIM REPORT 2006

A personal invitation *to travel...*

National Express Group PLC

Interim Results for the six months to 30 June 2006

Financial Highlights

- Revenue up 16.2% to £1,252.7 million (2005: £1,077.7 million)
- Group operating profit of £48.0 million (2005: £48.7 million)
- Operating cash flow** before one-off items of £79.8 million (2005: £106.2 million)
- Normalised operating profit* up 24.8% to £84.0 million (2005: £67.3 million)
- Normalised profit before tax* up 15.7% to £67.2 million (2005: £58.1 million)
- Normalised diluted earnings per share* from continuing operations up 3.8% to 32.5 pence (2005: 31.3 pence)
- Interim dividend increased by 7.5% to 10.75 pence (2005: 10.0 pence)
- Net debt of £546.5 million (31 December 2005: £563.4 million)
- Year-on-year fuel impact in UK divisions of £7.6 million

Operational Highlights

- New franchise extensions awarded for Central Trains and Silverlink
- Pre-qualified for East Midlands and the New Cross Country rail franchises to be awarded in 2007
- Continued strong operational performance in Trains division
- Introduction of yield management systems on intercity rail services
- Continued innovation and organic growth in UK Coaches
- New contract wins at Travel London
- US$30 million of new business won in North American bid season
- Alsa awarded Madrid Metro Light Rail concession in Spain as part of bidding consortium

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

** operating cash flow as defined in the Finance Director's review.

Chairman's Statement

David Ross
Chairman

"I AM PLEASED TO REPORT THE GROUP'S INTERIM RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006."

In the UK our Trains division saw excellent passenger growth and high levels of sustained performance, whilst our UK Coach division continues to lead the way in product innovation and quality. Our UK Bus division has performed well, with additional contract wins and extensions in London and improved passenger satisfaction in the West Midlands. Overseas, we experienced a very promising first six months trading in Spain. We are delighted with the integration of Alsa and are working on sharing best practice in the areas of operations, marketing, procurement and information technology. In North America, we continue to grow our school bus operations and had another strong bid season resulting in new contract wins generating US$30 million annualised revenue.

Like all major transport companies, we face the challenge posed by rising fuel prices. We continue to implement initiatives that mitigate these increases although it is difficult to predict where oil prices will sit in the medium term. The Group is fully hedged for the remainder of this year and 2007. In addition, the rail industry is currently facing prospective significant increases in the cost of traction electricity. We are working on initiatives to reduce the severity where possible and are also leading an industry group which is discussing energy costs with the Department for Transport.

In order to attract more passengers to our services we continue to invest in new facilities, use technology to provide innovative solutions and take the hassle out of travel. We are focused on delivering our passengers the best quality travel solutions and are looking at ways to develop our proposition further. Safety continues to be a key priority across our operations, particularly given the on-going threats of terrorism.

BOARD CHANGES

Richard Bowker joined the Group as Chief Executive on 12 September following the retirement of Phil White from the Board as announced on 24 May. Richard brings a wealth of public and private sector experience combined with transport and commercial expertise. The Board looks forward to working with him.

RESULTS

Revenue for the six months to 30 June 2006 was up 16.2% to £1,252.7 million (2005: £1,077.7 million). Normalised operating profit was up 24.8% to £84.0 million (2005: £67.3 million). Normalised profit before tax increased to £67.2 million (2005: £58.1 million).

The Group's profit before taxation reduced to £5.5 million (2005: £39.5 million) as a result of increased intangible amortisation charges and the onerous contract provision relating to the Eurostar operations. After taxation, the basic loss per share was 5.9 pence (2005: loss per share 24.0 pence).

Normalised diluted earnings per share were up by 3.8% to 32.5 pence (2005: 31.3 pence). Operating cash flow before one-off items during the first six months was £79.8 million (2005: £106.2 million). Net debt at 30 June was £546.5 million (31 December 2005: £563.4 million).

An interim dividend of 10.75 pence per share, an increase of 7.5% over last year's interim dividend of 10 pence per share, will be paid on 20 October 2006 to shareholders on the register by 6 October 2006.

CURRENT TRADING AND PROSPECTS

The Group has continued to trade well over the summer and we approach the final quarter of the year with confidence. We are delighted to have pre-qualified for the East Midlands and New Cross Country rail franchises and look forward to receipt of the Invitations to Tender. We are well advanced in our preparation for the London Rail Concession and will be submitting our bid in October.

In particular, overseas our performance has been strong. We have experienced significant organic growth in North America and I am delighted with the performance of Alsa during its first six months in the Group. We look forward to pursuing a number of new growth opportunities across the Group.

Chief Executive's Review of Operations

Richard Bowker
Chief Executive

"FOLLOWING THE ANNOUNCEMENT OF MY APPOINTMENT BACK IN MAY, I AM DELIGHTED TO HAVE JOINED THE GROUP."

National Express is a company I have long admired and for good reason – it has a proven tradition of innovation and delivery. We offer a unique combination – a strong brand combined with a focus on local delivery to our customers. Moving forward, my key priorities will be to develop a clear strategy for sustained growth and maintain a strong focus on the cost base of the business. We must ensure we have excellent relationships with all our key stakeholders, whether public or private sector, whilst ensuring our people strategy is focused on embedding a culture of delighting our customers as I believe this will drive top line growth. I look forward to working with the team to build a company that delivers for our customers, our shareholders and our wider stakeholders.

COACHES

THE COACH DIVISION PROVIDES BRITAIN'S ONLY SCHEDULED NATIONAL COACH NETWORK AND SERVICES TO MORE THAN 1,200 DESTINATIONS. EUROLINES OFFERS VALUE FOR MONEY EUROPEAN TRAVEL BY COACH.

Revenue was £94.8 million (2005: £91.7 million) and normalised operating profit was £5.3 million (2005: £4.1 million), up 29.3% on the same period last year.

The division experienced a very strong first half with patronage growth of 2% on the back of utilising more yield management and a greater focus on providing services to support major UK leisure events.

We continue to see good growth on city to city routes including services between London and Bristol, Cardiff and Brighton. Yield managed funfares are now available on over 30 of the division's key routes. Airport services, particularly out of Stansted airport, also saw good growth and we continue to seek ways to develop our airport services outside of the London market.

Paperless ticketing now represents 50% of all ticket sales, reflecting our flexibility to cater for the changing preferences of our customers. Over 90% of all tickets booked on-line are distributed either as e- or m-tickets.

We also launched new self service fast issue ticket machines at Heathrow, Birmingham and Manchester coach stations.

We are fully committed to making our coach network accessible to all and have introduced our first fleet of fully accessible "Levante" coaches. We aim to be the first coach operator to have a fully accessible fleet in preparation for the 2012 Olympics.

We have been working closely with the Alsa team to share best practice on systems, vehicle procurement and customer information. It is anticipated that there are more benefits to come next year.

At Eurolines, we experienced double digit growth on the Paris and Amsterdam routes which underpinned a successful first half.

TRAINS

WE OPERATE SIX TRAIN FRANCHISES IN THE UK: C2C, CENTRAL TRAINS, GATWICK EXPRESS, MIDLAND MAINLINE, 'ONE' AND SILVERLINK.

The Trains division achieved revenue of £744.0 million (2005: £739.3 million) and normalised operating profit of £20.0 million (2005: £27.1 million), following changes to our franchise portfolio with the loss of Wessex and Great Northern in March.

During the period, franchise extensions for Central Trains and Silverlink to November 2007 were agreed with the Department for Transport.

We are well advanced in our planning for the East Midlands and New Cross Country rail franchises for which we pre-qualified last week. We have a renewed focus to our bidding and believe that we can combine our operational excellence with some innovative and creative new ideas to produce highly competitive bids.

Across our Trains division, we continue to lead the industry in terms of reliability and punctuality, resulting in passenger growth of 4%. During the period, Midland Mainline topped the punctuality tables for long distance operators and c2c was the best performing train operating company in the UK.

Our considerable efforts to put our customers at the heart of everything we do is reflected in the opening in February of our third Customer Service Academy in Stratford, London. Gatwick Express continues to lead the way in the National Passenger Survey tables, achieving 94% overall passenger satisfaction. Excellent progress has been made on punctuality and reliability at Central Trains, particularly given the franchise geography and complexity of its operations.

Our 'one' franchise has experienced some revenue weakness on certain routes including the Stansted Express which has taken longer than expected to recover from last year's terrorist attacks. To improve customer service levels, we have completed a £25 million refurbishment of our rolling stock on the Norwich to London mainline which has improved reliability across the network.

We have introduced yield management systems on our intercity routes to provide a better customer offering and attract more capacity to our off-peak services. For example, we now offer headline fares as low as £6 tickets from the Midlands to London on Midland Mainline. As a result of this initiative, passenger numbers have increased by 7%.

On 7 September we were delighted that Midland Mainline won "Passenger Operator of the Year" at the National Rail Awards.

We will be submitting our bid for the London Rail Concession to Transport for London ("TfL") on 9 October which will lead the way for a new railway for London.

BUSES

THE BUS DIVISION OPERATES OVER 2,000 BUSES IN THE WEST MIDLANDS, DUNDEE AND LONDON. WE ALSO OPERATE MIDLAND METRO, THE LIGHT RAIL SERVICE IN THE WEST MIDLANDS.

Revenue for the period was £147.5 million (2005: £127.0 million) and normalised operating profit of £19.0 million (2005: £18.2 million). Travel London continued to extend its operations through the award of new contracts and enhancements to existing contracts. The Travel London fleet now totals over 400 buses. We are working with TfL on the planned redevelopment of our Battersea depot to give us further capacity.

Passenger numbers have benefited from the launch of the national concessionary fare scheme, equalising the age of entry back to 60. We await the outcome of the discussions between Centro and the DfT regarding the reimbursement methodology under this scheme.

During the period we concluded a new two year pay deal for our Travel West Midlands ("TWM") business which has assisted in the recruitment and retention of drivers. At the beginning of the year we introduced driver quality monitoring and are developing plans to further improve driver retention.

In the first half of the year, we invested in on-board real-time information technology across a number of key routes and, in conjunction with Centro, have launched a full SMS text messaging service to 2,000 stops in the region, providing real-time and scheduled information. Over 350 TWM buses are now fitted with automatic vehicle location equipment which provides increased service quality and operational control. We aim to roll-out further across the West Midlands. In Coventry, joint working with the Passenger Transport Executive has led to the ongoing success of the extensive PrimeLines network of quality bus routes. Travel Coventry has now spent over £10 million during the last five years upgrading its fleet.

In Dundee, our successful partnership working with the city council has led to continued strong performance. We are working towards the commencement of a Statutory Quality Partnership. In March, we acquired the remaining shares in Altram, the operator of Midland Metro.

NORTH AMERICA

WE OPERATE A LARGE NETWORK OF SCHOOL BUS SERVICES BOTH IN THE UNITED STATES AND CANADA, WITH A FLEET OF 13,000 BUSES.

Revenue was £155.0 million (2005: £123.8 million) and normalised operating profit was £26.6 million (2005: £22.6 million). In local currency, North America increased normalised operating profit to US$47.6 million (2005: US$42.5 million).

Our North American division has made another strong start to the year. In the United States we have just completed a record bid season for the second year running. Duval, in Florida, is the largest of our new wins but we also secured new business in Connecticut and Illinois as well as conversions in Alabama and Louisiana. As importantly, we maintained our contract retention rate of over 95%. In June, we completed a small but strategically important acquisition in Pennsylvania.

We continue to work closely with the school boards with the aim of providing the ultimate "hassle-free" service which, in part, helps to maintain our high retention levels. In Canada, local operators have secured some extra funds from the government to compensate for high fuel costs. The acquisitions completed last year in Canada have integrated well.

Work is progressing well on our re-engineering initiative as we aim to use improved technology to provide an even better service to our customers. This work will play a part in our strategy for next year's bid season, our approach to conversion and will be rolled out across existing contracts in 2007.

We are looking at a number of potential acquisition opportunities across North America as we continue to grow our student bus division.

Over the past two months we have received a number of expressions of interest in Stewart International Airport, our leased facility, based in New York State. With our strategy focused on growing our student bus operations, we have commenced negotiations regarding a potential disposal.

ALSA

ALSA IS SPAIN'S LARGEST PRIVATE COACH AND BUS OPERATOR, WITH A HIGH QUALITY NETWORK OF LONG DISTANCE AND REGIONAL COACH ROUTES. IT ALSO OPERATES URBAN BUS NETWORKS IN SPAIN, PORTUGAL AND MOROCCO.

Revenue was £117.1 million and normalised operating profit was £18.1 million. We are delighted with the progress that Alsa has made in its first full six months as part of the Group. We have experienced an increase in passenger numbers of 5% across the business. In long distance, a new contract was won at Madrid's new airport terminal and we introduced promotional fares on the network for the first time, targeting off-peak capacity. In addition, investment has taken place to increase the proportion of direct sales and provide our customers with a better travelling experience.

Our urban operations have been strengthened by securing additional work in Oviedo, Cartagena, Palencia and Marrakech and we have extended our geographical presence with a 25% strategic stake in Bilbobus, the largest private operator in Bilbao which operates a fleet of over 270 buses. This gives us an important foothold in the Basque region.

In conjunction with Madrid Metro and Caja Madrid Bank, Alsa has been awarded the 30 year concession to operate and maintain Madrid's newly constructed light rail route. This may open up the possibility of further opportunities in light rail across Spain. The operations are expected to commence in May 2007.

We remain excited by the numerous growth opportunities we are pursuing in the Spanish and North African markets.

Finance Director's Review

Adam Walker
Finance Director

"WE HAVE ACHIEVED ANOTHER STRONG SET OF RESULTS."

HALF YEAR AT A GLANCE

We have increased revenue by 16.2% to £1,252.7 million (2005: £1,077.7 million). The Group has achieved a 24.8% increase in normalised operating profit to £84.0 million (2005: £67.3 million), resulting in an increased margin of 6.7% (2005: 6.2%). Operating profit has decreased by £0.7 million to £48.0 million (2005: £48.7 million). Normalised profit before tax increased by 15.7% to £67.2 million (2005: £58.1 million) resulting in improved normalised diluted earnings per share from continuing operations of 32.5 pence (2005: 31.3 pence), up 3.8%. After intangible amortisation, goodwill impairment, exceptional items and tax thereon, the loss for the period was £8.5 million (2005: loss £32.7 million). Net debt decreased by £16.9 million to £546.5 million. The interim dividend has been increased by 7.5% to 10.75 pence (2005: 10.0 pence).

DIVISIONAL REVIEW

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

TRAINS

Normalised operating profit decreased to £20.0 million (2005: £27.1 million) as a result of changes in our portfolio, with the Wessex and Great Northern franchises leaving the Group on 31 March 2006. This resulted in a decrease in margin to 2.7% (2005: 3.7%).

Our franchises continue to appear at the top of the league tables for performance and customer satisfaction, which has contributed to our ability to stimulate customer demand. Revenue improvements enabled us to offset increases in fuel costs of £3.6 million in the first half, although the revenue at 'one', which is our largest train franchise, is not growing as fast as the other London and South East franchises.

Bid costs remain a significant investment for this division with the majority of this year's expenditure likely to fall in the second half of the year.

New financial arrangements have been agreed for our profitable Central Trains and Silverlink franchises which will run until November 2007.

COACHES

Our UK Coach operations produced a strong result with normalised operating profit increasing from £4.1 million to £5.3 million, boosted by patronage growth of 2%. The operating margin increased to 5.6% (2005: 4.5%) because of our continued focus on reducing the cost base. Direct sales have increased, including a 15% increase in web-based ticket sales. We continue to grow the range of services provided, focusing recently on dedicated services to major sporting and music events. The seasonality of these operations means that the majority of the profit is earned in the second half of the year.

BUSES

Revenue is up 16.1% to £147.5 million (2005: £127.0 million) and the operations generated £19.0 million (2005: £18.2 million) of normalised operating profit. The divisional operating margin has been diluted to 12.9% (2005: 14.3%) by the increased size of the London business as a result of the acquisition of Tellings Golden Miller's London bus operations in 2005. We have seen a welcome return to growth amongst our concessionary fare passengers resulting from the introduction of the national concessionary fares scheme.

Higher fuel costs have added £3.4 million to the cost base of the business. This increase has been partially mitigated through our fares policy and close management of our cost base.

On 2 March 2006, we received clearance from the Office of Fair Trading regarding our acquisition of the outstanding 67% share holding in Altram LRT Limited ("Altram"). Completion occurred on 14 March 2006 and the results of Altram have been fully consolidated from this date. A normalised operating loss of £0.3 million is included in the divisional result.

NORTH AMERICA

In local currency, North America increased normalised operating profit to US$47.6 million (2005: US$42.5 million). Revenue has increased by US$44.9 million (19.3%) to US$277.6 million (2005: US$232.7 million). One significant accident claim in the US and additional legal costs in Canada contributed to a 1.1% decline in the North America margin to 17.2% (2005: 18.3%).

We have had a strong bid season, winning new business with net annualised revenue of US$30 million. Historic fuel hedges continue to the end of 2006 which at current prices will lead to a US$13 million increase in the cost base next year. Recent increases in fuel costs have been factored into our bids. The acquisition of Reliance in Pennsylvania in June consolidates the Group's position in the student transportation market and will contribute US$4 million to revenue for the full year.

ALSA

We have experienced patronage growth of 5% with a particularly good performance in our long distance division on the routes from Madrid and the north of Spain and growth in our urban business in Leon and Marrakech. During the period, we were awarded a one year contract to operate coach services at Barajas Airport, Madrid.

During the past six months, we have spent a lot of time focussing on the financial integration of Alsa. This has progressed according to plan, with the valuation work on intangibles and key assets now completed and monthly reporting timetables in line with Group requirements. There has been no requirement to change any of Alsa's accounting systems. Normalised operating profit of £18.1 million was achieved on revenue of £117.1 million, an operating margin of 15.5%.

JOINT VENTURES AND ASSOCIATES

The total charge for associates was £29.5 million (2005: £4.4 million), which comprises our share of the post tax results from associates of £3.8 million (2005: £4.4 million) and a £25.7 million exceptional charge for the designation of the Group's Eurostar contract with Inter-Capital and Regional Rail Limited as an onerous contract.

Over the past two to three years the partners at Eurostar have looked at ways of consolidating the operations. This may or may not have led to our exit from the contract, at a cost which was never determined or agreed. Earlier this year, there was considerable speculation and subsequent activity around a potential sale of London and Continental Railways which underwrites the debts of Eurostar UK. Now that these discussions have ceased we believe it is possible to make a reliable estimate of the amount of our obligation to contribute to the losses of Eurostar. Consequently, we have provided for these losses to the end of the contract in 2010. The net present value of the expected losses is £25.7 million.

Finance Director's Review (continued)

Our share of the operating profit for Altram for the period to 14 March 2006 was £0.1 million (2005: loss of £0.1 million). The results of the joint ventures and associates acquired with Alsa were immaterial for the period.

FINANCE COST

Net interest payable increased to £13.0 million (2005: £4.8 million), reflecting the higher levels of net debt in the first half of the year when compared to 2005, due to the Alsa acquisition at the end of 2005.

Normalised operating profit before depreciation and other non-cash items ("EBITDA") was £122.9 million (2005: £98.4 million) and EBITDA finance cover decreased to 9.9 times (2005: 22.4 times).

INTANGIBLES, GOODWILL & EXCEPTIONAL ITEMS

The goodwill and intangible assets arising on the Alsa acquisition in 2005 were provisionally classified as goodwill at 31 December 2005. They have now been reallocated as the intangible asset valuation work is complete. This has resulted in £174.2 million reclassified as intangible assets representing the contracts acquired with the business. The balance of £294.1 million, after further fair value adjustments, remains within goodwill.

Intangible asset amortisation of £14.3 million (2005: £1.7 million) comprises £10.1 million (2005: £nil) on contracts acquired in Alsa, £2.4 million (2005: £0.5 million) on contracts acquired in North America, £0.8 million (2005: £nil) on contracts acquired in UK Bus and £1.0 million (2005: £1.2 million) on the intangible asset that arises from the Group's right to operate its rail franchises.

The impairment charge for the period on the goodwill arising from the acquisition of Prism Rail PLC in September 2000 was £19.3 million (2005: £16.6 million). Although IFRS 3, 'Business Combinations', prohibits the amortisation of goodwill, the train franchises acquired with Prism have finite lives, and therefore the goodwill is impaired in line with the remaining cash flows.

A goodwill impairment charge of £0.9 million has been charged on goodwill acquired with the remaining share capital of Altram.

Exceptional costs of £1.5 million were incurred in relation to the ongoing Alsa integration project. Exceptional costs of £0.3 million in 2005 arose in the North America Bus division, as a result of the relocation from Austin, Texas to Chicago, Illinois.

On 4 July 2006, the Group disposed of its 14% shareholding in Trainline Holdings Limited ("Trainline"). The profit on disposal will be included in the income statement in the full year financial statements, but as the disposal had not completed at 30 June 2006 the excess of the disposal proceeds, before costs, over the net book value is included in reserves as a revaluation of our available for sale assets.

TAX

Our normalised tax rate increased to 26.0% (2005: 24.5%) to reflect the higher rates of tax in overseas jurisdictions. The normalised operating profit of Alsa (2006: £18.1 million; 2005: £nil) predominantly arises in Spain where the jurisdictional rate is 35% compared to 30% in the UK.

CASH FLOW

The Group continues to generate strong cash flow with a cash inflow from operations before exceptional items and franchise revisions of £79.8 million (2005: £106.2 million).

Operating cash flow represents "Cash generated from operations" plus "Proceeds from disposal of property, plant and equipment" less "Finance lease additions" and "Purchase of property, plant and equipment" as set out in note 14 and the cash flow statement.

Net capital expenditure was £32.5 million (2005: £27.4 million) including £0.5 million (2005: £7.3 million) of additions purchased under finance leases offset by £3.8 million (2005: £3.0 million) proceeds from disposals.

The net outflow of £20.9 million following the transfer of the Great Northern and Wessex franchises comprises an inflow of £4.5 million in proceeds for the sale of property, plant and equipment and £25.4 million of cash outflows to fund the working capital position in the franchises.

Around two thirds of the Group's capital expenditure program is projected to occur in the second half of the year. These outflows will be partially offset by the receipt of £13.7 million for the disposal of the Trainline investment.

During the first half of the year, we refinanced our two existing bank debt facilities into one new £800 million five year revolving credit facility maturing in June 2011. As at 30 June 2006, the headroom under the facility was £194.6 million.

OPERATING CASH FLOW

	UK Bus £m	UK Coach £m	UK Train £m	North America Bus £m	Alsa £m	Central functions £m	Total £m
Normalised operating profit	19.0	5.3	20.0	26.6	18.1	(5.0)	84.0
Depreciation	7.6	2.6	12.1	12.8	6.2	0.2	41.5
Amortisation of leasehold property prepayment	–	–	–	0.4	–	–	0.4
Amortisation of property, plant and equipment grants	–	–	(1.4)	–	(0.1)	–	(1.5)
Profit on disposal of property, plant and equipment	0.1	–	(2.2)	(0.4)	0.1	–	(2.4)
Share based payments	0.2	0.1	0.1	–	–	0.5	0.9
EBITDA	**26.9**	**8.0**	**28.6**	**39.4**	**24.3**	**(4.3)**	**122.9**
Working capital movement	(13.3)	0.8	0.4	2.5	(1.7)	9.1	(2.2)
Eurostar	–	–	–	–	–	(8.4)	(8.4)
Net cash inflow from operations	**13.6**	**8.8**	**29.0**	**41.9**	**22.6**	**(3.6)**	**112.3**
Net capital expenditure	(6.5)	(1.0)	(9.7)	(6.5)	(8.7)	(0.1)	(32.5)
Operating cash flow before one-offs	**7.1**	**7.8**	**19.3**	**35.4**	**13.9**	**(3.7)**	**79.8**
Other cash flows							
– Exceptional items							(0.9)
– Franchise revisions							(20.9)
Operating cash flow							**58.0**

Group Income Statement

For the six months ended 30 June 2006

	Note	Total before goodwill impairment, intangible amortisation & exceptional items 2006 £m	Goodwill impairment, intangible amortisation & exceptional items 2006 £m	Total 2006 £m	Total before goodwill impairment, intangible amortisation & exceptional items 2005 £m	Goodwill impairment, intangible amortisation & exceptional items 2005 £m	Total 2005 £m	Audited Year to 31 Dec Total 2005 £m
		Unaudited six months to 30 June						
Revenue	3	**1,252.7**	**–**	**1,252.7**	1,077.7	–	1,077.7	2,216.0
Operating costs before goodwill impairment, intangible amortisation & exceptional items		**(1,168.7)**	**–**	**(1,168.7)**	(1,010.4)	–	(1,010.4)	(2,060.5)
Intangible amortisation	4	**–**	**(14.3)**	**(14.3)**	–	(1.7)	(1.7)	(4.9)
Goodwill impairment	4	**–**	**(20.2)**	**(20.2)**	–	(16.6)	(16.6)	(33.3)
Exceptional items	5	**–**	**(1.5)**	**(1.5)**	–	(0.3)	(0.3)	(7.8)
Total operating costs		**(1,168.7)**	**(36.0)**	**(1,204.7)**	(1,010.4)	(18.6)	(1,029.0)	(2,106.5)
Group operating profit		**84.0**	**(36.0)**	**48.0**	67.3	(18.6)	48.7	109.5
Share of post tax results from associates and joint ventures accounted for using the equity method		**(3.8)**	**(25.7)**	**(29.5)**	(4.4)	–	(4.4)	(8.8)
Finance income	6	**5.6**	**–**	**5.6**	6.0	–	6.0	10.8
Finance costs	6	**(18.6)**	**–**	**(18.6)**	(10.8)	–	(10.8)	(22.2)
Profit before tax		**67.2**	**(61.7)**	**5.5**	58.1	(18.6)	39.5	89.3
Tax expense	7	**(17.5)**	**3.5**	**(14.0)**	(14.8)	0.1	(14.7)	(27.5)
Profit after tax for the period from continuing operations		**49.7**	**(58.2)**	**(8.5)**	43.3	(18.5)	24.8	61.8
Loss for the period from discontinued operations		**–**	**–**	**–**	2.5	(60.0)	(57.5)	(64.5)
Loss for the period		**49.7**	**(58.2)**	**(8.5)**	45.8	(78.5)	(32.7)	(2.7)
Loss attributable to equity shareholders		**49.4**	**(58.2)**	**(8.8)**	45.8	(78.5)	(32.7)	(2.8)
Profit attributable to minority interests		**0.3**	**–**	**0.3**	–	–	–	0.1
		49.7	**(58.2)**	**(8.5)**	45.8	(78.5)	(32.7)	(2.7)
Loss per share:								
– basic loss per share	10			**(5.9)**			(24.0p)	(2.0p)
– diluted loss per share	10			**(5.9)**			(23.7p)	(2.0p)
(Loss)/earnings per share from continuing operations:								
– basic (loss)/earnings per share	10			**(5.9)**			18.2p	45.2p
– diluted (loss)/earnings per share	10			**(5.9)**			17.9p	44.5p

Dividends of £33.9m were due during the period (2005 interim: £28.1m; 2005 full year: £41.6m). Dividends of £16.2m were proposed for approval during the period (2005 interim: £13.5m; 2005 full year: £47.0m).

Group Balance Sheet

At 30 June 2006

	Note	Unaudited 30 June 2006 £m	Unaudited 30 June 2005 £m	Audited 31 Dec 2005 £m
Assets				
Non-current assets				
Intangible assets		**730.9**	270.1	719.4
Property, plant and equipment		**499.9**	347.9	507.2
Financial assets – Other investments	*11*	**22.2**	10.2	11.4
Financial assets – Derivative financial instruments	*11*	**2.1**	4.8	0.6
Investments accounted for using the equity method		**8.7**	–	4.8
Other receivables		**32.4**	31.6	26.2
Deferred tax asset		**–**	11.6	23.0
		1,296.2	676.2	1,292.6
Current assets				
Inventories		**16.4**	14.8	18.7
Trade and other receivables		**236.4**	223.4	301.8
Financial assets – Derivative financial instruments	*11*	**6.8**	6.8	6.7
Current tax assets		**13.5**	–	11.3
Cash and cash equivalents	*14*	**105.3**	135.3	145.5
		378.4	380.3	484.0
Disposal group assets classified as held for sale		**–**	72.8	–
Total assets		**1,674.6**	1,129.3	1,776.6
Non-current liabilities				
Financial liabilities – Borrowings	*14*	**(595.6)**	(257.5)	(495.5)
Financial liabilities – Derivative financial instruments	*11*	**(4.1)**	(10.9)	(8.3)
Deferred tax liability		**(66.8)**	(6.5)	(27.1)
Other non-current liabilities		**(1.7)**	(2.7)	(6.1)
Defined benefit pension liability	*12*	**(94.1)**	(41.6)	(88.8)
Provisions		**(54.9)**	(41.2)	(41.3)
		(817.2)	(360.4)	(667.1)
Current liabilities				
Trade and other payables		**(459.6)**	(472.3)	(533.1)
Financial liabilities – Borrowings	*14*	**(57.2)**	(22.1)	(214.4)
Financial liabilities – Derivative financial instruments	*11*	**(4.0)**	(11.0)	(13.4)
Current tax liabilities		**(36.6)**	(31.5)	(24.0)
Provisions		**(26.4)**	(10.3)	(12.3)
		(583.8)	(547.2)	(797.2)
Liabilities directly associated with disposal group assets classified as held for sale		**–**	(25.4)	–
Total liabilities		**(1,401.0)**	(933.0)	(1,464.3)
Net assets		**273.6**	196.3	312.3
Shareholders' equity				
Called up share capital	*13*	**7.7**	6.8	7.5
Share premium account	*13*	**187.3**	49.6	174.2
Capital redemption reserve	*13*	**0.2**	0.2	0.2
Own shares	*13*	**(16.7)**	(8.6)	(5.1)
Other reserves	*13*	**22.1**	17.5	24.5
Retained earnings	*13*	**70.0**	130.8	108.1
Total shareholders' equity		**270.6**	196.3	309.4
Minority interest in equity		**3.0**	–	2.9
Total equity		**273.6**	196.3	312.3

Group Statement of Cash Flows

For the six months ended 30 June 2006

	Note	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Audited year to 31 Dec 2005 £m
Cash generated from operations	*15*	**86.0**	132.5	181.1
Tax received/(paid)		**5.9**	(10.3)	(26.7)
Net cash from operating activities		**91.9**	122.2	154.4
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired		**(8.2)**	(18.6)	(218.8)
Deferred consideration for businesses acquired		**0.3**	(0.3)	(0.3)
Purchase of property, plant and equipment		**(35.8)**	(23.1)	(61.7)
Proceeds from disposal of property, plant and equipment		**8.3**	3.0	8.1
Receipts from disposal of businesses, net of cash disposed		**–**	(1.5)	71.3
Interest received		**5.6**	6.0	10.8
Receipts from sale of shares for employee share schemes		**13.3**	–	3.5
Net cash used in investing activities		**(16.5)**	(34.5)	(187.1)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**–**	2.1	4.9
Purchase of own shares		**(11.6)**	(29.3)	(29.3)
Interest paid		**(18.4)**	(19.8)	(32.6)
Finance lease principal payments		**(10.5)**	(7.9)	(20.0)
Repayment of loan notes		**–**	(6.5)	(6.7)
Loans (repaid)/advanced		**(33.7)**	(11.5)	148.1
Dividends paid		**(33.4)**	(28.1)	(41.6)
Net cash (used in)/from financing activities		**(107.6)**	(101.0)	22.8
Decrease in cash and cash equivalents		**(32.2)**	(13.3)	(9.9)
Opening cash and cash equivalents		**140.0**	147.2	147.2
Decrease in cash and cash equivalents		**(32.2)**	(13.3)	(9.9)
Foreign exchange		**(2.5)**	1.4	2.7
Closing cash and cash equivalents	*14*	**105.3**	135.3	140.0

Group Statement of Recognised Income and Expense

For the six months ended 30 June 2006

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Audited year to 31 Dec 2005 £m
Income and expense recognised directly in equity			
Exchange differences on retranslation of foreign operations	**(19.8)**	25.9	50.3
Exchange differences on retranslation of foreign currency borrowings	**11.0**	(25.3)	(45.5)
Actuarial (losses)/gains on defined benefit pension plans	**(8.9)**	22.2	(32.0)
Gains on valuation of available for sale assets	**10.8**	–	–
Gains on cash flow hedges taken to equity	**8.9**	12.3	14.5
	2.0	35.1	(12.7)
Transfers to the income statement			
Exchange differences on disposal of foreign operations	**–**	–	1.5
On cash flow hedges	**(2.9)**	(3.3)	(9.4)
	(2.9)	(3.3)	(7.9)
Tax on exchange differences on retranslation of foreign operations	**2.2**	3.4	7.1
Deferred tax on share based payments	**(1.0)**	2.0	1.4
Deferred tax on actuarial (losses)/gains	**2.8**	(6.1)	9.0
Deferred tax on cash flow hedges	**(1.8)**	(2.9)	(1.4)
Tax on items taken directly to or transferred from equity	**2.2**	(3.6)	16.1
Net gains/(losses) recognised directly in equity	**1.3**	28.2	(4.5)
Loss for the financial period	**(8.8)**	(32.7)	(2.8)
Profit attributable to minority interests	**0.3**	–	0.1
Total recognised expense for the period	**(7.2)**	(4.5)	(7.2)
Expense attributable to equity shareholders	**(7.5)**	(4.5)	(7.3)
Income attributable to minority interests	**0.3**	–	0.1
	(7.2)	(4.5)	(7.2)

Notes to the Interim Accounts

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

These accounts have been prepared using the accounting policies set out in the Group's 2005 statutory accounts.

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 2005 have been extracted from the Annual Report and Accounts 2005 which has been filed with the Registrar of Companies. The audit report on the Annual Report 2005 was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. EXCHANGE RATES

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

	Six months to 30 June 2006		Six months to 30 June 2005		Year to 31 Dec 2005	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.85**	**1.79**	1.79	1.88	1.72	1.82
Canadian dollar	**2.06**	**2.03**	2.20	2.31	2.00	2.20
Euro	**1.44**	**1.45**	n/a	n/a	1.45	1.47

If the results for the six months to 30 June 2005 were retranslated at the average exchange rates for the six months to 30 June 2006, North America would have achieved normalised operating profit of £24.2m on revenue of £131.7m.

3. SEGMENTAL ANALYSIS

The revenue of the Group comprises income from road passenger transport, train passenger services, airport operations and related activities in the UK, North America and Europe. Within the UK Trains division, franchise agreement receipts from the Department for Transport Rail Division and local Passenger Transport Executives (and the Strategic Rail Authority in 2005) are treated as revenue. During the half year to 30 June 2006, franchise agreement receipts amounted to £179.0m (2005 interim: £157.2m; 2005 full year: £337.0m).

	Unaudited six months to 30 June				Audited year to 31 December	
Analysis by class and geography of business	**Revenue 2006 £m**	**Operating result 2006 £m**	Revenue 2005 £m	Operating result 2005 £m	Revenue 2005 £m	Operating result 2005 £m
UK Bus	**147.5**	**19.0**	127.0	18.2	268.6	41.5
UK Trains	**744.0**	**20.0**	739.3	27.1	1,497.2	64.2
UK Coach	**94.8**	**5.3**	91.7	4.1	200.5	21.5
Inter-company elimination	**(5.7)**	**–**	(4.1)	–	(10.3)	–
UK operations	**980.6**	**44.3**	953.9	49.4	1,956.0	127.2
North American Bus	**155.0**	**26.6**	123.8	22.6	241.8	35.0
European Coach & Bus (Alsa)	**117.1**	**18.1**	–	–	18.2	2.6
Central functions	**–**	**(5.0)**	–	(4.7)	–	(9.3)
Result from continuing operations	**1,252.7**	**84.0**	1,077.7	67.3	2,216.0	155.5
Goodwill impairment		**(20.2)**		(16.6)		(33.3)
Intangible asset amortisation		**(14.3)**		(1.7)		(4.9)
Exceptional items		**(1.5)**		(0.3)		(7.8)
Group operating profit		**48.0**		48.7		109.5
Share of post tax results from associates and joint ventures accounted for using the equity method		**(29.5)**		(4.4)		(8.8)
Net finance costs		**(13.0)**		(4.8)		(11.4)
Profit before tax		**5.5**		39.5		89.3
Tax expense		**(14.0)**		(14.7)		(27.5)
Profit for the period from continuing operations		**(8.5)**		24.8		61.8
Loss from discontinued operations		**–**		(57.5)		(64.5)
Loss for the period		**(8.5)**		(32.7)		(2.7)

Revenues include £3.9m property rentals receivable (2005 interim: £3.4m; 2005 full year: £7.2m). Inter-company sales only occur between the Group's UK Divisions.

4. GOODWILL IMPAIRMENT AND INTANGIBLE ASSET AMORTISATION

Goodwill in UK Trains is subject to an annual impairment charge reflecting the finite life of the rail franchises. The charge for the six months to 30 June 2006 is £19.3m (2005 interim: £16.6m; 2005 full year: £33.3m). In addition an impairment charge of £0.9m has been charged on goodwill acquired with Altram.

Other intangible assets in UK Trains are subject to amortisation, which is charged on a straight-line basis to the end of the franchise, of £1.0m (2005 interim: £1.2m; 2005 full year: £2.4m). Intangible assets representing customer contracts have been subject to an amortisation charge in Alsa of £10.1m (2005 interim: £nil, 2005 full year: £nil), North America of £2.4m (2005 interim: £0.5m; 2005 full year: £1.6m) and in UK Bus of £0.8m (2005 interim: £nil; 2005 full year: £0.9m).

5. EXCEPTIONAL ITEMS AND EXCEPTIONAL CHARGE FOR ASSOCIATES

Exceptional items are those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the financial performance achieved by the Group and in making projections of future results.

The exceptional items can be analysed as follows:

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
UK Trains	**–**	–	3.5
UK Bus	**–**	–	1.5
North American Bus	**–**	0.3	2.8
European Coach & Bus (Alsa)	**1.5**	–	–
Total exceptional charge	**1.5**	0.3	7.8

In the six months to 30 June 2006, exceptional costs of £1.5m have been incurred in relation to the Alsa integration.

In the six months to 30 June 2005 and the year to 31 December 2005 exceptional costs were incurred in North America for business reorganisation costs in respect of the divisional head office relocation. The balance of exceptional items comprised the cost of reorganisations at UK Bus (£1.5m) and staff redundancy programmes and business reorganisations at UK Trains (£3.5m).

The total charge for associates of £29.5m (2005 interim: £4.4m; 2005 full year: £8.8m) comprises our share of the post tax results from associates of £3.8m (2005 interim: £4.4m; 2005 full year: £8.8m) and a £25.7m exceptional charge for the designation of the Group's Eurostar contract with Inter-Capital and Regional Rail Limited ("ICRRL") as an onerous contract in the first half of 2006.

6. NET FINANCE COSTS

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Bank interest payable	**(14.9)**	(8.4)	(16.3)
Finance lease interest payable	**(3.1)**	(1.9)	(4.7)
Other interest payable	**–**	(0.1)	(0.3)
Unwind of insurance provision discounting	**(0.6)**	(0.4)	(0.9)
Finance costs	**(18.6)**	(10.8)	(22.2)
Finance income: Bank interest receivable	**5.6**	6.0	10.8
Net finance costs	**(13.0)**	(4.8)	(11.4)

7. TAXATION

Tax on profit on ordinary activities for the six months to 30 June 2006 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2006. The tax charge of £17.5m (2005 interim: £14.8m; 2005 full year: £29.5m) represents an effective tax rate on normalised profit before tax, for continuing and discontinued operations, of 26.0% (2005 interim: 24.5%; 2005 full year: 21.8%). It includes overseas current taxation of £3.4m (2005 interim: £4.6m; 2005 full year: credit of £1.4m), and deferred taxation of £8.9m (2005 interim: £2.9m; 2004 full year: £18.7m).

8. BUSINESS COMBINATIONS

Alsa fair value adjustments

The project to allocate the consideration paid to acquire Alsa to the fair value of assets acquired was completed in the first half of the year. The fair values of the assets acquired have now been updated.

Alsa	Alsa Fair value at 31 December 2005 £m	Alsa Fair value adjustments £m	**Alsa Final fair value total £m**
Intangible assets	–	174.2	**174.2**
Property, plant and equipment	73.6	7.2	**80.8**
Available for sale investments	1.2	–	**1.2**
Investments accounted for under the equity method	4.8	–	**4.8**
Inventories	3.1	–	**3.1**
Trade and other receivables	49.0	–	**49.0**
Current tax	0.8	–	**0.8**
Cash and cash equivalents	10.0	–	**10.0**
Trade and other payables	(55.4)	0.3	**(55.1)**
Retirement benefit obligations	(1.1)	–	**(1.1)**
Provisions	(1.0)	–	**(1.0)**
Financial liabilities – Borrowings	(211.8)	–	**(211.8)**
Deferred tax liability	(6.1)	(54.8)	**(60.9)**
Net assets	(132.9)	126.9	**(6.0)**
Less minority interest	(15.5)	–	**(15.5)**
Group's share of net assets	(148.4)	126.9	**(21.5)**
Goodwill on acquisition	421.4	(127.3)	**294.1**
Total consideration	273.0	(0.4)	**272.6**

Other acquisitions

The Group acquired the remaining 67% of the share capital of Altram LRT Limited (Altram) on 14 March 2006. In Canada the Group acquired the entire share capital of M & O Bus Lines (Handicab) Limited (M&O) a school bus operator, on 11 April 2006. The Group also acquired the entire share capital of Reliance Motor Coach Company Inc. (Reliance) on 1 June 2006, a school bus operator in the United States.

Total consideration for these acquisitions was £12.3m and £5.4m of cash was acquired with the businesses. Investments in associates of £1.3m, comprises the balance of the £8.2m outflow for payments to acquired businesses, in the cash flow statement.

9. DIVIDENDS PAID AND PROPOSED

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Declared and paid during the period:			
Ordinary final dividend for 2004 paid of 20.65p per share	–	28.1	28.1
Ordinary interim dividend for 2005 paid of 10.0p per share	–	–	13.5
Ordinary final dividend for 2005 paid of 22.25p per share	**33.9**	–	–
	33.9	28.1	41.6
Proposed for approval (not recognised as liability as at period end):			
Ordinary interim dividend for 2005 of 10.0p per share	–	13.5	–
Ordinary final dividend for 2005 of 22.25p per share	–	–	33.5
Ordinary interim dividend for 2006 of 10.75p per share	**16.2**	–	–

10. EARNINGS PER SHARE

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 Dec 2005
Basic (loss)/earnings per share – continuing operations	**(5.9p)**	18.2p	45.2p
Basic loss per share – discontinued operations	–	(42.2p)	(47.2p)
Basic loss per share – total	**(5.9p)**	(24.0p)	(2.0p)
Normalised basic earnings per share – continuing operations	**32.8p**	31.8p	77.4p
Diluted (loss)/earnings per share – continuing operations	**(5.9p)**	17.9p	44.5p
Diluted loss per share – discontinued operations	–	(41.6p)	(46.5p)
Diluted loss per share – total	**(5.9p)**	(23.7p)	(2.0p)
Normalised diluted earnings per share – continuing operations	**32.5p**	31.3p	76.3p

Basic loss per share is calculated by dividing the loss attributable to equity shareholders of £8.8m (2005 interim: £32.7m; 2005 full year: £2.8m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

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

In the six months to 30 June 2006, the weighted average number of ordinary shares for the purpose of calculating the diluted loss per shares is identical to that used for the basic loss per share. This is because the adjustment for dilutive potential ordinary shares would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33, 'Earnings per share'.

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

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 Dec 2005
Basic weighted average shares	**150,706,759**	136,140,675	136,591,474
Adjustment for dilutive potential ordinary shares	**1,252,945**	2,054,305	2,017,744
Diluted weighted average shares	**151,959,704**	138,194,980	138,609,218

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

10. EARNINGS PER SHARE (continued)

Normalised profits for the financial period are:

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Loss attributable to equity shareholders	**(8.8)**	(32.7)	(2.8)
Loss from discontinued operations	**–**	57.5	64.5
(Loss)/profit from continuing operations attributable to equity shareholders	**(8.8)**	24.8	61.7
Goodwill impairment on continuing operations	**20.2**	16.6	33.3
Intangible asset amortisation	**14.3**	1.7	4.9
Exceptional items	**1.5**	0.3	7.8
Exceptional associates charge	**25.7**	–	–
Tax relief on goodwill and exceptional items	**(3.5)**	(0.1)	(2.0)
Normalised profit attributable to equity shareholders	**49.4**	43.3	105.7

Loss from discontinued operations includes profit attributable to minority interests of £nil in the six months to 30 June 2005 and £0.1m in the year to 31 December 2005.

	Six months to 30 June 2006		Six months to 30 June 2005		Year to 31 Dec 2005	
	Basic eps p	**Diluted eps p**	Basic eps p	Diluted eps p	Basic eps p	Diluted eps p
Loss attributable to equity shareholders	**(5.9)**	**(5.9)**	(24.0)	(23.7)	(2.0)	(2.0)
Loss from discontinued operations	**–**	**–**	42.2	41.6	47.2	46.5
Dilutive effect	**–**	**0.1**	–	–	–	–
(Loss)/profit from continuing operations attributable to equity shareholders	**(5.9)**	**(5.8)**	18.2	17.9	45.2	44.5
Goodwill impairment on continuing operations	**13.4**	**13.3**	12.2	12.0	24.4	24.1
Intangible asset amortisation	**9.5**	**9.4**	1.2	1.2	3.6	3.5
Exceptional items	**1.0**	**1.0**	0.2	0.2	5.7	5.6
Exceptional associates charge	**17.1**	**16.9**	–	–	–	–
Tax relief on goodwill and exceptional items	**(2.3)**	**(2.3)**	–	–	(1.5)	(1.4)
Normalised profit attributable to equity shareholders	**32.8**	**32.5**	31.8	31.3	77.4	76.3

11. FINANCIAL ASSETS AND LIABILITIES

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

The 'Financial assets – Derivative financial instruments' represent the fair value of the fuel price swaps, which are in place to hedge the changes in price of the different types of fuel used in each division. They are analysed as non-current financial assets of £2.1m (30 June 2005: £4.8m; 31 December 2005: £0.6m) and current financial assets of £6.8m (30 June 2005: £6.8m; 31 December 2005: £6.7m) based on the date of the fuel purchases being hedged.

The 'Financial liabilities – Derivative financial instruments' represent the fair value of the interest rate swaps and the foreign exchange forward contracts. The interest rate swaps are in place to hedge the cash flow risk in relation to changes in interest rates. The non-current financial liabilities solely comprise interest rate swaps of £4.1m (30 June 2005: £10.9m; 31 December 2005: £8.3m). The current financial liabilities represent interest rate swaps of £3.2m (30 June 2005: £3.3m; 31 December 2005: £4.1m) and foreign exchange forward contracts of £0.8m (30 June 2005: £7.7m; 31 December 2005: £9.3m).

11. FINANCIAL ASSETS AND LIABILITIES (continued)

The foreign currency borrowings are included in 'Financial liabilities – Borrowings' which are analysed in note 14. Included in bank loans are foreign currency denominated borrowings which hedge the foreign currency denominated net assets of the Group.

The remaining financial assets in the balance sheet are the 'Financial assets – Other investments' of £22.2m (30 June 2005: £10.2m; 31 December 2005: £11.4m) which represent the Group's available for sale investments in unlisted companies.

The Group does not hold any financial instruments that would be classified as held for trading under IAS 39.

12. RETIREMENT BENEFIT OBLIGATIONS

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

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

The total pension cost for the period was £15.7m (2005 interim: £14.3m; 2005 full year: £27.5m), of which £14.0m (2005 interim: £14.3m; 2005 full year: £25.0m) relates to the defined benefit schemes and £1.7m (2005 interim: £1.2m; 2005 full year: £2.5m) relates to the defined contribution benefit schemes.

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

	At 30 June 2006 £m	At 30 June 2005 £m	At 31 Dec 2005 £m
UK Bus	**(46.0)**	(20.2)	(37.8)
UK Coach	**(15.5)**	(10.0)	(14.9)
UK Train	**(30.7)**	(10.7)	(34.2)
Other	**(1.9)**	(0.7)	(1.9)
Total	**(94.1)**	(41.6)	(88.8)

The UK Train defined pension liability is net of the franchise adjustment of £47.5m (30 June 2005: £61.8m; 31 December 2005: £71.0m). Details of the franchise adjustment are included in note 36 to the 2005 Annual Report and Accounts.

13. RECONCILIATION OF MOVEMENTS IN EQUITY

During the six months ended 30 June 2006 the Group has repurchased 1,425,000 shares for consideration of £11.6m. All the shares repurchased have been retained as treasury shares within the own share classification of equity, for future issue under the Group's various share schemes. Details of these schemes are included the 2005 Annual Report and Accounts.

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total £m
At 1 Jan 2006	7.5	174.2	0.2	(5.1)	24.5	108.1	309.4	2.9	312.3
Shares issued	0.2	13.1	–	–	–	–	13.3	–	13.3
Shares purchased	–	–	–	(11.6)	–	–	(11.6)	–	(11.6)
Total recognised income/(expense)	–	–	–	–	(2.4)	(5.1)	(7.5)	0.3	(7.2)
Share based payments	–	–	–	–	–	0.9	0.9	–	0.9
Dividends	–	–	–	–	–	(33.9)	(33.9)	(0.2)	(34.1)
At 30 June 2006	**7.7**	**187.3**	**0.2**	**(16.7)**	**22.1**	**70.0**	**270.6**	**3.0**	**273.6**

Notes to the Interim Accounts

For the six months ended 30 June 2006

14. NET DEBT

	At 1 Jan 2006 £m	Cash flow £m	Acquisitions/ Disposals £m	Exchange differences £m	Other movements £m	**At 30 June 2006 £m**	At 30 June 2005 £m
Cash and cash equivalents	145.5	(37.7)	–	(2.5)	–	**105.3**	135.3
Bank overdraft	(5.5)	5.5	–	–	–	**–**	–
	140.0	(32.2)	–	(2.5)	–	**105.3**	135.3
Other debt receivable	1.0	–	–	–	–	**1.0**	1.0
Loan notes	(0.8)	–	–	–	–	**(0.8)**	(1.0)
Bank loans	(594.5)	33.7	(2.6)	9.1	(0.8)	**(555.1)**	(216.3)
Finance lease obligations	(109.1)	10.5	–	2.2	(0.5)	**(96.9)**	(62.3)
Net debt	(563.4)	12.0	(2.6)	8.8	(1.3)	**(546.5)**	(143.3)

Current 'Financial liabilities – Borrowings' of £57.2m (30 June 2005: £22.1m; 31 December 2005: £214.4m) comprises £0.8m of loan notes (30 June 2005: £1.0m; 31 December 2005: £0.8m), £32.6m of finance lease obligations (30 June 2005: £21.1m; 31 December 2005: £23.6m), £23.8m of bank loans (30 June 2005: £nil; 31 December 2005: £184.5m) and £nil bank overdrafts (30 June 2005: £nil; 31 December 2005: £5.5m).

Non-current 'Financial liabilities – Borrowings' of £595.6m (30 June 2005: £257.5m; 31 December 2005: £495.5m) comprises £64.3m of finance leases (30 June 2005: £41.2m; 31 December 2005: £85.5m) and £531.3m of bank loans (30 June 2005: £216.3m; 31 December 2005: £410.0m).

Included in cash and cash equivalents are restricted balances of £36.2m (30 June 2005: £105.2m; 31 December 2005: £79.5m) held by the Train Operating Companies and £25.1m (30 June 2005: £nil; 31 December 2005: £25.6m) held by NBC Pty Ltd in Australia which cannot be distributed by means of a dividend or loaned to other Group companies.

Other non cash movements in net debt represent finance lease additions of £0.5m (2005 interim: £7.3m; 2005 full year: £57.0m) and amortisation of loan arrangement fees of £0.8m (2005 interim: £0.1m; 2005 full year: £0.2m).

15. CASH FLOW STATEMENT

Reconciliation of Group operating profit to cash generated from operations

	Six months to 30 June 2006 £m	Six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Net cash inflow from operating activities			
Group operating profit	**48.0**	48.7	109.5
Operating loss of discontinued operations	**–**	(57.3)	(56.4)
Depreciation of property, plant & equipment	**41.5**	25.7	56.8
Amortisation of leasehold property prepayment	**0.4**	0.4	0.8
Goodwill impairment	**20.2**	76.6	93.3
Intangible asset amortisation	**14.3**	1.7	4.9
Amortisation of property, plant and equipment grants	**(1.5)**	(0.3)	(0.9)
Profit on disposal of property, plant and equipment	**(2.4)**	(0.4)	(2.0)
Share-based payments	**0.9**	3.0	3.6
Decrease/(increase) in inventories	**2.1**	–	(0.7)
Decrease in receivables	**57.2**	72.0	22.4
Decrease in payables	**(88.8)**	(35.7)	(37.2)
Decrease in provisions	**(5.9)**	(1.9)	(13.0)
Cash generated from operations	**86.0**	132.5	181.1

The Interim report 2006 will be sent to all shareholders in October. Copies can also be obtained from the Company Secretary at 75 Davies Street, London, W1K 5HT.

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 2006 which comprises the Group income statement, Group balance sheet, Group statement of cash flows, Group statement of recognised income and expense, and the related notes 1 to 15. 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 International Standards on Auditing (UK and Ireland) 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 2006.

Ernst & Young LLP
London
28 September 2006

Shareholder Information

REGISTRAR
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Shareholder helpline number: 0870 601 5366

You should contact the Registrar if you have any queries about your shareholding, dividend payments or to report a change of address.

ONLINE SHAREHOLDER COMMUNICATION
You can choose to receive communications and documents from the Company, including the Annual Report and Accounts, electronically. This helps us to reduce printing and distribution costs.

In order to sign up for this service you will need to access the Registrars' online service at www.shareview.co.uk. To sign up for the first time you should click on "Register now" and follow the simple instructions. You will need your eight digit shareholder reference number, which is shown on your share certificate or dividend voucher.

Once you have registered and notified our Registrars of your email address, we will send you an email 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.

Dividends and Financial Calendar

	Event	Date
Dividends	Interim ex dividend date	4 October 2006
	Interim dividend record date	6 October 2006
	Interim dividend payment date	20 October 2006
	Final dividend ex dividend date	April 2007
	Final dividend record date	April 2007
	Final dividend payment date	May 2007
Financial calendar	Preliminary results announced	March 2007
	Annual General Meeting	May 2007

Corporate Information

SECRETARY AND REGISTERED OFFICE
A J McDonald
National Express Group PLC
75 Davies Street
London W1K 5HT
Tel: +44 (0)20 7529 2000
Fax: +44 (0)20 7529 2100
Email: info@natex.co.uk
www.nationalexpressgroup.com

REGISTERED NUMBER
2590560

PRINCIPAL BANKERS
HSBC Bank plc
8 Canada Square
London
E14 5HQ

Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

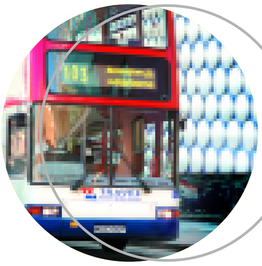
CORPORATE SOLICITORS
Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

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

Morgan Stanley
20 and 25 Cabot Square
Canary Wharf
London E14 4QW

AUDITORS
Ernst & Young LLP
1 More London Place
London SE1 2AF

Designed and produced by **MAGEE**
Printed by PUSH



www.nationalexpressgroup.com