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National Express Group PLC

Half-Yearly Financial Report 2009

Making travel simpler

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National Express Group PLC

Half Year Results for the six months ended 30 June 2009

National Express Group PLC, a leading international public transport group, operates bus and coach services across the UK, Spain and North America, and rail services in the UK.

Headlines
A resilient first half performance, despite challenging trading conditions, with success delivered in managing our operations and generating strong cash flow to reduce debt. Improved clarity over exit from the loss-making East Coast rail franchise.

Financial Results*
- Continuing revenue up 4.4% to £1,424.5 million (2008: £1,364.8m)
- Normalised** profit before taxation from continuing operations down 42% to £55.7 million (2008: £95.3m), reflecting trading loss of over £20 million on East Coast rail franchise
- Normalised diluted earnings per share of 27.8 pence (2008: 42.8p)
- Loss for the period of £36.6 million (2008 profit: £35.9m), including provision for East Coast rail exit
- Operating cash flow of £145.7 million represents conversion of profit into cash of almost 200 per cent
- Net debt reduced by over £200 million to £977.5 million (2008 year end: £1,179.8m), primarily as a result of Group's self-help programme, delivering key leverage ratio of 3.2 times at 30 June 2009 (2008 year end: 3.5x)
- Committed, undrawn debt facilities and cash total £373.2 million as at 30 June 2009 (2008 year end: £200.0m)
- Interim dividend passed as part of debt reduction focus

Operational performance
- Cost saving programme on target to deliver planned £40 million annualised savings by year end
- Cash management programme delivering strong cash generation, with 40% reduction in capital investment and improved working capital management, leading to substantial debt reduction
- Resilient profit performance in UK Bus & Coach, and in Spain, despite challenging economic conditions; initial progress in North America cost performance with further near term opportunities identified
- Robust profit performance in UK Rail, other than in loss-making East Coast franchise, control of which is expected to be reassumed by the DfT later in 2009; c2c has become the best performing train operator ever in the UK and East Anglia has recorded its highest punctuality figure since the current franchise began in April 2004***

Strategic update
- Focus on the development of the Group's core Bus and Coach operations in the UK, Continental Europe and North America, while maximising value and opportunity in UK Rail and considering strategic choices and funding options
- Concentration on organic development in the current climate
- Additional cost efficiencies and productivity improvements to be delivered by year end, in excess of £10 million annually
- Group prioritises the continued strengthening of its balance sheet and the reduction of net debt

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Outlook

- Stable platform for performance delivery and progressive improvement across the Group's Bus & Coach businesses
- Continuing opportunities to build on resilient performance of Bus & Coach businesses in the UK and Spain, with further identified cost reduction programmes, continuation of cash management initiatives and through North America improvement programme
- Fuel hedge expected to deliver year on year savings of over £25 million in 2010
- Exit from East Coast rail expected to occur during second half of the year

Notes:

** Comparative values are first half 2008 except where otherwise stated.*

*** Normalised results are the statutory results excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon.*

**** c2c achieved a Public Performance Measure (PPM) of 95.8% on a moving annual average basis to 27 June 2009, the best punctuality performance ever recorded by a UK train operator. East Anglia achieved a PPM of 90.7% on a moving annual average basis to 27 June 2009, the highest recorded PPM since the start of the franchise in 2004.*

The 2008 results have been restated for the final purchase price allocation in relation to 2007 acquisitions and restated for the presentation of Dot2Dot as a discontinued operation, as outlined in the Annual Report and Accounts 2008.

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OPERATING AND FINANCIAL REVIEW

Performance Review

Overview of the first half year

Trading conditions throughout the first half year have remained challenging. While the majority of the Group benefits from being less sensitive to economic weakness, all of our businesses have experienced difficult market conditions, whether in reduced passenger volumes or in lower growth in fare yield.

Against this backdrop, most of our businesses have performed solidly. UK Coach increased profitability, despite seeing no revenue growth, and Spain achieved strong cost reduction to offset most of the impact of the recession and higher fuel costs. Our two continuing rail franchises also increased profitability.

Our twin Group-wide improvement programmes announced in February – to deliver a £40 million reduction in annual operating costs and £100 million of incremental cash flow compared with last year – have made excellent progress. Targeted cost savings will be delivered this year across all three geographies. Our net funds flow improved by over £190 million versus the first half of 2008, as capital expenditure was cut by 40 per cent, working capital reduced by over £45 million since year end, the Group saved a net £25 million in dividend payments (on a comparable basis) and £37 million was raised from the sale of businesses and discontinued operations.

This progress is creating a platform from which to develop our Bus & Coach businesses globally. This platform will be leveraged through a continued unstinting drive for cost efficiency and better productivity, coupled with selective development of growth opportunities in our target markets. This focus on better cost management, particularly across the UK and North America, will be supported by our continued delivery of superior cash generation across the Group.

We will focus on improving performance delivery in North America and UK Bus. North America school bus offers excellent future potential through cost efficiency and value added contract service delivery, enabled through the three year 'Business Transformation' programme. We are also focusing on shorter term action to improve on a disappointing revenue and cost performance. Likewise, the challenges of higher fuel and pension costs in UK Bus are a focus for improvement in this core Group business.

This will provide a platform for performance delivery and progressive improvement across the Group's Bus and Coach businesses. The expected exit from the East Coast rail business during the second half of the year, removing this loss-making franchise, is providing renewed clarity to the Group's core operational focus. In addition, the Group has taken and received clear and detailed advice from leading legal Counsel and is confident that the Secretary of State for Transport will not be permitted to cross default the East Anglia or c2c franchise agreements. The Group would oppose any such attempt in order to protect shareholder value.

Strategic update

The Group has a customer-driven strategy, is focused on organic growth in existing markets and on developing businesses in new markets where we can create value. In these challenging recessionary conditions, businesses need to adapt. Our branding investment is now more targeted – for example, new partnerships with UK retailers Morrisons, Iceland and Argos are providing new channels to promote coach offers. Growth will come by providing affordable choice for the cost conscious consumer – in the UK, we have launched a low fare finder on our customer website. Although near-term acquisitions are unlikely, we continue to develop new business - for example, leveraging our renowned Spanish bus operation to become the provisional awarded bidder for a long-term contract to operate urban services in Agadir, Morocco, which is expected to add £14 million in annual revenue.

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To this strategy we have added two further components:

- Driving cost efficiency and better productivity across all operations. This requires a constant focus on ensuring 'best in class' operating cost delivery. We have a £40 million cost reduction programme being implemented during 2009 but, with a simpler business post-East Coast, we will deliver further improvements in excess of £10 million annually;
- Delivering a more robust balance sheet. With availability of debt funding to businesses generally remaining constrained, the Group has been focused on strong cash management to reduce its debt, and identifying ways to strengthen its balance sheet and achieve a more appropriate capital structure. During the first half year, the Group has harnessed the strong cash generative qualities of its businesses, limiting investment and significantly improving its working capital management, delivering a £95 million improvement in operating cash flow over the first half year of 2008, and has complied with all its debt funding requirements.

This element of the Group's financial strategy will be a key focus in the second half of the year. The priorities will be:

- To maintain compliance with the Group's debt covenants at December 2009;
- To explore refinancing of the first of the Group's primary debt facilities to mature, well in advance of the maturity date of September 2010; and
- In parallel, to explore opportunities to accelerate debt reduction through equity funding or selective asset disposals.

These plans are vital to delivering a stronger, better financed Group, able to maximise the strong value and cash generation available across the Group's core businesses. These businesses, opportunities and improvement plans offer sustainable shareholder value improvement. Alongside this, the Board is also evaluating whether value can be achieved for shareholders through third party approaches to acquire the Group. It is important that these are fully assessed for value and deliverability. However, it remains important for the Group to retain its options to refinance and deliver these priorities.

Key performance indicators

The first half of 2009 saw a constrained performance against the Group's financial key performance indicators (KPIs – note that non-financial KPIs are included in the separate Corporate Responsibility Report published annually on-line). Revenue growth and profit performance were impacted by the recession, although the focus on cash generation and debt gearing cover benefited those KPIs. Further analysis is set out in the sections below.

KPI	**First half 2009**	**2008**
Continuing revenue growth	4.4%	4.2%
Continuing normalised operating profit	£73.8m	£119.2m
Continuing normalised profit before tax	£55.7m	£95.3m
Normalised diluted earnings per share	27.8p	42.8p
Operating cash generation	£145.7m	£50.3m
Debt gearing ratio	3.2x	3.5x

2008 comparative figures are first half except for the debt gearing ratio which is full year

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Revenue
Group revenue grew by 4.4 per cent to £1,424.5 million (2008: £1,364.8m). This reflected the benefit of weaker sterling on translation of overseas revenue, which added £92.5 million.

Disposals impacted revenue in UK Bus & Coach, reflecting the sale of Travel London in early June and dot2dot in January 2009. UK Rail was lower due to the transfer of the Gatwick Express franchise in 2008, while performance in the East Anglia and c2c franchises continued to be robust. Spain and North America both demonstrated year-on-year growth in local currency terms, partly due to acquisitions in 2008. Despite the adverse impact of the recession, all businesses protected their underlying revenue from significant decline.

Profit from operations
Continuing normalised operating profit in the first half year declined to £73.8 million (2008: £119.2m). Normalised profit measures give a better indication of the performance of the business. This reduction of £45.4 million wholly reflects the move of the East Coast UK rail franchise into a loss of more than £20 million during the first half of 2009, while the collective performance of the Group's other businesses was maintained at prior year levels in Sterling terms.

The UK Bus & Coach division improved profits in the first half of the year through good cost control, as did the remaining UK Rail businesses (other than East Coast). Spain and North America largely offset profit pressure through cost reduction initiatives and the benefit from foreign currency translation. This collective achievement provides a good platform on which to build the future business, as the planned exit from the East Coast rail franchise occurs during the second half.

Profit before tax
Continuing normalised profit before taxation reduced to £55.7 million (2008: £95.3m). Normalised net interest expense reduced to £18.2 million (2008: £24.1m), reflecting the lower interest rate environment, particularly benefiting the Group's Sterling denominated debt. The Group continues to enjoy interest margins well below current bank financing prices, which is expected to normalise when the Group's debt is next refinanced. However, this impact should be partially offset by continued progress in reducing the debt level.

The effective tax rate on continuing normalised profits was 23.2 per cent (2008: 27.3%), giving a normalised tax charge of £12.9 million (2008: £26.0m). This lower level of tax reflects the benefit of a lower effective tax rate in Spain and is expected to continue through the full year. Normalised profit after tax for the period from continuing operations was £42.8 million (2008: £69.3m).

Dot2dot was classified as a discontinued operation in 2008, prior to its sale on 9 January 2009. Normalised loss for the period from discontinued operations was £nil (2008 loss: £3.6m). The resultant normalised profit for the period attributable to equity shareholders was £42.6 million (2008: £65.5m).

Exceptional items
Continuing exceptional items totalled £62.3 million (2008: £15.2m). These costs include non-recurring and non capital costs involved in the North America Business Transformation project (£4.9m) and rationalisation and redundancy costs (£2.7m), associated with cost reduction in the UK and Spain businesses.

In addition, a charge of £54.7 million has been made for the costs of restructuring the UK Rail business to reflect the expected reassumption of the East Coast rail franchise by the UK Department for Transport

('DfT') later in 2009. This comprises the Group's commitment to fund cash trading and exit losses in its East Coast special purpose vehicle ('NXEC') in the second half year prior to exit (£22.5m), together with funding for the East Coast performance bond available to meet the DfT's costs of operating and rebidding after reassuming the franchise (a maximum of £32.2m). Following this charge, trading losses after 30 June 2009 are not expected to impact normalised profit in subsequent periods.

A loss on disposal of non-current assets of £5.2 million (2008: £nil) mainly related to the sale of the Travel London bus business in June 2009. Amortisation of £30.6 million (2008: £27.7m) was charged on intangible assets, relating to contracts, software and similar assets acquired in Spain £28.0 million (2008: £23.6m), North America £1.7 million (2008: £3.1m), UK Bus £0.2 million (2008: £0.3m), UK Coach £0.2 million (2008: £0.2m) and UK Rail £0.5 million (2008: £0.5m).

Exceptional finance costs of £5.7 million (2008: £nil) have arisen due to interest rate hedge costs.

The taxation credit on exceptional items, disposal, amortisation and exceptional finance costs was £19.0 million (2008: £13.1m).

A profit after taxation from discontinued operations of £5.4 million (2008: £3.6m) was largely attributable to recoveries relating to the Group's Australian business which was exited in 2005.

The Group's statutory loss for the period attributable to equity shareholders was £36.8 million (2008 profit: £35.7m).

Earnings per share
Including discontinued operations, normalised diluted earnings per share was 27.8 pence (2008: 42.8p).

Dividend
In February 2009, the Board proposed a reduction in the dividend declared for 2008 to benefit debt reduction. While the Group's debt reduction programme is progressing well, in light of the requirement to ensure continued compliance with banking covenants and to refinance the Group's €540 million debt facility maturing in September 2010, the Board has decided that it would not be appropriate to pay a further dividend at this time. Given the longer term cash generative nature and earnings potential of the Group's operations, the Board expects to resume dividend payments when refinancing has been completed and the debt level has been reduced to a more appropriate level, consistent with the Board's debt funding policy of maintaining investment grade equivalent.

Cash management
In February 2009, the Group announced an increased emphasis on ensuring a stable financial platform, recognising the above average debt level of the Group, following an extensive acquisition and investment programme. The financial plan focused on delivery of:

- Strong cash management, to reduce the Group's debt; and
- A stronger balance sheet and appropriate capital structure

Considerable success has been achieved during the first half year in delivering this cash management programme. Net capital expenditure has been reduced by over 40 per cent to £30.2 million (2008: £51.9m), reflecting the limited volume growth and capacity required during the recession. The principal areas of investment have remained the bus and coach fleet in Spain and the Business Transformation programme in North America, together with committed obligations in UK Rail.

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Working capital has been reduced by £46.8 million (2008 increase: £63.5 million), a year on year improvement of £110.3 million. This has been achieved through reducing overdue customer receivables and better management of creditors, reinforced by a strong weekly cash management process embedded across the Group. The majority of this improvement should be sustainable for the second half of the year.

Overall, over £150 million of cash improvement was delivered in the first half year versus the prior year period through prudent reductions in capital investment, working capital and dividend reduction, well ahead of the £100 million target set in February 2009 for the full year.

As a result, normalised operating cash flow in the first half of the year was strongly generative at £145.7 million (2008: £50.3m). This represents a 197 per cent conversion (2008: 42 per cent) of profit from operations, a measure of the strong cash flow generation achieved.

	First half 2009 £m	**First half 2008 £m**
Normalised profit from operations	73.8	119.2
Depreciation	55.1	47.3
Grant amortisation, profit on disposal and share-based payments	0.2	(0.8)
EBITDA	**129.1**	**165.7**
Net capital expenditure	(30.2)	(51.9)
Net working capital movement	46.8	(63.5)
Operating cash flow	**145.7**	**50.3**

The operating cash flow was supplemented by proceeds of £37.5 million (2008 outflow: £10.7m) from business disposals and discontinued operations, primarily the sale of the Travel London bus operation. This represented good value for a business which made a profit of £3.9 million in 2008 and which would have required significant future investment in new depots and fleet.

Exceptional cash costs totalled £16.8 million (2008: £15.5m), payments to associates, relating to the Group's contract with Inter-Capital and Regional Rail Ltd (ICRRL), of £8.6 million (2008: £8.4m) and net interest payments were £21.4 million (2008: £23.7m). Net cash tax was an inflow of £4.9 million (2008: £4.7m), benefiting from settlement of prior overpayments. Cash tax is expected to be a small outflow in the full year.

With the final dividend payment for 2008 deferred into the second half of 2009, net funds flow for the Group was an inflow of £140.5 million (2008 outflow: £53.7m).

	First half 2009 £m	First half 2008 £m
Operating cash flow	145.7	50.3
Discontinued operations	-	(8.3)
UK rail franchise entry & exit	(0.1)	(0.5)
Exceptional cash flow	(16.8)	(15.5)
Payments to associates	(8.6)	(8.4)
Net interest	(21.4)	(23.7)
Dividends paid to minority interests	(0.2)	(0.2)
Taxation	4.9	4.7
Free cash flow	**103.5**	**(1.6)**
Financial investments & shares	(0.5)	(1.2)
Acquisitions & disposals	33.2	(10.7)
Receipts from discontinued operations	4.3	-
Dividends	-	(40.2)
Net funds flow	**140.5**	**(53.7)**

Debt

Net debt reduced by £202.3 million to £977.5 million (2008 year end: £1,179.8m), reflecting the strong delivery from the Group's cash generation initiatives, together with the benefit on the translation of foreign currency debt (£61.8m). Cash generation will remain a focus in the second half and the Group expects net debt to be at similar levels at the year end. At 30 June 2009, the Group had significant facility headroom, with cash and undrawn committed financing facilities of £373.2 million (2008 year end: £200.0m).

The Group also maintained compliance with its debt financing covenants. The principal ratios are adjusted net debt to EBITDA (the 'debt gearing ratio') and EBITDA to interest (the 'interest ratio'). In light of the constraints around bank funding in current markets, together with the recent volatility of Sterling, the Group agreed with its banking partners additional certainty and flexibility regarding calculation of these ratios (as set out below), in return for a fee and a commitment to a future partial repricing of interest margin if debt leverage is not reduced from October 2009 and additionally in 2010. At 30 June 2009, the actual ratio values compared with their respective covenant limits and 2008 year end values were:

- Debt gearing ratio: 3.2 times (not to exceed 4.0 times; 2008 year end result 3.5 times); and
- Interest ratio: 5.3 times (not to be less than 3.5 times; 2008 year end result 5.9 times).

The maximum debt gearing ratio reduces under the Group's funding arrangements to 3.5 times from December 2009. In light of this stricter requirement, the Group will continue to target significant cash generation to reduce debt, through lower capital investment, reduced working capital and other measures, and explore opportunities to accelerate debt reduction through equity funding or selective asset disposals. The Group's current expectation is to achieve compliance with this ratio at the year end.

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Outlook
Overall, despite a difficult period of uncertainty over its rail business and above average debt levels, National Express is making steady progress towards delivering a better, more robust business. In the second half of the year, we will continue to focus on sustained performance delivery and progressive improvement across the Group's retained businesses, with an orderly exit expected from the East Coast rail franchise.

Further cost reduction programmes and continuation of cash management initiatives are expected to continue our progress in making our operational platform more efficient. Opportunities to enhance debt reduction and refinance the Group will continue to be explored.

We have started the search for a new Group Chief Executive, following the departure of Richard Bowker, and will update the market in due course.

Divisional Overview

UK Bus & Coach
Continuing revenue for the integrated UK Bus & Coach division was £279.2 million (2008: £284.5m). This included the impact of the sale of Travel London part way through the period. Underlying revenue growth was 2 per cent, with Bus continuing to grow, despite some slowing in volume caused by rising unemployment, particularly in the West Midlands. Including a part year of Travel London, Bus revenue was £165.0 million (2008: £169.2m). Overall Coach revenue was broadly flat due to the impact of reduced volumes on airport and some London routes subject to greater competition from rail; overall revenue was £114.2 million (2008: £115.3m).

Normalised continuing operating profit for the division declined by 21 per cent to £21.8 million (2008: £27.6m). This reflected the impact of increased fuel and pension costs, particularly for the Bus business, while Coach increased profitability through strong cost control. Bus normalised operating profit was £11.2 million (2008: £20.4m) with higher hedged fuel costs expected to add £6 million in the full year, while lower pension scheme asset values will increase the net pension cost by £5 million. Coach normalised continuing operating profit was £10.6 million (2008: £7.2m, excluding loss on dot2dot), benefiting from a reduction in variable costs, strong overhead cost reduction and the rephasing of marketing investment.

The Bus & Coach division continues to benefit from last year's integration, while leveraging a single brand identity, with 'National Express' jumping over 50 places to 78th in this year's UK's Superbrands rankings. The strength of the brand in the division's traditional platform of urban and inter-city transport has now been successfully extended offering full service airport operations across Heathrow, Gatwick and Stansted, now serving car parking, inter-terminal traffic, hotel and airport-city routes.

In Bus, we have agreed a network-wide strategic partnership with Centro in the West Midlands, called 'Transforming Bus Travel'. This will modernise local bus networks, enhance real time information and pave the way for 'smart card' systems. Successful roll out of our Solihull partnership is being followed by a review in South Birmingham. Travel Dundee has signed the first Bus Punctuality Improvement Partnership in Scotland, which is expected further to improve service reliability. Our Midland Metro tram service celebrated ten years operation.

Operationally, we have introduced 90 new buses across the West Midlands, while rationalising unpopular routes. Fleet replacement continues, further reducing the number of older, less accessible Metrobus

vehicles, while automatic vehicle location linked to real time bus stop customer information has been launched in Coventry, as part of the 'Primelines' partnership. Overall, the bus business is focused on improving efficiency to offset the adverse impact of lower employment and short-time working due to the recession. It will benefit from lower hedged fuel costs in 2010.

The Coach business has seen a small decline in passenger numbers in 2009 due to the impact of the recession on discretionary travel. The number of passengers using airport routes is now improving, although, after an improved Easter, travel volumes over the May bank holidays were disappointing. Nevertheless, the flexible operating model, where the majority of service delivery is outsourced, together with overhead cost reduction initiatives, has enabled profit in this traditionally quieter half year to be improved.

Good success has been achieved through our Spring television campaign, with 135,000 new customers and increased penetration of web-based sales. The Express coach business has performed resiliently on cross-country routes while special events operations have continued to grow, with 10,000 festival-goers carried to and from Glastonbury. We have reached agreement with Easyjet to make travel simpler for air passengers at airports in the UK and Spain, selling tickets for both our National Express and Alsa brands in the two countries. We also opened a new coach and rail customer centre at Stansted airport. Prospects of more UK consumers staying at home for their 2009 holidays should also benefit the Coach business in the second half year.

UK Rail
Revenue for the half year in UK Rail was £627.7 million (2008: £671.1m). This reduction primarily reflected the ending of the Gatwick Express franchise in June 2008. Underlying revenue in the three retained franchises rose by 1 per cent, with growth markedly lower than previous periods as the impact of recession saw reduced volumes and lower growth in fare yields. Cost conscious customers have switched to advance purchase and standard class tickets, although passenger volumes have remained resilient. The East Anglia franchise continues to benefit from revenue support, whereby 80 per cent of the marginal revenue shortfall is met by the DfT.

Operating profit for the Rail division declined to £2.5 million (2008: £39.7m). Hardest hit was the long distance East Coast franchise, where the special purpose vehicle which operates the franchise, NXEC Trains Ltd ('NXEC'), lost over £20 million in the first half year, some £46 million worse than the prior year period. Underlying revenue was flat year on year, compared with a target in the 2007 bid of over 10 per cent. This has been a common problem across all the country's long distance franchises, where the impact of falling GDP on business and discretionary travel behaviour is felt earlier and more acutely than on commuter-orientated franchises. With rising premium payments to the DfT from April 2009 and limited ability to reduce costs given the franchise specification agreed with the DfT, NXEC is expected to remain loss-making for some time.

After extensive discussions with the DfT over potential ways to mitigate this loss while preserving NXEC's ability to operate a franchise where excellent operational delivery has taken the East Coast route from bottom to top of the long-distance league table, in line with the franchise agreement the East Coast franchise is likely to be reassumed by the DfT later in 2009. NXEC will be encouraged to meet all its franchise obligations until such time, while the Group will meet its contractual support to NXEC, comprising a £40 million subordinated loan, to fund trading losses and liquidity requirements prior to the end of the franchise, together with a £32 million performance bond, to meet DfT costs thereafter. The Group is committed to meeting all its obligations and is supportive of ensuring an orderly handover of the East Coast franchise to the DfT when the committed funding has been fully utilised, expected to occur later in 2009.

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Other than the subordinated loan and performance bond commitments detailed above, the Group has no further financial obligations under the East Coast franchise agreement or to NXEC. At the half year, £17.5 million of the loan facility had been drawn down by NXEC. The Group has taken and received clear and detailed advice from leading legal Counsel and is confident that the Secretary of State for Transport will not be permitted either to recover from the Group any losses arising from any possible breach of the East Coast franchise agreement by NXEC or to execute cross default contained in the franchise agreements for East Anglia or c2c. The Group would oppose any such attempt in order to protect shareholder value.

Performance within the East Anglia and c2c franchises has been resilient, despite a slowing in revenue growth. Revenue support in East Anglia from the DfT continues and we are delivering excellent cost control. The smaller c2c franchise continued to make good progress, despite the impact of rising unemployment on commuter traffic. Plans are progressing for a 17 per cent increase in carriage capacity on East Anglia, with 120 new and 68 refurbished rail carriages joining the fleet. New car park capacity and accessibility improvements are also being added under the agreement signed with the DfT in April 2009, expected to be worth some £180 million in revenue and cost benefit over the life of the project. Meanwhile, c2c has become the best performing train operator ever in the UK, achieving a Public Performance Measure annual average of 95.8 per cent, and joint best performer for overall customer satisfaction in the National Passenger Survey for franchised train operating companies at 91 per cent. The division also benefited from the successful resolution of outstanding issues on previous franchises.

Spain

Total revenue rose 18 per cent in Sterling terms to £263.2 million (2008: £223.0m) and 1.8 per cent in local currency terms. Strong cost performance offset a 3 per cent decline in underlying revenue in the existing business, the latter resulting from the ongoing impact of the economic slowdown on the local travel market. There are, however, some signs that the rate of decline is beginning to slow.

Normalised operating profit in Sterling terms declined by £3.1 million to £28.6 million (2008: £31.7m). Despite the fall in underlying revenue, reduced operations saw a 5 per cent reduction in kilometres operated, improving productivity. The additional adverse impact of higher hedged fuel costs, expected to add £14 million in the full year, was largely offset by initial savings in overhead costs, expected to exceed €10 million in the current year, together with a £3.9 million foreign currency translation benefit in the first half. The lower cost base and significantly cheaper fuel hedges now fully in place for 2010 are expected to benefit profitability next year.

Long distance coach revenue has been impacted by the recession in Spain, with a reduction in weekend travel and continued competition from high speed rail on a selected number of routes. A new service allowing customers to buy tickets through 7,200 bank ATMs, roll out of wifi-enabled services to Asturias and the Basque country, together with an enhanced loyalty scheme and new television advertising, are expected to support the key summer travel period. Improved services include introduction of the highly regarded Supra executive service to Granada-Sevilla and Asturias-Barcelona, and an increased number of airport services to Madrid, Barcelona, Alicante and Santander.

Regional transport has seen some continued adverse impact on passenger numbers. The internet sales platform has seen regional availability extended to more services. Urban transport has been less affected, seeing a low level of continued revenue growth, while also benefiting from subsidy support. Overall, service frequency and subsidy payments have been managed in conjunction with local regulators and service economics optimised.

Opportunities to develop business in both Spain and other markets continue to be identified. In Spain, a sightseeing bus contract has been awarded in Gijon, a popular tourist destination. In Morocco, Alsa has a successful operation in Marrakech, which has led to it being declared as provisional awarded bidder for a long-term contract to operate urban services in Agadir from January 2011, with expected full year revenue of over £14 million. Tenders and bids for other contracts, both within and outside Spain, continue to be explored, building on Alsa's reputation and number one leadership position in bus and coach transport.

North America

Revenue in the school bus business has remained robust in the first half year, growing by 36 per cent in Sterling terms to £259.1 million (2008: £190.0m), with underlying revenue up 6 per cent in local currency. Travel to school contract revenue has remained good, although there has been a slowing in other field and out of school trips, which are a smaller part of the product offering but which are more exposed to the economic slowdown.

Normalised operating profit in the first half was £24.7 million (2008: £25.9m) after a foreign currency translation benefit of £6.2 million. Despite progressive improvement in management of driver wages after a problematic second half of 2008, profit in local currency terms remained constrained, due to continued double running costs, associated with having planned centralised and distributed field services in order to support the full Business Transformation roll out planned for 2010. Despite significant school board interest, new conversion contracts have been few and margins on some contracts prohibitively restrictive. Overall, over 90 per cent of existing contract business has been retained, contracts for 700 additional buses secured, but over 1,000 existing bus operations resigned due to poor margin levels. The business is focused on optimising cost delivery in the second half year, with $9 million of planned savings, while building new revenue at sustainable margin levels.

The Business Transformation project is expected to deliver operating cost benefits of over $40 million per annum from 2011. It will also offer customers a superior differentiated service model in an increasingly competitive market. The project continues to progress to plan. The centralisation programme is now well advanced and will yield significant savings, removing duplication and low-scale activity from the 169 field operations to the central Enterprise Resource Planning (ERP) system, including billing, customer contact, payroll and driver recruitment. In addition, the piloting of new bus technology is nearing completion. This will allow more efficient, effective customer support, as well as provide for new services to be offered. Following a full test of the integrated solution, roll out is expected to begin during 2010. New route planning optimisation will also benefit capital and operating costs. Customer response to marketing of the programme to date has been very positive.

Joint ventures and associates

The Group's investments in a number of associates and joint ventures in Spain made a profit of £0.1 million (2008 : £0.2m). During the period, the Group transferred its shareholding in London & Continental Railways to the UK Government for no value, under arrangements to restructure Eurostar. The Group's Eurostar contract was designated as an onerous contract in 2006 and fully provided to the end of the contract in 2010 at that time.

Fuel
The Group policy is to hedge a proportion of future fuel usage against movements in fuel prices. Fuel costs for 2009 were substantially hedged in 2008 when world oil prices were considerably higher than current levels. As a result, first half 2009 fuel costs were £13 million higher than 2008 (on a constant volume and currency basis); this is expected to continue for the second half year. To date, 87 per cent of fuel usage has been hedged for 2010 at lower prices than 2009, which is expected to benefit the Group by over £25 million versus the current year. Over 50 per cent of 2011 demand has also been hedged at prices slightly above 2010 but well below 2009 levels.

Pensions
The Group's principal defined benefit schemes saw an increase in the combined accounting-based deficit during the first half year to £77.1 million (2008 year end: £45.0m). This reflected an increase in the deficit due to an increase in long term inflation expectations, together with a reduction in the liability discount rates, as a result of a fall in corporate bond returns, partly offset by a discontinuance gain expected to arise when the East Coast rail franchise is reassumed by the DfT later in 2009.

Financing and treasury management
At 30 June 2009, the Group had two principal bank debt facilities; an £800 million revolving credit facility maturing in June 2011 and a €540 million term loan facility maturing in September 2010. The headroom from cash and committed facilities was £373.2 million (2008 year end: £200.0m). The Group continues to comply with all its banking covenants, as set out above.

As the recession began, it became increasingly clear that the level of debt the Group was carrying was higher than desirable. As set out in the 'Cash management' and 'Debt' sections above, the Group has successfully generated strong cash flow in the first half year and reduced net debt. This has improved liquidity headroom, together with the headroom over covenant compliance requirements. In addition, the Group successfully negotiated with its banking partners some variations to its covenant mechanisms to provide additional certainty and flexibility.

In adopting the going concern assumption in these financial statements, the Directors have considered the uncertainties that could impact the Group, particularly in respect of future cash flows and debt funding. The Directors have considered risks around payment default, liquidity and covenant compliance. In respect of the first two of these, no material uncertainty as to the Group's ability to meet its obligations has been identified. In respect of covenant risk, to maintain compliance with the key debt covenant at 31 December 2009, which is the debt gearing ratio, this ratio must not exceed 3.5 times EBITDA for the previous 12 months. This ratio was 3.2 times at 30 June 2009. However, given a backdrop of lower Group earnings versus 2008, together with the costs that could arise from the exit of the East Coast franchise later in 2009, the Group has put in place a series of initiatives to maintain compliance.

These initiatives include:

- continued effective management of capital investment, working capital requirements and cessation of dividend payments, following the successful generation of £145.7 million of operating cash flow in the first half year;
- the Group also continues to seek additional business and asset sales where these are non-core or surplus to requirements, following the successful disposal of Travel London in the first half year;
- in addition, the Board continues to explore opportunities to accelerate debt reduction through equity funding or selective asset disposals;
- the Group will also explore opportunities to refinance the first of the Group's primary debt facilities to mature, well in advance of the maturity date of September 2010.

The Board believes that execution of some of these initiatives will enable the Group to maintain covenant compliance. In the event that this was not the case, the Board believes that it would be able to work with its banking group to avoid significant issues at year end, following its successful negotiation in the first half year. There is, however, no certainty as to the outcome of any such negotiations. For further details, please refer to note 1 in the half yearly financial statements.

Principal risks and uncertainties

The principal risks and uncertainties of the Group are broadly unchanged since year end and are fully detailed in the 2008 Report and Accounts.

Since the year end, conditions on the East Coast franchise have been clarified. We have advised the DfT that National Express will encourage NXEC to continue to operate its franchise on all its existing terms, with the contractual support of National Express. The performance and season ticket bonds will remain in place. This will continue until such time as National Express' committed financial support has been fully utilised. National Express anticipates this committed funding should allow NXEC to continue to operate until later in 2009, although this will depend on trading conditions. National Express has confirmed that it will continue to work closely with the DfT within its existing funding commitments, in order to ensure high standards of passenger service delivery by NXEC and, in the event that the Secretary of State reassumes control of the franchise, to ensure an orderly handover of the franchise.

The Group has been advised that, under the DfT's model for franchise bidding, its financial obligations under the East Coast franchise are strictly limited. Like all rail franchises, NXEC is a special purpose vehicle, set up to meet the DfT's requirement as a standalone legal entity, with its own assets, management team and franchise agreement with the DfT. National Express is not a party to, or a guarantor of, NXEC's obligations under the East Coast franchise agreement. Instead, National Express' committed financial obligations are restricted to a £40 million subordinated loan to NXEC, available to NXEC to maintain contractual liquidity ratios, and a performance bond to meet the DfT's costs in the event of franchise default by NXEC, up to a maximum of £32.2 million. Other than these commitments, National Express has no further financial obligations under the East Coast franchise agreement or to NXEC. At the half year, £17.5 million of the subordinated loan had been drawn down, in compliance with the liquidity requirements set by the DfT. The performance bond remains uncalled.

If, despite the best efforts of NXEC and the full utilisation of National Express' committed financial support, trading conditions result in NXEC being unable to meet its financial obligations under the terms of the East Coast franchise agreement, the Board believes that the Secretary of State would have a duty to reassume control of the franchise. Should such circumstances arise, National Express believes that the Secretary of State would not be permitted either to recover from National Express any losses arising from any possible breach of the franchise agreement by NXEC or to execute the right of cross default contained in the franchise agreements for East Anglia (NXEA) and c2c. Advice has been received that cross default can only be applied where the Secretary of State can reasonably expect that the default under one franchise within an owning group has a material impact on the other franchises within that group. However, the Group believes that the Secretary of State would have no grounds on which to come to this conclusion in circumstances where the Group has satisfied in full all of the parental support obligations to which the DfT asked it to commit at the time of tendering the East Coast franchise and awarding it to NXEC, and will continue to do so at both NXEA and c2c. National Express has taken and received clear and detailed advice from leading legal Counsel upon its, and its subsidiaries', positions under the East Coast and other franchise agreements and is confident that the implication of any NXEC default should be confined to the NXEC franchise. The Group would oppose any attempt by the DfT to cross default, in order to protect shareholder value.

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Basis of preparation
This financial information has been prepared in accordance with IFRS as adopted by the EU. The comparative information for 2008 has been amended to reclassify dot2dot as a discontinued operation. Details are contained in the notes to the Financial Statements.

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

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

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

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

Net interest expense is finance costs less finance income.

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

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

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

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

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

On behalf of the board

J Devaney
Executive Chairman

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NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2009

		Unaudited six months to 30 June						
	Note	**Total before intangible asset amortisation & exceptional items 2009 £m**	**Intangible asset amortisation & exceptional items 2009 £m**	**Total 2009 £m**	Total before intangible asset amortisation & exceptional items 2008* £m	Intangible asset amortisation & exceptional items 2008* £m	Total 2008* £m	Audited Year to 31 December Total 2008 £m
Continuing operations								
Revenue	4	**1,424.5**	**-**	**1,424.5**	1,364.8	-	1,364.8	2,767.0
Operating costs before intangible asset amortisation & exceptional items		**(1,350.7)**	**-**	**(1,350.7)**	(1,245.6)	-	(1,245.6)	(2,513.1)
Intangible asset amortisation	5	**-**	**(30.6)**	**(30.6)**	-	(27.7)	(27.7)	(55.2)
Exceptional items	6	**-**	**(62.3)**	**(62.3)**	-	(15.2)	(15.2)	(30.9)
Total operating costs		**(1,350.7)**	**(92.9)**	**(1,443.6)**	(1,245.6)	(42.9)	(1,288.5)	(2,599.2)
Group operating profit/(loss)		**73.8**	**(92.9)**	**(19.1)**	119.2	(42.9)	76.3	167.8
(Loss)/profit on disposal of non-current assets	4	**-**	**(5.2)**	**(5.2)**	-	-	-	5.1
Profit/(loss) from operations		**73.8**	**(98.1)**	**(24.3)**	119.2	(42.9)	76.3	172.9
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.1**	**-**	**0.1**	0.2	-	0.2	-
Finance income	7	**6.7**	**-**	**6.7**	7.9	-	7.9	17.4
Finance costs	7	**(24.9)**	**(5.7)**	**(30.6)**	(32.0)	-	(32.0)	(80.4)
Profit/(loss) before tax		**55.7**	**(103.8)**	**(48.1)**	95.3	(42.9)	52.4	109.9
Tax (expense)/income	8	**(12.9)**	**19.0**	**6.1**	(26.0)	13.1	(12.9)	23.2
Profit/(loss) after tax for the period from continuing operations		**42.8**	**(84.8)**	**(42.0)**	69.3	(29.8)	39.5	133.1
Profit/(loss) for the period from discontinued operations	12	**-**	**5.4**	**5.4**	(3.6)	-	(3.6)	(13.4)
Profit/(loss) for the period		**42.8**	**(79.4)**	**(36.6)**	65.7	(29.8)	35.9	119.7
Profit/(loss) attributable to equity shareholders		**42.6**	**(79.4)**	**(36.8)**	65.5	(29.8)	35.7	118.8
Profit attributable to minority interests		**0.2**	**-**	**0.2**	0.2	-	0.2	0.9
		42.8	**(79.4)**	**(36.6)**	65.7	(29.8)	35.9	119.7
(Loss)/earnings per share:								
- basic (loss)/earnings per share	10			**(24.1p)**			23.4p	77.9p
- diluted (loss)/earnings per share	10			**(24.1p)**			23.3p	77.4p
Normalised earnings per share:								
- basic earnings per share	10	**27.9p**			43.0p			94.3p
- diluted earnings per share	10	**27.8p**			42.8p			93.6p
(Loss)/earnings per share from continuing operations:								
- basic (loss)/earnings per share	10			**(27.7p)**			25.8p	86.8p
- diluted (loss)/earnings per share	10			**(27.7p)**			25.6p	86.1p

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3 and restated for the presentation of Dot2Dot as a discontinued operation.

Dividends of £nil were paid during the period (2008 interim: £40.2m; 2008 full year: £59.6m). Dividends of £nil were proposed for the period (2008 interim: £19.4m; 2008 full year: £34.6m).

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NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2009

	Note	**Unaudited 30 June 2009 £m**	Unaudited 30 June 2008* £m	Audited 31 December 2008 £m
Non-current assets				
Intangible assets		**1,321.9**	1,256.9	1,519.6
Property, plant and equipment		**732.8**	705.7	841.5
Financial assets – Available for sale	**13**	**13.7**	7.9	9.2
Financial assets – Derivative financial instruments	**13**	**1.7**	16.5	1.5
Investments accounted for using the equity method		**6.6**	12.1	7.9
Other receivables		**4.2**	4.9	7.0
Deferred tax asset		**24.2**	-	20.0
		2,105.1	2,004.0	2,406.7
Current assets				
Inventories		**19.8**	18.4	24.4
Trade and other receivables		**262.3**	318.0	332.3
Financial assets – Derivative financial instruments	**13**	**0.8**	37.5	2.5
Current tax assets		**3.5**	10.8	4.0
Cash and cash equivalents	**15**	**129.7**	119.8	105.9
		416.1	504.5	469.1
Disposal group assets classified as held for sale		**-**	4.3	0.7
Total assets		**2,521.2**	2,512.8	2,876.5
Non-current liabilities				
Financial liabilities – Borrowings	**15**	**(1,060.1)**	(1,089.9)	(1,215.0)
Financial liabilities – Derivative financial instruments	**13**	**(25.1)**	(4.6)	(59.3)
Deferred tax liability		**(108.4)**	(153.0)	(124.9)
Other non-current liabilities		**(37.9)**	(7.7)	(20.7)
Defined benefit pension liability	**14**	**(77.1)**	(105.9)	(45.0)
Provisions		**(31.9)**	(39.8)	(39.0)
		(1,340.5)	(1,400.9)	(1,503.9)
Current liabilities				
Trade and other payables		**(530.2)**	(546.8)	(557.3)
Financial liabilities – Borrowings	**15**	**(47.8)**	(59.2)	(71.6)
Financial liabilities – Derivative financial instruments	**13**	**(51.8)**	(29.6)	(79.3)
Current tax liabilities		**(36.2)**	(38.8)	(32.5)
Provisions		**(87.5)**	(39.5)	(44.3)
		(753.5)	(713.9)	(785.0)
Liabilities directly associated with disposal group assets classified as held for sale		**-**	(4.3)	(2.2)
Total liabilities		**(2,094.0)**	(2,119.1)	(2,291.1)
Net assets		**427.2**	393.7	585.4
Shareholders' equity				
Called up share capital		**7.7**	7.7	7.7
Share premium account		**196.5**	195.4	195.7
Capital redemption reserve		**0.2**	0.2	0.2
Own shares		**(15.2)**	(16.3)	(15.2)
Other reserves		**38.2**	48.9	133.7
Retained earnings		**194.5**	153.4	257.2
Total shareholders' equity		**421.9**	389.3	579.3
Minority interest in equity		**5.3**	4.4	6.1
Total equity		**427.2**	393.7	585.4

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

J Devaney
Executive Director

JK Maiden
Group Finance Director

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NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2009

	Note	**Unaudited six months to 30 June 2009 £m**	Unaudited six months to 30 June 2008 £m	Audited year to 31 December 2008 £m
Cash generated from operations	16	**163.0**	69.2	218.2
Tax received/(paid)		**4.9**	4.7	(5.0)
Net cash from operating activities		**167.9**	73.9	213.2
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	11(a)	**-**	(10.7)	(11.4)
Deferred consideration for businesses disposed/(acquired)		**0.9**	-	(0.3)
Purchase of property, plant and equipment		**(38.0)**	(57.9)	(124.4)
Proceeds from disposal of property, plant and equipment		**11.2**	7.0	33.7
Payments to acquire intangible assets		**(3.4)**	-	(8.2)
Receipts from disposal of business, net of cash disposed	11(b)	**32.3**	-	5.4
Receipts/(payments) in respect of discontinued operations	12	**4.3**	-	(6.1)
Interest received		**6.7**	7.9	17.4
Net cash from/(used in) investing activities		**14.0**	(53.7)	(93.9)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**-**	0.1	0.4
Proceeds from sale of treasury shares		**0.3**	-	-
Purchase of treasury shares		**(1.6)**	(1.3)	(1.7)
Reclaim of VAT on historical share issue costs		**0.8**	-	-
Interest paid		**(26.9)**	(30.9)	(66.5)
Finance lease principal payments		**(17.0)**	(19.6)	(32.8)
Net loans advanced		**(95.3)**	33.5	14.0
Payments for the maturity of foreign currency swaps		**(12.6)**	-	(33.0)
Dividends paid to minority interests		**(0.2)**	(0.2)	(0.4)
Dividends paid to shareholders of the Company		**-**	(40.2)	(59.6)
Net cash used in financing activities		**(152.5)**	(58.6)	(179.6)
Increase/(decrease) in cash and cash equivalents		**29.4**	(38.4)	(60.3)
Opening cash and cash equivalents		**105.9**	157.2	157.2
Increase/(decrease) in cash and cash equivalents		**29.4**	(38.4)	(60.3)
Foreign exchange		**(5.6)**	1.0	9.0
Cash and cash equivalents		**129.7**	119.8	105.9

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2009

	Unaudited six months to 30 June 2009 £m	Unaudited six months to 30 June 2008* £m	Audited year to 31 December 2008 £m
(Loss)/profit for the period	**(36.6)**	35.9	119.7
Other comprehensive income:			
Exchange differences on retranslation of foreign operations	**(194.5)**	78.0	413.7
Exchange differences on retranslation of foreign currency borrowings	**66.8**	(89.3)	(264.2)
Exchange differences on retranslation of minority interests	**(0.8)**	0.3	1.3
Actuarial losses on defined benefit pension plans	**(35.8)**	(81.2)	(24.8)
Gains on valuation of available for sale assets	**3.7**	-	-
(Loss)/gain on cash flow hedges taken to equity	**(4.3)**	43.0	(79.4)
Transfers to the income statement on cash flow hedges	**44.0**	(5.7)	(9.2)
Tax on exchange differences	**-**	3.1	17.6
Tax on share based payments	**-**	-	(1.6)
Deferred tax on actuarial losses	**10.0**	22.7	7.0
Deferred tax on cash flow hedges	**(11.2)**	(10.6)	24.8
Other comprehensive income for the period net of tax	**(122.1)**	(39.7)	85.2
Total comprehensive income for the period	**(158.7)**	(3.8)	204.9
Total comprehensive income attributable to:			
Equity shareholders	**(158.1)**	(4.3)	202.7
Minority interests	**(0.6)**	0.5	2.2
	(158.7)	(3.8)	204.9

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2009

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

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained Earnings* £m	Total* £m	Minority interests £m	Total* £m
At 1 January 2008	7.7	195.3	0.2	(16.3)	30.4	215.8	433.1	3.9	437.0
Shares issued	-	0.1	-	-	-	-	0.1	-	0.1
Shares purchased	-	-	-	(1.3)	-	-	(1.3)	-	(1.3)
Own shares released to satisfy employee share schemes	-	-	-	1.3	-	(1.3)	-	-	-
Total comprehensive income for the period	-	-	-	-	18.5	(22.8)	(4.3)	0.5	(3.8)
Share-based payments	-	-	-	-	-	1.9	1.9	-	1.9
Increase in minority interests	-	-	-	-	-	-	-	0.2	0.2
Dividends	-	-	-	-	-	(40.2)	(40.2)	-	(40.2)
Dividends paid to minority interest	-	-	-	-	-	-	-	(0.2)	(0.2)
At 30 June 2008	**7.7**	**195.4**	**0.2**	**(16.3)**	**48.9**	**153.4**	**389.3**	**4.4**	**393.7**

Shares issued in the six months to 30 June 2008 related to the exercise of share options.

*Adjusted for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3.

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NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2009

1. Basis of preparation and accounting policies

These interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared using the accounting policies set out in the Group's 2008 statutory accounts except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting".

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Going concern

As further explained in the Operating and Financial Review, in adopting the going concern assumption in these financial statements, the Directors have considered the uncertainties that could impact the Group, particularly in respect of future cash flows and debt funding. The Directors have considered the risks of the Group exceeding its debt facility limits or failing to comply with the related covenants. In respect of the first of these, no material uncertainty has been identified. In respect of covenant risk, if the Group were unable to reduce its net debt sufficiently for covenant purposes or agree amendments to the covenants and those covenants were breached, the syndicate of lenders would have the right to demand immediate repayment of all amounts due to them. This creates doubt about the future capital funding of the Group.

In order to maintain compliance with the key debt covenant at 31 December 2009, which is the debt gearing ratio, this ratio must not exceed 3.5 times EBITDA for the previous 12 months. This ratio was 3.2 times at 30 June 2009. However, given a backdrop of lower Group earnings versus 2008, together with the costs that could arise from the exit from the East Coast franchise later in 2009, the Group has put in place a series of initiatives to maintain compliance.

These initiatives include:

- continued effective management of capital investment, working capital requirements and cessation of dividend payments, following the successful generation of £145.7 million of operating cash flow in the first half year;
- the Group also continues to seek additional business and asset sales where these are non-core or surplus to requirements, following the successful disposal of Travel London in the first half year;
- in addition, the Board continues to explore opportunities to accelerate debt reduction through equity funding or selective asset disposals;
- the Group will also explore opportunities to refinance the first of the Group's primary debt facilities to mature, well in advance of the maturity date of September 2010.

The Board believes that execution of some of these initiatives will enable the Group to maintain covenant compliance. In the event that this was not the case, the Board believes that it would be able to work with its banking partners to avoid significant issues at year end, following its successful negotiation in the first half year.

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1. Basis of preparation and accounting policies (continued)

However, given that covenant compliance remains dependent on actions which are yet to be delivered, the Directors have concluded that the underlying implementation risks represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing these interim financial statements.

Half Year 2008 restatement
The restatement of the financial results for the six months ended 30 June 2008 comprises the adjustment for the final purchase price allocation in relation to Continental Auto and The Kings Ferry Limited in accordance with IFRS 3 and the restatement for the presentation of Dot2Dot as a discontinued operation.

During 2007, the Group acquired the entire share capital of Continental Auto SLU ("Continental Auto") and The Kings Ferry Limited. The allocations of the consideration paid in respect of the acquisitions to the fair value of the net assets acquired were completed during the second half of 2008. In accordance with IFRS 3 "Business Combinations", the Group financial statement for the six months ended 30 June 2008 have been restated to reflect the final fair value and amortisation adjustments relating to Continental Auto and the goodwill adjustment relating to The Kings Ferry Limited. The net impact on the financial statements was £0.2m reduction in intangible asset amortisation resulting in £0.2m increase in profit before tax and £0.1m increase in tax expense for an overall £0.1m increase in profit for the period. Net assets increased by £0.1m. Additionally, the Group completed the sale of the Dot2Dot business on 9 January 2009 and it was classified as a discontinued operation for the year ended 31 December 2008, and the results for the six months ended 30 June 2008 restated for the presentation of Dot2Dot as a discontinued operation. Further details are contained in note 12.

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 434 of the Companies Act 2006. The figures for the year to 31 December 2008 have been extracted from the Annual Report and Accounts 2008 which has been filed with the Registrar of Companies. The audit report on the Annual Report and Accounts 2008 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 2009		Six months to 30 June 2008		Year to 31 December 2008	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.65**	**1.50**	1.99	1.99	1.46	1.85
Canadian dollar	**1.91**	**1.80**	2.04	2.00	1.78	1.96
Euro	**1.17**	**1.12**	1.26	1.30	1.05	1.26

If the results for the six months to 30 June 2009 had been retranslated at the average exchange rates for the six months to 30 June 2008, North America would have achieved normalised operating profit of £18.5m on revenue of £202.8m, and Spain would have achieved normalised operating profit of £24.7m on revenue of £227.0m.

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3. Risks and uncertainties

The risks and uncertainties are described in the Operating and Financial Review that forms part of this Half-Yearly Report. Additional information on risks and uncertainties is contained in the Annual Report and Accounts 2008.

4. Segmental analysis

The revenue of the Group comprises income from road passenger transport, train passenger services and related activities in the UK, North America and Spain. Within UK Rail, franchise agreement receipts from the Department for Transport Rail Division and local Passenger Transport Executives are treated as revenue. During the six months to 30 June 2009, franchise agreement receipts amounted to £3.7m (2008 interim: £14.6m; 2008 full year: £24.0m).

Analysis by class and geography of business	Unaudited six months to 30 June				Audited year to 31 December	
	Revenue 2009 £m	**Operating result 2009 £m**	Revenue 2008 £m	Operating result 2008 £m	Revenue 2008 £m	Operating result 2008 £m
UK Bus	**165.0**	**11.2**	169.2	20.4	341.0	40.0
UK Coach	**114.2**	**10.6**	115.3	7.2	244.7	27.0
UK Bus & Coach	**279.2**	**21.8**	284.5	27.6	585.7	67.0
UK Rail	**627.7**	**2.5**	671.1	39.7	1,332.5	81.3
Intercompany elimination	**(4.8)**	-	(3.8)	-	(6.8)	-
UK operations	**902.1**	**24.3**	951.8	67.3	1,911.4	148.3
North American Bus	**259.1**	**24.7**	190.0	25.9	372.5	32.5
Spain Coach & Bus	**263.2**	**28.6**	223.0	31.7	483.1	83.3
Central functions	**0.1**	**(3.8)**	-	(5.7)	-	(10.2)
Result from continuing operations	**1,424.5**	**73.8**	1,364.8	119.2	2,767.0	253.9
Intangible asset amortisation		**(30.6)**		(27.7)		(55.2)
Exceptional items		**(62.3)**		(15.2)		(30.9)
Group operating (loss)/profit		**(19.1)**		76.3		167.8
(Loss)/profit on disposal of non-current assets		**(5.2)**		-		5.1
(Loss)/profit from operations		**(24.3)**		76.3		172.9
Share of post tax results from associates and joint ventures		**0.1**		0.2		-
Net finance costs		**(23.9)**		(24.1)		(63.0)
(Loss)/profit before tax		**(48.1)**		52.4		109.9
Tax income/(expense)		**6.1**		(12.9)		23.2
(Loss)/profit for the period from continuing operations		**(42.0)**		39.5		133.1
Profit/(loss) for the period from discontinued operations		**5.4**		(3.6)		(13.4)
(Loss)/profit for the period		**(36.6)**		35.9		119.7

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

In 2009, non-operating exceptional items of £5.2m comprise a £5.0m loss on the disposal of Travel London and a £0.2m charge in respect of disposals in Spain. In the year to 31 December 2008 non-operating exceptional items comprise £5.1m of profit on disposal of businesses owned by the Spanish segment.

5. Intangible asset amortisation

Intangible assets in UK Rail are subject to amortisation, which is charged on a straight-line basis to the end of the franchise, of £0.5m (2008 interim: £0.5m; 2008 full year: £1.0m). Intangible assets representing customer contracts have been subject to an amortisation charge in Spain of £28.0m (2008 interim: £23.6m; 2008 full year: £48.7m), in North America of £1.1m (2008 interim: £3.1m; 2008 full year: £4.7m), in UK Bus of £0.2m (2008 interim: £0.3m; 2008 full year: £0.5m) and in UK Coach of £0.2m (2008 interim: £0.2m, 2008 full year: £0.3m). Software intangible assets have been subject to an amortisation charge in North America of £0.6m (2008 interim: £nil, 2008 full year: £nil).

6. Exceptional items

Exceptional items are material items of income or expenditure which due to their nature and infrequency require, in the opinion of the Directors, separate identification on the face of the income statement to allow a better understanding of the financial performance in the period, in comparison to prior periods.

In the six months to 30 June 2009 exceptional costs of £2.1m for UK reorganisations (30 June 2008: £3.0m; 2008 full year: £17.1m) were incurred in UK Bus, UK Coach, UK Rail and Central Functions. Mobilisation costs of £nil (30 June 2008: £2.5m; 2008 full year: £0.1m) were incurred in National Express East Coast. Restructuring costs of £0.6m (30 June 2008: integration costs of £0.7m; 2008 full year: integration costs of £2.6m) were incurred in Continental Auto. Business transformation costs of £4.9m (30 June 2008: £9.0m; 2008 full year: £11.1m) were incurred in North America. A charge of £22.5m was recognised in UK Rail as the NXEC franchise agreement was deemed onerous as at 30 June 2009. A provision of £32.2m was recognised in Central Functions reflecting the performance bond obligation for the NXEC franchise exit expected later this year.

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

	Six months to 30 June 2009* £m	Six months to 30 June 2008 £m	Year to 31 December 2008 £m
UK Bus	**0.1**	1.9	3.0
UK Coach	**0.1**	0.3	2.0
UK Bus & Coach	**0.2**	2.2	5.0
UK Rail	**23.7**	3.2	12.2
North America Bus	**4.9**	9.0	11.1
Spain Coach & Bus	**0.6**	0.7	2.6
Central Functions	**32.9**	0.1	-
Total continuing operations	**62.3**	15.2	30.9

*Exceptional items in relation to discontinued operations are discussed in note 12.

7. Net finance costs

	Six months to 30 June 2009			Six months to 30 June 2008			Year to 31 Dec 2008
	Normalised £m	**Exceptional £m**	**Total £m**	Normalised £m	Exceptional £m	Total £m	Total £m
Bank interest payable	**(20.5)**	**(5.7)**	**(26.2)**	(27.7)	-	(27.7)	(70.5)
Finance lease interest payable	**(2.7)**	**-**	**(2.7)**	(2.8)	-	(2.8)	(6.7)
Other interest payable	**(0.1)**	**-**	**(0.1)**	-	-	-	(0.1)
Unwind of provision discounting	**(1.6)**	**-**	**(1.6)**	(1.5)	-	(1.5)	(3.1)
Finance costs	**(24.9)**	**(5.7)**	**(30.6)**	(32.0)	-	(32.0)	(80.4)
Finance income: Bank interest receivable	**6.7**	**-**	**6.7**	7.9	-	7.9	17.4
Net finance costs	**(18.2)**	**(5.7)**	**(23.9)**	(24.1)	-	(24.1)	(63.0)

The 2009 exceptional charge of £5.7m relates to ineffectiveness on interest rate swaps which were subsequently de-designated and no longer treated as hedging instruments under IAS 39. The year to December 2008 exceptional charge of £11.5m relates to interest rate swaps that ceased to qualify for hedge accounting, as the underlying currency borrowings which the interest rate swaps were hedging were switched into sterling.

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2009 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2009. The normalised tax charge of £12.9m (2008 interim: £26.0m; 2008 full year: £52.3m) represents an effective tax rate on normalised profit before tax, for continuing and discontinued operations, of 23% (2008 interim: 27%; 2008 full year: 26%). The total tax credit of £6.1m (2008 interim charge: £12.9m; 2008 full year credit: £23.2m) includes a deferred taxation credit of £5.9m (2008 interim credit: £0.3m; 2008 full year credit: £56.9m).

9. Dividends paid and proposed

	Six months to 30 June 2009 £m	Six months to 30 June 2008 £m	Year to 31 December 2008 £m
Declared and paid during the period:			
Ordinary interim dividend for 2008 paid of 12.72p per share	**-**	-	19.4
Ordinary final dividend for 2007 paid of 26.40p per share	**-**	40.2	40.2
	-	40.2	59.6
Proposed for approval and not recognised as a liability as at period end:			
Ordinary interim dividend for 2008 of 12.72p per share	-	19.4	-
Ordinary final dividend for 2008 of 10.00p per share	-	-	15.2
Ordinary interim dividend for 2009 of nil per share	-	-	-

10. Earnings per share

	Six months to 30 June 2009	Six months to 30 June 2008	Year to 31 December 2008
Basic (loss)/earnings per share – continuing operations	**(27.7p)**	25.8p	86.8p
Basic earnings/(loss) per share – discontinued operations	**3.6p**	(2.4p)	(8.9p)
Basic (loss)/earnings per share – total	**(24.1p)**	23.4p	77.9p
Normalised basic earnings per share	**27.9p**	43.0p	94.3p
Diluted (loss)/earnings per share – continuing operations	**(27.7p)**	25.6p	86.1p
Diluted earnings/(loss) per share – discontinued operations	**3.6p**	(2.3p)	(8.7p)
Diluted (loss)/earnings per share – total	**(24.1p)**	23.3p	77.4p
Normalised diluted earnings per share	**27.8p**	42.8p	93.6p

Basic (loss)/earnings per share is calculated by dividing the loss attributable to equity shareholders of £36.8m (2008 interim: profit £35.7m; 2008 full year: profit £118.8m) 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 (loss)/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. For 2009, the weighted average number of ordinary shares for the purposes of calculating the diluted loss per share is identical to that used for the basic loss per share. This is because the adjustment for dilutive potential ordinary shares would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33 "Earnings per Share".

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

	Six months to 30 June 2009	Six months to 30 June 2008	Year to 31 December 2008
Basic weighted average shares	**152,530,471**	152,375,941	152,457,518
Adjustment for dilutive potential ordinary shares	**302,285**	758,309	1,077,289
Diluted weighted average shares	**152,832,756**	153,134,250	153,534,807

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings per share 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.

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

	Six months to 30 June 2009 £m	Six months to 30 June 2008 £m	Year to 31 December 2008 £m
(Loss)/profit attributable to equity shareholders	**(36.8)**	35.7	118.8
(Loss)/profit from discontinued operations	**(5.4)**	3.6	13.4
(Loss)/profit from continuing operations attributable to equity shareholders	**(42.2)**	39.3	132.2
Intangible asset amortisation	**30.6**	27.7	55.2
Exceptional operating items	**62.3**	15.2	30.9
(Loss)/profit on disposal of non-current assets	**5.2**	-	(5.1)
Exceptional finance cost	**5.7**	-	11.5
Tax relief on goodwill and exceptional items	**(19.0)**	(13.1)	(75.5)
Normalised profit from continuing operations	**42.6**	69.1	149.2
Normalised loss from discontinued operations	**-**	(3.6)	(5.5)
Normalised profit attributable to equity shareholders	**42.6**	65.5	143.7

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10. Earnings per share (continued)

The reconciliation of statutory (loss)/earnings per share (eps) to normalised earnings per share is as follows:

	Six months to 30 June 2009		Six months to 30 June 2008		Year to 31 December 2008	
	Basic eps p	**Diluted eps p**	Basic eps p	Diluted eps p	Basic eps p	Diluted eps p
(Loss)/profit attributable to equity shareholders	**(24.1)**	**(24.1)**	23.4	23.3	77.9	77.4
(Profit)loss from discontinued operations	**(3.6)**	**(3.6)**	2.4	2.3	8.9	8.7
(Loss/)profit from continuing operations attributable to equity shareholders	**(27.7)**	**(27.7)**	25.8	25.6	86.8	86.1
Remove dilutive effect of losses	**-**	**0.1**	-	-	-	-
Intangible asset amortisation	**20.1**	**20.0**	18.2	18.2	36.2	36.0
Exceptional operating items	**40.9**	**40.8**	10.0	9.9	20.3	20.1
Profit/(loss) on disposal of non-current assets	**3.4**	**3.4**	-	-	(3.3)	(3.3)
Exceptional finance cost	**3.7**	**3.7**	-	-	7.5	7.5
Tax relief on goodwill and exceptional items	**(12.5)**	**(12.5)**	(8.6)	(8.6)	(49.5)	(49.2)
Normalised profit from continuing operations	**27.9**	**27.8**	45.4	45.1	98.0	97.2
Normalised loss from discontinued operations	**-**	**-**	(2.4)	(2.3)	(3.7)	(3.6)
Normalised profit attributable to equity shareholders	**27.9**	**27.8**	43.0	42.8	94.3	93.6

11. Business combinations

(a) Acquisitions

2009 Acquisitions
There were no acquisitions during the six months to 30 June 2009.

2008 acquisitions
During the six months to 30 June 2008, in Canada, the Group acquired the entire share capital of school bus operator Alouette (North Bay Alouette Bus Lines Inc) on 7 January 2008. In the United States, the Group acquired the entire share capital of school bus operator A&E Transport Services Inc on 28 February 2008.

Net assets at date of acquisition:	Book value			Fair value adjustments	**Fair value Total**
	A&E £m	Alouette £m	Total £m	£m	**£m**
Intangible assets	-	0.1	0.1	6.4	**6.5**
Property, plant and equipment	1.6	0.1	1.7	0.1	**1.8**
Trade and other receivables	1.2	-	1.2	-	**1.2**
Cash and cash equivalents	0.6	-	0.6	-	**0.6**
Trade and other payables	(0.3)	-	(0.3)	-	**(0.3)**
Deferred tax liability	-	-	-	(1.8)	**(1.8)**
Net assets acquired	3.1	0.2	3.3	4.7	**8.0**
Goodwill on acquisition					**4.6**
Total consideration					**12.6**
Net consideration					**12.5**
Acquisition costs					**0.1**
Total consideration					**12.6**
Less: deferred consideration					**(1.3)**
Less: net cash acquired					**(0.6)**
Net cash outflow					**10.7**

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11. Business combinations (continued)

The acquisition balance sheets have been adjusted to reflect fair value adjustments. The adjustments represent:
a) the elimination of the book value of Alouette's intangible assets (£0.1m), the recognition of customer contracts acquired with A&E (£1.7m), and contractual relationships acquired with A&E (£4.2m) and Alouette (£0.6m) which reflects the expected indefinite renewal of these school bus contracts in North America. The customer contracts are amortised over the life of the contracts, whilst contractual relationships are not amortised, but are tested for impairment on an annual basis;
b) a £0.1m increase in the value of property, plant and equipment at Alouette following a review of the vehicle fleet;
c) the deferred tax liability associated with the customer contracts acquired with A&E (£0.5m), and the contractual relationships acquired with A&E (£1.1m) and Alouette (£0.2m);
Total consideration was £11.7m for A&E (including £1.3m deferred consideration) and £0.9m for Alouette.

From their respective dates of acquisition to 30 June 2008, A&E and Alouette have contributed £1.3m and £0.1m to operating profit of the Group respectively. Group operating profit and group revenue would not have been materially different if these combinations had taken place at the beginning of the period.

Included in the goodwill recognised above are certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and assembled workforce and increased scale in our North American school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the businesses acquired into the Group's North American operations.

(b) Disposals

The trade and business of Travel London, the Group's London bus business, was disposed of on 9 June 2009. Cash flows arising on disposal comprised cash consideration of £32.0m and £0.3m bank overdrafts disposed of. The net assets disposed of were £37.0m including £13.2m of goodwill, resulting in a loss of £5.0m.

12. Discontinued operations

On 9 January 2009, the Group completed the sale of the Dot2Dot business and it was classified as a discontinued operation for the year ended 31 December 2008. The results for the six months ended 30 June 2008 have been restated for the presentation of Dot2Dot as a discontinued operation. The 2009 Interim results include a charge to the income statement in respect of the discontinued operations for Dot2Dot of £0.6m. In addition, a £6.0m credit was recognised in relation to a settlement of outstanding claims from the exit of the Australian operations.

The results of the Group's discontinued operations for the six months ended 30 June 2009 are presented below together with the comparative data for the six months ended 30 June 2008 and arise from Dot2Dot, Australia and North America Public Transit.

	Dot2Dot		North America Public Transit		Australia		**Total**	
For the six months ended	30 June 2009 £m	30 June 2008 £m	30 June 2009 £m	30 June 2008 £m	30 June 2009 £m	30 June 2008 £m	**30 June 2009 £m**	30 June 2008 £m
Revenue	-	2.4	-	-	-	-	**-**	2.4
Operating costs, before goodwill impairment, intangible amortisation and	-	(7.7)	-	-	-	-	**-**	(7.7)
Normalised operating loss	-	(5.3)	-	-	-	-	**-**	(5.3)
Normalised loss before tax	-	(5.3)	-	-	-	-	**-**	(5.3)
Tax on normalised loss	-	1.7	-	-	-	-	**-**	1.7
Normalised loss from discontinued	-	(3.6)	-	-	-	-	**-**	(3.6)
Goodwill impairment	-	-	-	-	-	-	**-**	-
Exceptional items	(0.6)	-	-	-	6.0	-	**5.4**	-
Tax on exceptional items	-	-	-	-	-	-	**-**	
	(0.6)	-	-	-	6.0	-	**5.4**	-
(Loss)/profit from discontinued	(0.6)	(3.6)	-	-	6.0	-	**5.4**	(3.6)
Earnings/(loss) per share								
Basic earnings/(loss) from discontinued							**3.6**	(2.4)
Diluted earnings/(loss) from discontinued							**3.6**	(2.3)
Net cash (outflow)/inflow from :								
Operating activities	(1.2)	(6.3)	-	-	-	-	**(1.2)**	(6.3)
Investing activities	-	(0.3)	(1.5)	-	5.8	-	**4.3**	(0.3)

The exceptional items of £0.6m incurred by Dot2Dot reflects the costs incurred to complete the disposal. The £6.0m credit in Australia reflects the favourable outcome of the outstanding claim for the exited Australian operations.

13 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 programme 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 derivative financial instruments are held in the balance sheet at fair value, as determined by the third party financial institution with which the Group holds the instrument.

The fuel price swaps are in place to hedge the changes in price of the different types of fuel used in each division. The foreign exchange forward contracts are in place to hedge the foreign exchange risk on translation of net assets and on earnings denominated in foreign currency. The Group has a number of interest rate swaps in place to hedge the cash flow risk in relation to interest rates. At 30 June 2009 these interest rate swaps are classified as fair value through profit or loss.

	At 30 June 2009 £m	At 30 June 2008 £m	At 31 December 2008 £m
Non-current			
Interest rate swaps	**-**	7.9	1.5
Fuel price swaps	**1.7**	8.6	-
Derivative financial assets	**1.7**	16.5	1.5
Current			
Interest rate swaps	**-**	7.4	1.5
Fuel price swaps	**0.8**	30.1	1.0
Derivative financial assets	**0.8**	37.5	2.5
Non-current			
Fuel price swaps	**10.6**	0.2	28.2
Interest rate swaps	**8.1**	4.4	18.3
Foreign exchange forward contracts	**6.4**	-	12.8
Derivative financial liabilities	**25.1**	4.6	59.3
Current			
Foreign exchange forward contracts	**0.2**	26.1	12.4
Fuel price swaps	**31.1**	0.2	52.0
Interest rate swaps	**20.5**	3.3	14.9
Derivative financial liabilities	**51.8**	29.6	79.3

The foreign currency borrowings are included in 'Financial liabilities – Borrowings' which are analysed in note 15. Included in bank loans are foreign currency denominated borrowings which hedge the foreign currency denominated net assets of the Group.

Other financial assets in the balance sheet include the 'Financial assets – Available for sale' of £13.7m (2008 interim: £7.9m; 2008 full year: £9.2m) which represent the Group's available for sale investments in unlisted companies.

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14. Pensions and other post-employment benefits

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

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

The total pension cost for the six months to 30 June 2009 was £12.2m (30 June 2008: £11.7m; 2008 full year: £23.5m), of which £10.2m (30 June 2008: £9.9m; 2008 full year: £19.6m) relates to the defined benefit schemes and £2.0m (30 June 2008: £1.8m; 2008 full year: £3.9m) relates to the defined contribution schemes.

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

	At 30 June 2009 £m	At 30 June 2008 £m	At 31 December 2008 £m
UK Bus	**(55.3)**	(33.3)	(3.6)
UK Coach	**(6.8)**	(7.2)	(1.2)
UK Rail	**(13.5)**	(65.3)	(38.7)
Other	**(1.5)**	(0.1)	(1.5)
Total	**(77.1)**	(105.9)	(45.0)

The UK Rail defined benefit pension liability is net of the franchise adjustment of £119.2m (30 June 2008: £3.7m; 2008 full year: £28.2m). During the period, the assumption for the expected NXEC franchise exit was revised, resulting in an actuarial gain on the franchise adjustment relating to the pension liabilities under the NXEC section of the RPS. Details of the franchise adjustment are included in note 35 to the Annual Report and Accounts 2008.

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

	Six months ended 30 June 2009			Year ended 31 December 2008		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**4.4%**	**4.4%**	**4.4%**	3.8%	3.8%	3.8%
Rate of increase in pensions	**3.4%**	**3.4%**	**3.4%**	2.8%	2.8%	2.8%
Discount rate	**6.2%**	**6.2%**	**6.2%**	6.5%	6.3%	6.3%
Inflation rate	**3.4%**	**3.4%**	**3.4%**	2.8%	2.8%	2.8%

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15. Net debt

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

	At 1 January 2008 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	**At 30 June 2008 £m**
Cash and cash equivalents	157.2	(38.4)	1.0	-	**119.8**
Other debt receivable	-	-	-	-	**-**
Loan notes	(0.8)	-	-	-	**(0.8)**
Bank loans	(947.4)	(32.9)	(63.2)	(0.7)	**(1,044.2)**
Finance lease obligations	(119.8)	19.6	(2.6)	(0.7)	**(103.5)**
Other debt payable	-	(0.6)	-	-	**(0.6)**
Net debt	(910.8)	(52.3)	(64.8)	(1.4)	**(1,029.3)**

Current 'Financial liabilities – Borrowings' of £47.8m (30 June 2008: £59.2m; 31 December 2008: £71.6m) comprises £0.8m of loan notes (30 June 2008: £0.8m; 31 December 2008: £0.8m), £41.7m of finance lease obligations (30 June 2008: £22.6m; 31 December 2008: £52.4m), £5.3m of bank loans (30 June 2008: £35.2m; 31 December 2008: £18.1m) and £nil of other debt payable (30 June 2008: £0.6m; 31 December 2008: £0.3m).

Non-current 'Financial liabilities – Borrowings' of £1,060.1m (30 June 2008: £1,089.9m; 31 December 2008: £1,215.0m) comprises £64.7m of finance leases (30 June 2008: £80.9m; 31 December 2008: £81.5m), £994.4m of bank loans (30 June 2008: £1,009.0m; 31 December 2008: £1,132.7m) and £1.0m other debt payable (30 June 2008: £nil; 31 December 2008 £0.8m)

Included in cash and cash equivalents are restricted balances of £25.2m (30 June 2008: £47.6m; 31 December 2008: £49.7m) held by the Train Operating Companies.

Other non cash movements in net debt represent finance lease additions of £nil (30 June 2008: £0.7m; 31 December 2008: £15.8m) and amortisation of loan arrangement fees of £1.2m (30 June 2008: £0.7m; 31 December 2008: £1.6m).

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16. Cash flow statement

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

	Six months to 30 June 2009 £m	Six months to 30 June 2008 £m	Year to 31 December 2008 £m
Net cash inflow from operating activities			
(Loss)/profit before tax from continuing operations	**(48.1)**	52.4	109.9
Profit/(loss) before tax from discontinued operations	**5.4**	(5.3)	(12.8)
Net finance costs	**23.9**	24.1	63.0
Loss/(profit) on disposal of non-current assets	**5.2**	-	(5.1)
Share of post tax results from associates and joint ventures under the equity method	**(0.1)**	(0.2)	-
Depreciation of property, plant and equipment – continuing operations	**55.1**	47.3	96.0
Depreciation of property, plant and equipment – discontinued operations	**-**	0.1	0.3
Amortisation of leasehold property prepayment	**-**	-	0.1
Goodwill impairment	**-**	-	0.7
Intangible asset amortisation	**30.6**	27.7	55.2
Amortisation of property, plant and equipment grants	**(1.0)**	(0.9)	(1.8)
Profit on disposal of property, plant and equipment	**-**	(1.8)	(2.0)
Share-based payments – continuing operations	**1.2**	1.9	4.3
Share-based payments – discontinued operations	**-**	-	0.1
Decrease/(increase) in inventories	**1.0**	1.8	(1.0)
Decrease/(increase) in receivables	**35.6**	(35.7)	(0.2)
Increase/(decrease) in payables	**17.6**	(26.7)	(69.4)
Increase/(decrease) in provisions	**36.6**	(15.5)	(19.1)
Cash generated from operations	**163.0**	69.2	218.2

17. Changes in commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2009 were £29.9m (31 December 2008: £42.7m).

Contingent liabilities

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2009, the Group has issued UK Rail performance bonds of £58.0m (31 December 2008: £57.2m), of which £32.2m is recognised as a provision at 30 June 2009, and UK Rail season ticket bonds of £67.3m (31 December 2008: £86.0m). The Group has other performance bonds which include the £17.0m (31 December 2008: £16.1m) performance bond in respect of Inter-Capital and Regional Rail Limited, performance bonds in respect of businesses in the US of £71.7m (31 December 2008: £76.6m) and the rest of Europe of £22.8m (31 December 2008: £24.7m). Letters of credit have been issued to support insurance retentions of £51.0m (31 December 2008: £86.2m).

18. Related party transactions

There have been no material changes to the related party balances disclosed in the Annual Report and Accounts 2008 and there have been no transactions which have materially affected the financial position or performance of the Group in the six months to 30 June 2009.

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19. Post balance sheet events

On 1 July 2009, National Express Group announced that it will not forward additional financial support to the East Coast franchise. As a result, it is likely that the franchise will be reassumed by the DfT later in 2009. NXEC has met all of its franchise obligations to date. The Group will meet its contractual support to NXEC, comprising a £40.0m subordinated loan, to fund trading losses and liquidity requirements prior to the end of the franchise, together with a £32.2m performance bond, to meet DfT costs thereafter. Other than the subordinated loan and performance bond commitments detailed above, the Group has no further financial obligations under the East Coast franchise agreement or to NXEC. At the half year, £17.5 million of the loan facility had been drawn down by NXEC and a charge of £54.7m has been recognised reflecting future trading losses under the onerous contract to be funded by the Group's remaining subordinated loan commitment of £22.5m and the performance bond obligation of £32.2m.

The Group has taken and received clear and detailed advice from leading legal Counsel and is confident that the Secretary of State for Transport will not be permitted either to recover from the Group any losses arising from any possible breach of the East Coast franchise agreement by NXEC or to execute cross default contained in the franchise agreements for East Anglia or c2c. The Group would oppose any such attempt in order to protect shareholder value.

20. New Standards and Interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009:

- IAS 1 (Revised) "Presentation of financial statements". The Group has adopted the two statement approach and presented separately the Group Income Statement and the Group Statement of Comprehensive Income. There was no impact on the financial position or performance of the Group.
- IFRS 8 "Operating Segments". There has been no change in reportable segments.
- IFRIC 13 "Customer Loyalty Programmes". The impact on the financial position and performance of the Group was immaterial.
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The Group has not recognised a surplus in the past and the adoption of IFRIC 14 has not led to recognition of a surplus.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009 and have not had an impact on the financial position or performance of the Group:

- IAS 23 (Amendment) "Borrowing costs"
- IAS 32 (Amendment) "Financial instruments: Presentation", and IAS 1 (Amendment) "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation"
- Improvements to IFRSs
- IFRS 1 (Amendment) "First-time adoption of IFRSs" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements"
- IFRS 2 (Amendment) "Share-based payment – Vesting Conditions and Cancellations"
- IFRIC 15 "Agreement for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

The following new standards, amendments to standards and interpretations have been issued, but are not yet effective and have not been early adopted:

- IAS 27 (Revised) "Consolidated and separate financial statements" (effective for annual periods beginning on or after 1 July 2009). The revised standard was issued in January 2008 and requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group will apply this revised standard from 1 January 2010 and currently does not anticipate any impact on the financial statements.
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged items. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- Amendments to IFRIC 9 and IAS 39 (effective for accounting periods ending on or after 30 June 2009). The amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives should be re-assessed and, if necessary, separately accounted for. This amendment has not been endorsed by the European Union and therefore is not yet effective for the interim financial statements. The Group is currently evaluating the impact on the financial statements.
- Improvements to IFRSs 2009 (various effective dates). This is a part of the IASB programme of annual improvements, in which this is a collection of amendments to 12 standards. The Group is currently evaluating the impact on the financial statements.
- IFRS 2 (Amendment) "Share-based payment group cash-settled transactions" (effective for annual periods beginning on or after 1 January 2010) This amendment provide a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. The Group is currently evaluating the impact on the financial statements.
- IFRS 3 (Revised) "Business combinations" (effective for business combinations occurring in accounting periods beginning on or after 1 July 2009). This standard continues to apply the acquisition method to business combinations. However, it introduces a number of changes that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Group will apply the revised IFRS 3 for all business combinations from 1 January 2010.
- IFRS 7 (Amendment) "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2009). This amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. This amendment has not been endorsed by the European Union and therefore is not yet effective for the interim financial statements. The Group is currently evaluating the impact on the financial statements.
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 provides guidance on how an entity should account for distributions other than cash (non-cash assets) to owners. The Group will apply IFRIC 17 from 1 January 2010 and does not anticipate it will have an impact on the financial position or performance of the Group, as the Group does not distribute non-cash assets to owners.
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfers of assets on or after 1 July 2009). IFRIC 18 clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The Group will apply IFRIC 18 from 1 July 2009 and it will not have an impact on the consolidated financial statements because the Group does not conduct such activities.

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Independent Review Report to National Express Group PLC

Introduction
We have been engaged by the company to review the condensed interim set of financial statements in the half yearly financial report for the six months ended 30 June 2009 which comprises the Interim Group Income Statement, Interim Group Balance Sheet, Interim Group Cash Flow Statement, Interim Group Statement of Recognised Income and Expense, and the related notes 1 to 20. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim set of financial statements.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed interim set of financial statements in the half yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Emphasis of matter – Going concern
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The conditions stated in note 1 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Ernst & Young LLP
London
30 July 2009