National Express Group PLC: Half Year results for the six months ended 30 June 2020

Overview

The year started extremely well with outstanding results in January and February. Covid-19 then had an immediate and unprecedented impact on all of our businesses from March onwards. We took swift and decisive action to protect the safety of customers and colleagues and the Group's financial position. This included working very closely with customers and authorities to reduce service and negotiate extra support and payments. While patronage fell 80% during lockdown, mileage was reduced by nearly 80% and we still secured 50% of expected revenue and remained EBITDA positive. We boosted liquidity and secured £1.5 billion of new sources of funds since the start of the lockdown, including a £230 million Placing to strengthen our balance sheet. While unable to predict when pre-pandemic levels of demand will return we remain optimistic about the future as high quality, clean and green mass transit must be at the heart of the global recovery.

Covid-19 and management actions

- Pre-pandemic performance was particularly strong. Building on last year's record results revenue was up 17% in constant currency in January and February.
- An unprecedented and immediate drop in passenger demand of 80% following lockdown was mitigated by strong and proactive customer engagement to limit revenue loss to 50%, coupled with swift action to significantly reduce service and thereby save variable costs as far as was possible so that we remained EBITDA positive and generated a £270 million cash inflow in Q2:
    - Service reduction after lockdown – with mileage cut by nearly 80% – included the prompt suspension, and near suspension, of UK and Spanish coach operations respectively, to cut costs and protect Group cash;
    - Customers were proactively engaged to secure contracted revenues (e.g. School Bus, Transit and Shuttle), amend contracted terms (e.g. Madrid) or negotiate exceptional governmental support (e.g. UK bus).
- The safety and welfare of our customers and colleagues has remained our priority with:
    - Enhanced cleaning regimes and reconfigured vehicle layouts quickly established;
    - PPE promptly distributed, including face masks for colleagues that wanted them, ahead of public health guidance;
    - Employee welfare programme enhanced, including for furloughed colleagues;
    - Tragically, we have lost 12 colleagues to Covid-19 during the pandemic. We have offered all the appropriate support we can provide to every affected family.
- Across the Group services were repurposed to meet community need, such as: food parcel delivery; health worker shuttles; and, medical transport:
    - To help our customers, our Job Retention Bonus will be used to reduce bus fares when Covid-19 restrictions are lifted.
- Swift and decisive action has been taken to protect the financial position of the Group including:
    - Liquidity boosted by both £800 million of new facilities (including £600 million from UK Coronavirus Corporate Finance Facility (CCFF)) and the successful draw-down of £417 million USPP. The Group has a total of £1.7 billion in cash, committed facilities and the undrawn component of the CCFF. In total, together with the £230 million Placing, £1.5 billion of new sources of funds have been secured since the start of the lockdown;
    - Covenants renegotiated out to the 30 June 2021 tests:
        - Gearing covenant waived by lenders for the 30 June 2020, 31 December 2020 and 30 June 2021 periods;
        - Interest cover covenant amended to 1.5x for December 2020 and 2.5x for June 2021.
    - We were delighted to receive strong shareholder support for the £230 million Placing to reduce leverage and fund new high-return contract wins;
- Financing augmented with management action to cut costs across the Group:
    - Over 40,000 employees across the Group either furloughed or temporarily laid-off where such schemes did not exist, at the peak;
    - Over £100 million cut in capital expenditure against plan;
    - Over £300 million of operating costs removed from the business in Q2;
    - The Board, the executive management and the senior management team have all accepted salary sacrifices.

Financial summary

- Together these swift and decisive actions generated EBITDA of nearly £90 million in the period, including £13.9 million in Q2.
- Significantly, our cost cutting and customer relationship focus also saw a £270 million cash inflow during Q2.

	HY 2020	HY 2019	Change	Change at constant currency
Group revenue	£1.03bn	£1.34bn	(22.7%)	(23.6%)
Group EBITDA	£88.3m	£243.0m	(£154.7m)	
Group Underlying Operating Profit	(£30.6m)	£139.3m	(£169.9m)	
Group Underlying PBT	(£60.7m)	£114.6m	(£175.3m)	
Statutory				
Group statutory operating profit	(£89.7m)	£113.1m	(£202.8m)	
Group statutory PBT	(£122.2m)	£88.4m	(£210.6m)	
Group PAT	(£91.0m)	£69.2m	(£160.2m)	
Statutory basic EPS	(17.3p)	13.1p	n/a	
Free cash flow	(£193.0m)	£95.6m	(£288.6m)	
Net debt	£1,340.3m	£1,276.3m	£64.0m	

Restart, demand returning and future opportunity

- Gradual service restart showing encouraging early signs of demand returning as restrictions are eased.
- Activity remains, nonetheless, at much suppressed levels. In every market we focus on proactive customer communication and service flexibility to maintain contracted payments and meet demand efficiently.
- We have taken action to renegotiate our covenants and our current worst case and reverse stress testing scenarios (which include consideration of a similar lockdown in Q4 2020 to Q2 2020 and only a very gradual recovery over 2021) demonstrate we are able to navigate the amended December 2020 and June 2021 tests as a result of further planned significant savings in both operating and capital costs:
    - We do not know when demand will return to pre-pandemic levels but as a management team we will continue to take action to strengthen the balance sheet, improve liquidity, cut capital and operational costs and work closely with customers as is necessary to protect the business.
- We are confident that our strong reputation for service and safety, close relationships with customers and improved balance sheet mean we will be well-placed to prosper post-pandemic. Our stand-out wins in the period have secured over £650 million of total contracted revenue and demonstrate how our reputation remains very strong during such difficult times and provides a strong platform for the future:
    - Retained our Madrid-Toledo long haul concession for a further six years, with the highest ever technical score;
    - Retained our CalPita regional concession for at least a further 10 years, with an outstanding technical score;
    - Significant school bus wins in: Boise, Idaho; Fairbanks, Alaska; and, Oakland, California, in a positive bid season;
    - Won a School Bus contract where a small operator went into liquidation (in New York) and another where a competitor fell out with the customer in dealing with Covid-19 pressures (in Michigan). We have also seen an increase in school boards contacting us to explore the potential outsourcing of their in-house services. In all three areas we expect similar opportunities to accelerate over the next two years;
    - Won a para-transit contract for up to five years in North Carolina. This is for 53 vehicles, and is capital-light.
- We remain excited by the long-term opportunity. The global recovery must be powered by a more efficient economy that is cleaner and greener. High quality mass transit will be a necessity. National Express' Vision to be the world's premier mass transit operator offering leading safety, reliability and environmental standards that customers trust and value puts us at the forefront.

Furthermore, with the financial strains caused by Covid-19 likely to lead to a reduction in the provision of supply across all our markets, we believe that there will be opportunities for operators that are able to survive the crisis.

Dean Finch, National Express Group Chief Executive, said:

"This has been an unprecedented period for us all and I am very proud of the response of colleagues across National Express. We worked quickly to put safety measures in place to protect customers and colleagues. Tragically we have lost valued colleagues to Covid-19 and have supported each family.

"During the lockdowns we proactively communicated with customers to vary service and negotiate additional support and payments. We have also secured exceptional governmental funding across all of our major markets and made use of furlough schemes. We were swift to save operating costs as we have nimbly reduced service. Alongside the actions taken to secure additional liquidity, covenant waivers and our recent Placing, the Group has significantly strengthened its financial position to navigate the pandemic. The decisive actions taken by our management team have no doubt secured the Group's continuing future.

"As we have restarted services, we have again worked closely with customers and ensured safety is paramount. While there are some signs of demand returning, levels are both significantly reduced and subject to variability given local lockdowns, the impact of quarantines and uncertainty over the extent of US school re-openings. We do not know when pre-pandemic levels of demand will return but have developed plans to respond to future scenarios and maintain safe and efficient operations thereby ensuring the continued financial well-being of the Group.

"We remain fundamentally positive about the future. The diversification of the Group in recent years has provided resilience during the pandemic, as risk has been spread. In addition, we believe our leadership positions in many diverse and attractive markets are likely to strengthen, as other operators are unable to withstand the impact of the pandemic.

"When we do emerge out of the pandemic the world will be confronted with the need to power an economic recovery with high quality, cleaner and greener public transport at its heart. The alternative is inefficient, congested towns and cities with dirty air. As our stand-out successes in Spanish concession renewals and recent North American School Bus bids have shown, National Express' reputation for operational and customer excellence – alongside our strengthened balance sheet – means we are well positioned to prosper in the future."

Trading outlook

Given the uncertainty on the impact and duration of Covid-19, National Express is not currently providing profit guidance for 2020.

Operational highlights

The tables below summarise the extent of service reduction in lockdown and the current return of demand. In each section the key operational considerations are highlighted. Together this demonstrates: how in many markets we have worked with customers and relevant authorities to secure contracted payments or exceptional support to maintain our crucial services; where we have revenue risk, we acted quickly (and will continue to act quickly) to reduce service to protect earnings; and, the encouraging early signs of demand returning.

ALSA

Segment	Lockdown	Current situation
Long haul	Near shutdown: c.5% service operating 3% patronage	40% service operating 45% patronage
Regional	52% service operating 9% patronage	c.80% service operating 54% patronage
Urban	c.60% service operating 8% patronage	100% service operating 62% patronage
Morocco	30% service operating 10% patronage	c.90% service operating 65% patronage

* All figures are compared to 2019

- ALSA does not have any revenue risk in 40% of its contracts (principally 60% of regional and 100% of urban contracts). In its other contracts ALSA has a flexible model that closely aligns service to demand in discussion with customers.
- The business continues to benefit from very strong customer relationships. Examples include: the Madrid Consortium contract being moved to a per kilometre basis to ensure the service is economic during the pandemic; and, on-going discussions for new contracts in Morocco.
- The Spanish Government remain supportive of public transport, for example:
  - We believe the Spanish employee furlough scheme is likely to continue applying if services require further change (e.g. local lockdowns or demand drops);
  - Discussions have started (and funds created) to compensate operators for revenue loss during the pandemic. This could be direct financial compensation and/or changes to contract length or capital requirements.
- Further concession tenders in Spain (national or regional) are not expected this year and possibly longer, as authorities absorb the impact of the pandemic on transport.
- Morocco remains a strong market. The current operational picture is varied with Marrakesh and Tangiers impacted by the drop in tourism but Rabat and Casablanca performing ahead of pre-Covid levels.

North America

Segment	Lockdown	Current situation
School Bus	Suspension from 13 March 60% of revenue secured	Significantly reduced summer school and charter work. School restart a changing picture, although we have started some services already. Our current assessment of contracts, by revenue, is: 39% start on-time; 61% delayed (of which 78% have identified an average delay of 16.8 days; 22% indefinitely online).
Transit	Fixed route: c.65% of service operated; 65% of revenue secured Paratransit trips 25%; 68% of revenue secured	Fixed route: 85% of service operated Paratransit trips 50%
Shuttle	7% of service operating; 78% of revenue secured	23% of services operating

* All figures are compared to 2019

- While some schools have started to go back, the precise restart schedule is frequently changing. We are proactively communicating with customers to make sure we are ready for restart or can vary costs in line with delays.

- We had an encouraging bid season and expect to be roughly flat for buses. We secured good rate increases of 4.4% on expiring contracts, or 3.4% for our full portfolio.
- In Transit, fixed route contracts are gross cost and therefore offer protection. Two of our three largest paratransit contracts moved to fixed fee plus variable rate model to mitigate risk under new or changing service levels. We are negotiating with other customers for a similar move.
- Across both fixed route and paratransit customers paid for service using the federal CARES Act funding which is in place until at least the end of the year.
- In Shuttle, our very strong relations with customers gives us confidence that similar levels of revenue will be secured until the end of Q3. After this, revenue is more dependent on office return, with some employers looking to move to on-demand services.
- We have continued to win new Shuttle contracts and are in active discussions with a number of corporate and university clients. In some cases we are being approached as the incumbent is unable to supply the necessary number of vehicles to maintain social distancing.

UK

Segment	Lockdown	Current situation
WM bus	47% service operating 14% patronage	101% service operating 53% patronage
Dundee bus	c.40% service operating 15% patronage	c.90% service operating 47% patronage
Coach	Core coach shutdown 5/4-1/7 0% patronage	32% mileage operating, with c.15% daily seats c.20% patronage

* All figures are compared to 2019

- Both UK bus businesses' costs are underwritten by their respective national transport authority. The Department for Transport has confirmed the West Midlands arrangements will remain in place "until a time when the funding is no longer needed"; and, in Dundee, the current funding arrangement is in place until November, at least.
- We maintain strong local relations with key stakeholders and were pleased with the Mayor of the West Midlands, Andy Street's, commendation: "National Express have done a great job managing demand throughout the pandemic."
- Significant funds are available in both markets for bus investment, recognising its crucial role in the city-regions' future. A £260 million bus prioritisation programme that we are helping to design is already underway in the West Midlands.
- In UK coach the initial rapid growth in demand to current levels led to an acceleration of further service restarts. The business is vulnerable to local lockdowns and quarantining impacting demand, but its flexible model allows service adjustments in response and the partner operator structure shares risk.
- National Express Transport Solutions has been launched to leverage our national brand and presence in the fragmented commuter, corporate shuttle and private hire markets.

Other international

Segment	Lockdown	Current situation
German Rail	c.75% service operating from 22/3 until 3/5 21% patronage	100% service operating 70% patronage
Bahrain Bus	c.25% service operating	c.95% of service operating

* All figures are compared to 2019

- Our German Rail contracts offer revenue protections: RRX is a full gross cost contract; RME is a net cost contract but with some protections.

- The German government has created a fund to compensate public transport operators for Covid-19's impact. We have already started negotiations for compensation on RME, as RRX is already protected as a gross cost contract.
- Bahrain is a gross cost contract. Our close working with the Bahraini Ministry of Transport has seen a prompt return to 95% of service in line with local health guidance.

Enquiries

National Express Group PLC

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There will be a webcast presentation for investors and analysts at 9.00am on 13 August 2020. Details are available from Audrey Da Costa at Maitland.

To supplement IFRS reporting, we also present our results on an Underlying basis to show the performance of the business before intangible amortisation for acquired businesses. Given the unprecedented nature of the Covid-19 pandemic in this period, we have also excluded certain costs arising as a direct consequence of the pandemic from Underlying results (detail is provided below). Unless otherwise noted, all reference to profit measures throughout this review are for underlying operations for both the current and prior year which the Board believe gives the most comparable year-on-year indication of the operating performance of the Group. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Definitions of these measures can be found on page 17.

Notes

Legal Entity Identifier: 213800A8IQEMY8PA5X34

Classification: 1.2 (with reference to DTR6 Annex 1R)

CAUTIONARY STATEMENT

Certain statements contained in this half-year report constitute "forward-looking statements" with respect to the financial condition, performance, strategic initiatives, objectives, results of operations and business of the Company. All statements other than statements of historical facts included in this half-year report are, or may be deemed to be, forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "anticipates", "estimates", "projects", "will", "may", "would", "could" or "should", or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; and (ii) business and management strategies and the expansion and growth of the Company's operations. Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results, performance or achievements to differ materially from those projected or implied in any forward-looking statements. The important factors that could cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, economic and business cycles, the terms and conditions of the Company's financing arrangements, foreign currency rate fluctuations, competition in the Company's principal markets, acquisitions or disposals of businesses or assets and trends in the Company's principal industries. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this half-year report may not occur. The forward-looking statements contained in this half-year report speak only as of the date of this half-year report.

FINANCIAL REVIEW

In summary

- Strong start to the year with double digit revenue growth before Covid-19 related 'lockdowns'
- First half revenue reduced by over £300 million driven by Covid-19
- Decisive action taken to reduce budgeted costs by £100 million per month drove positive EBITDA during the 'lockdown' period
- £1.7 billion in cash, undrawn committed facilities and undrawn CCFF with covenants waived or amended for next 12 months

Presentation of results

To supplement IFRS reporting, we also present our results on an Underlying basis to show the performance of the business before intangible amortisation for acquired businesses. Given the unprecedented nature of the Covid-19 pandemic in this period, we have also excluded certain costs arising as a direct consequence of the pandemic from Underlying results (detail is provided below). Unless otherwise noted, all reference to profit measures throughout this review are for underlying operations for both the current and prior year which the Board believe gives the most comparable year-on-year indication of the operating performance of the Group. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Definitions of these measures can be found on page 17.

Statutory profit

After three months of 'lockdown' in each of the countries in which we operate, the Group recorded a first half statutory loss after tax of £91.0 million (2019: profit £69.2m), driving a basic loss per share of 17.3 pence (2019: earnings per share of 13.1p).

Reconciliation of statutory result to underlying operating result	First Half		Full Year
	2020	2019	2019
	£m	£m	£m
Underlying Profit before tax	(60.7)	114.6	240.0
Separately disclosed items	(61.5)	(26.2)	(53.0)
Profit before tax	(122.2)	88.4	187.0
Tax credit/(charge)	31.2	(19.2)	(38.7)
Profit for the period	(91.0)	69.2	148.3

During the period, the Group incurred net costs of £29.0 million related to the Covid-19 pandemic which have been separately disclosed as follows:

Covid-19 separately disclosed items

Separately disclosed costs directly associated with Covid-19	**£m**
One-off costs, cancellation charges and compensation payments	(33.4)
Onerous contracts and related asset impairment	(19.5)
Discontinuation of fuel trades	(10.6)
	(63.5)
Re-measurement of the WeDriveU put liability	34.5
TOTAL	(29.0)

The Group has incurred £33.4 million of costs in respect of one-off items (e.g. incremental health and safety costs such as temperature checking equipment, anti-viral fogging machines and screens); Covid-related insurance charges; cancellation charges; and third party operator compensation payments. In addition the Group has recorded onerous contract provisions and related asset impairment charges totalling £19.5 million and incurred cost associated with the discontinuation of surplus fuel trades of £10.6 million as a consequence of reduced mileage. These charges are partially offset by a gain of £34.5 million on the re-measurement of the WeDriveU put liability due to short-term revenue reduction. Further detail of the Covid-19-related costs is provided in Note 5 to the financial statements.

Amortisation of acquired intangibles increased to £30.1 million (2019: £26.2m) driven by the acquisitions made over the last 12 months in our North America and ALSA divisions.

Revenue

Revenue bridge	£m
2019 first half year revenue	1,335
Currency translation	16
2019 first half year revenue at constant currency	1,351
17% revenue growth in January & February (no Covid-19 impact)	69
5% revenue decline in March (partial Covid-19 impact)	(12)
53% revenue decline in the second quarter ('lockdown' in each country)	(376)
2020 first half year revenue	1,032

After starting the year very strongly with revenue growth for the first two months of 17% and for the first quarter, notwithstanding the first effects of lockdown, of 8.9%, Group revenue for the six-month period was down £303 million to £1,031.5 million (2019: £1,334.5m), a decrease of 22.7%, or 23.6% on a constant currency basis.

During the second quarter, with extensive lockdowns in each country in which we operate, we reduced services in line with government guidance. All North American School Bus services were suspended; we mothballed the UK Coach business; all but stopped the ALSA long haul coach business; and ran reduced bus services for emergency and key workers across our markets in line with local government and customer requirements. During this extraordinary period, we were well supported by customers and governments both to stand behind contracted revenue streams irrespective of demand (e.g. School Bus and Shuttle). For the Group overall this meant that despite passenger numbers declining by nearly 80% overall, and over 90% in the most impacted parts of our business, we received around 50% of pre-Covid-19 revenue.

Segmental revenue performance

	First Half		Full Year
Revenue in local currency	2020	2019	2019
ALSA (€m)	305.4	442.1	940.6
North America (US$m)	647.3	811.0	1,570.6
German Rail (€m)	70.1	40.7	102.5
Revenue in £m			
ALSA	267.0	385.9	824.7
North America	513.5	627.7	1,230.1
UK	189.8	285.3	599.7
German Rail	61.2	35.6	89.9
Group	1,031.5	1,334.5	2,744.4

Across ALSA, revenue has declined by 30.9% over the period to £267.0 million, on a constant currency basis.

Pre-Covid, the business was performing very strongly with revenue up 23% in the first two months of the year driven by underlying growth of over 6% boosted by the new contracts in Rabat and Casablanca and acquisitions made in 2019. Our Spanish business was performing strongly across all segments but particularly in long haul where revenue was up 7.5%, passenger journeys up 4.8% and occupancy up 1.9%.

Through the lockdown period, long haul operations were severely impacted with revenue reduced by more than 90% vs. the prior year driven by strict travel restrictions. This drove long haul revenue for the period down 58% against the prior year. In our urban bus business a significant portion of revenue is protected with services paid for on a per kilometre basis rather than through fare paying passengers. As a result of significant network reductions through the lockdown period however, revenue for the period was down 15.9% versus the prior year. In Morocco, revenue increased by 58%, with the new contracts in Rabat and Casablanca more than offsetting the reduction in services during the period of lockdown.

In North America, revenue declined by 20.2% to £513.5 million on a constant currency basis.

Pre-Covid, the business was performing strongly with revenue up 15.7% in the first two months of the year, largely driven by continued growth in our transit and shuttle businesses. The renewal and expansion of our two largest transit contracts in the fourth quarter of 2019 flowed through to the start of the year, while the acquisition of WeDriveU in April 2019 also boosted growth (and was itself growing underlying revenue by over 20% in the first two months).

The revenue decline for the first half as a whole reflects the closure of schools from late March onwards, together with a significant reduction in service levels in both our transit and shuttle operations in the second quarter. Despite these reduced volumes, we have received significant revenue support from our customers, negotiating 60% of pre-Covid-19 revenue expectations in our school bus business, 60% in transit and 80% in our shuttle business.

In the UK, revenue has declined by 33.5% to £189.8 million.

Pre-Covid, the business was performing well, with revenue up 4.4% in the first two months of the year. Broad-based underlying growth in both our Bus and Coach businesses was augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

The UK Coach business was mothballed from 5th April for the remainder of the period following Government advice to the public to avoid any unnecessary travel and as a result revenue for the period declined by 57.6%. In our Bus operations, revenue declined by 7.0%, reflecting significantly reduced levels of patronage once the UK entered lockdown (down 86% at the low point in lockdown). During the period we booked subsidy payments of £27.4 million in the form of the Covid-19 Bus Service Support Grant ('CBSSG') from the UK government. The CBSSG enables regional bus operators to provide vital services at much reduced capacity in order to comply with social distancing rules by funding the difference between passenger revenue and the costs of operating the service.

Our German Rail operation has seen reported revenue increase by 72.1% in constant currency to £61.2 million, reflecting the start-up of two services in 2019 for Rhine-Ruhr Express.

Profit

Profit bridge for the operations	£m
2019 first half year Underlying Operating Profit (as reported)	139
Currency	2
Underlying Operating Profit at constant currency	141
Revenue decline	(319)
Lower costs	147
2020 first half underlying operating loss	(31)

The Group recorded an Underlying Operating Loss in the period of £30.6 million (2019: underlying profit £139.3m).

Operating costs were originally budgeted to grow proportionately with double-digit revenue growth, but immediately as the impact of the pandemic took hold in late March, we took action to reduce operating costs by c.£100 million per month relative to budgeted levels throughout the second quarter. All variable costs were reduced in line with service reductions and all discretionary expenditure was stopped. The Board and senior management agreed to pay sacrifices, and salary deferral schemes were widely established across the Group. Significant numbers of employees were temporarily laid off or furloughed utilising government income protection schemes. At peak, we had furloughed or temporarily laid off over 40,000 staff from a global workforce of over 52,000.

The ‘furlough’ arrangements in place differ by country. In the UK, the government provides companies with funding to pay employees that would otherwise be laid off. In Spain companies agree temporary lay-off numbers with the government who then provide enhanced benefits directly to the impacted employees with employers partially compensated for continued social security payments. In North America the government put in place enhanced benefits packages for employees temporarily laid off by companies with no ongoing payments from the company (or funding to the company). The table below outlines the cost support accruing directly to the Group although the schemes outside the UK enabled material short-term staff cost savings across both North America and ALSA.

Government Covid-related cost support	£m
UK – Covid Job Retention Scheme (‘CJRS’)	17.8
ALSA – ERTE in Spain and Switzerland; CNSS in Morocco	3.3
Total	21.1

Segmental profit performance

	First Half		Full Year
Underlying Operating Profit in local currency	2020	2019	2019
ALSA (€m)	(8.1)	54.8	124.9
North America (US$m)	9.6	83.2	157.0
German Rail (€m)	(7.2)	2.7	5.7
Underlying Operating Profit £m			
ALSA	(7.1)	47.9	109.5
North America	7.6	64.4	123.0
UK	(15.5)	36.6	85.0
German Rail	(6.3)	2.3	5.0
Central Functions	(9.3)	(11.9)	(27.2)
Underlying Operating Profit	(30.6)	139.3	295.3
Interest and associates	(30.1)	(24.7)	(55.3)
Underlying profit before tax	(60.7)	114.6	240.0

Our operations in ALSA recorded an operating loss of £7.1 million during the period, reflecting the significant fall in revenue noted above, which was only partially offset by various cost initiatives including the significant payroll savings enabled by the use of the ERTE scheme in Spain.

Our North America operations delivered a small operating profit of £7.6 million in the period. This performance demonstrates the relative resilience of contracted revenues together with significant cost reductions, predominantly through the temporary layoff of over 23,000 employees who were able to benefit from enhanced unemployment benefit.

Our UK operations recorded an operating loss of £15.5 million, with our bus business delivering a small profit and our coach operations recording a loss, partially mitigated by the full suspension of the network from April for the remainder of the period. As outlined above, both businesses benefitted from the CJRS and our bus business also received funding through the CBSSG.

German Rail recorded an operating loss of £6.3 million in the period (2019: profit £2.3m), largely reflecting phasing of subsidies within the year.

Summary income statement

	First Half		Full Year
	2020 £m	2019 £m	2019 £m
Revenue	1,031.5	1,334.5	2,744.4
Operating costs	(1,062.1)	(1,195.2)	(2,449.1)
Underlying Operating Profit	(30.6)	139.3	295.3
Share of results from associates and joint ventures	(0.9)	0.3	0.4
Net finance costs	(29.2)	(25.0)	(55.7)
Underlying profit before tax	(60.7)	114.6	240.0
Tax	9.6	(25.9)	(55.2)
Underlying profit after tax	(51.1)	88.7	184.8

Net finance costs increased by £4.2 million to £29.2 million (2019: £25.0m) as a result of the additional interest costs caused by the partial double-carry of Sterling bonds following the refinancing activity of late 2019. Excluded from this underlying result is £2.4 million of separately disclosed items including interest costs on specific short-term Covid-19-related financing.
The Group's effective tax rate for 2020 Underlying profit is forecast to be around 16% (2019 full year: 23%) with the reduction in rate driven by the treatment of taxable losses. This generates a tax credit of £9.6 million (2019: tax charge £25.9m) against Underlying loss before tax. Tax losses in most jurisdictions have been recognised as deferred tax assets with forecasts of future profits supporting their utilisation.

Cash management

Free cash flow	First Half		Full Year
	2020 £m	2019 £m	2019 £m
Underlying Operating Profit	(30.6)	139.3	295.3
Depreciation and other non-cash items	118.9	103.7	214.8
EBITDA	88.3	243.0	510.1
Net maintenance capital expenditure	(113.0)	(76.7)	(211.4)
Working capital movement	(139.6)	(40.3)	(42.0)
Pension contributions above normal charge	(3.8)	(3.7)	(7.6)
Operating cash flow	(168.1)	122.3	249.1
Net interest paid	(28.0)	(22.0)	(45.4)
Tax credit/(paid)	3.1	(4.7)	(25.0)
Free cash flow	(193.0)	95.6	178.7

Notwithstanding the severe revenue reduction driven by Covid-19, the Group generated EBITDA of £88.3 million in the period (2019: £243.0m), with positive EBITDA generated during the lockdown period in the second quarter.

The majority of the £113.0 million maintenance capital investment was in respect of fleet replacement in ALSA and North America, the significant majority of which was incurred during the first quarter prior to the impact of the pandemic after which all new capital expenditure was put on hold. At the period end there was £267.3 million (2019: £263.3 million) owing to vehicle suppliers; this is expected to increase in the second half of the year reflecting the delivery of fleets to support new contracts in ALSA and North America.

The Group recorded a working capital outflow of £139.6 million during the period as strong cash collection in North America was more than offset by a decrease in payables in the period reflecting the cost saving measures implemented (the benefit of which is recorded in EBITDA). The diversified nature of the Group's revenue streams and the predominantly government-backed or blue chip profile of the customer base mitigates the potential credit risk impact of Covid-19 on receivables, but we continue to keep it under close review. Consistent with previous periods the Group makes use of non-recourse factoring arrangements on receivables and advance payments. The total draw down at the period end was £72.1 million (2019 year end: £107.1 million).

Net interest paid increased by £6.0 million to £28.0 million (2019: £22.0m), as a result of the partial double-carry of Sterling bonds following the refinancing activity of late 2019, together with £1.4 million of interest in relation to the Bank of England's CCFF programme.

The net impact of the factors outlined above was a free cash outflow of £193.0 million in the period (2019: inflow £95.6m).

Statutory cash generated from operations for the period was an outflow of £105.9 million (2019: £167.4m inflow) as shown in the Condensed Group Statement of Cash Flows and expanded further in note 15. Operating cash outflow of £168.1 million (2019: £122.3m inflow) presented in the table above is different, predominantly due to the inclusion of net maintenance capital expenditure of £113.0 million (2019: £76.7m).

Reconciliation of free cash flow to net cash flow from operating activities	First Half 2020 £m
Free cash flow	(193.0)
Add: Cash flow for separately disclosed items (inclusive of interest)	(40.1)
Remove: Net maintenance capital expenditure	113.0
Remove: Other non-cash movements	14.8
Profit on disposal of fixed assets	(0.6)
Net cash flow from operating activities	(105.9)

Net funds flow	First Half		Full Year
	2020 £m	2019 £m	2019 £m
Free cash flow	(193.0)	95.6	178.7
Net growth capital expenditure	(9.1)	(13.6)	(42.2)
Net outflow from discontinued operations	-	(1.2)	(1.2)
Acquisitions (net of cash acquired)	(39.6)	(135.7)	(166.4)
Disposal of subsidiaries (net of cash disposed)	-	-	21.7
Net proceeds from share issue	230.1	-	-
Dividends	-	(51.9)	(78.3)
Separately disclosed items	(40.1)	-	(7.3)
Other, including foreign exchange	(47.1)	(7.4)	(4.1)
Net funds flow	(98.8)	(114.2)	(76.3)
Net debt	(1,340.3)	(1,276.3)	(1,241.5)

Growth capital expenditure during the period of £9.1 million included infrastructure to support the mobilisation of new contracts in German Rail and ALSA, along with digital improvement initiatives in the UK and ALSA.

We made one acquisition early in the period of a coach company in the UK for total net consideration of £25.3 million and £7.5 million deferred payment. Subsequently we paused our acquisition strategy in order to conserve cash and protect liquidity within the business. In addition, deferred consideration paid in the period for acquisitions made in previous years was £14.8 million in respect of a number of acquisitions made in prior years, including Monroe School Transportation and Cook-Dupage Transportation.

The share placing in May delivered £230.1 million of net proceeds which as previously announced will be utilised to reduce leverage and to take advantage of growth opportunities as we exit the Covid-19 crisis.

A cash outflow of £40.1 million was recorded in respect of the items excluded from Underlying results as outlined above (primarily Covid-19-related).

Other cash outflows of £47.1m principally reflect the significant movement in the closing rates of foreign currency from 31 December 2019 to 30 June 2020; for example, USD:GBP declined from 1.33 to 1.24.

Net funds outflow for the period of £98.8 million (2019: £114.2m) resulted in net debt of £1,340.3 million (2019: £1,276.3m).

Dividend

As previously guided, in light of these exceptional circumstances, the Group will not be paying a dividend in 2020 and has committed to such in return for obtaining waivers on banking and private placement covenant tests as noted below. Accordingly the Group has not declared an interim dividend. The Group does not have any CCFF commercial paper maturing after 19 May 2021 and therefore is not currently impacted by any CCFF restrictions on dividend policy.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy is to target a level of debt that allows for disciplined investment with a revised target for net debt to EBITDA in a ratio of 1.5x to 2.0x over the medium-term. Both Moody's and Fitch recently reaffirmed our investment grade ratings whilst revising the rating outlook to negative from stable in line with their views on the transport sector as a whole (Baa2/negative) and (BBB/negative).

The Group's key accounting debt ratios at 30 June 2020 were as follows:

- Gearing ratio: 3.8 times EBITDA (31 Dec 2019: 2.4x; bank covenant currently waived);
- Interest cover ratio: EBITDA 5.9 times interest (31 Dec 2019: 9.6x; bank covenant not to be less than 3.5x).

In light of the impact of the pandemic on EBITDA generation, the Group has recently renegotiated its covenants. The gearing covenant has been waived by the lenders for the 30 June 2020, 31 December 2020 and 30 June 2021 periods, and the interest cover covenant has been amended to 1.5x and 2.5x for the 31 December 2020 and 30 June 2021 test periods respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum net debt tests over the next 12 months. All covenants are on a pre IFRS 16 basis. In addition the Group has agreed to pay no dividend during the waiver period if gearing exceeds 3.5x.

The Group's funding is diversified across bank and non-bank (e.g. institutional lenders under private placement schemes) sources to provide improved certainty and maturity of funding. During the period the Group received the proceeds of the delayed draw US private placements, comprising £134 million, $81 million and €240 million of funding. A £225 million Sterling bond and €250 million Floating Rate Note matured during the period and £100m of term loans were repaid.

To secure additional liquidity through the Covid-19 crisis, the Group obtained funding of up to £600 million under the Bank of England Covid Corporate Financing Facility ("CCFF"), of which £300 million was initially drawn in April for up to 12 months. In addition, around £190m of additional Revolving Credit Facilities (RCFs) were secured.

At 30 June 2020, the Group had £3.0 billion of liquidity facilities comprising: £650 million of Sterling bonds, £600 million under the Bank of England "CCFF", £81 million of bank loans, £782 million of Revolving Credit Facilities (RCFs), private placements of £488 million and £385 million of leases. Excluding the specific short-term Covid-related facilities, the average maturity is 4.8 years

At 30 June 2020, the Group's RCFs were undrawn and the Group had available a total of £1.7 billion in cash; undrawn committed facilities; and the undrawn component of the CCFF.

The Group swaps foreign currency debt as net investment hedges. These help mitigate volatility in the translation of our overseas net assets. The Group also hedges its exposure to interest rate movements and has entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 30 June 2020, the proportion of Group debt at floating rates was 3% (Dec 2019: 24%); the reduction reflects the repayment of floating rate borrowings in the period and the drawdown of the US private placement borrowings at fixed long-term rates.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 30 June 2020 was £135.0 million (Dec 2019: £90.0m). The two principal plans are the UK Group scheme, which is closed to new accrual, and the West Midlands Bus plan, which remains open to accrual for existing active members only. The deficit repayments will be around £7 million per annum, rising with inflation, until 2026.

The IAS19 valuations for the principal schemes at 30 June 2020 were as follows:

- WM Bus: £142.7 million deficit (Dec 2019: £99.1m deficit);
- UK Group scheme: £13.8 million surplus (Dec 2019: £14.2m surplus)

Fuel costs

Fuel cost represents approximately 6% of revenue. Clearly it is more complex than in previous years to forecast volume in the current environment, but based on 'base case' modelling, the Group is fully hedged for 2020 at an average price of 46.6p per litre; around 80% hedged for 2021 at an average price of 37.0p; around 40% hedged for 2022 at an average price of 32.2p; and around 15% hedged for 2023 at an average price of 30.0p.

During the period, hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption due to Covid-19. As a result, accumulated fair value movements were recycled from other comprehensive income to the income statement. The resulting impact was an income statement charge of £10.6m in the period which has been treated as a separately disclosed item.

Going Concern

The Board continues to believe that the Group's prospects are positive in the medium to long term. We are diversified geographically, by mode of transport and by contract type. No one contract contributes more than 2% to revenue. Furthermore, a large proportion of the Group's contracts have some form of protection from volatility in passenger numbers.

The Group is well positioned to benefit from the future trends in transportation. Over the long term we expect public transport demand to grow whilst private car ownership declines. Public transport is fundamental to addressing the challenges of congestion and poor air quality, issues that have been brought even more to the fore by the improvements in air quality observed during the recent Covid-19 lockdowns. The ambition that we set out in February this year to be the world's greenest transport company places us at the forefront of this opportunity.

The financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. Details of the Board's assessment of the Group's 'base case'; 'reasonable worse case'; and 'reverse stress tests' are detailed in note 1 to the financial statements on pages 26 to 28.

Brexit

Given the diversified nature of our business model and the limited exposure to cross-border trade, we do not believe that Brexit poses a material threat to the Group. Please refer to the 2019 Annual Report for more information.

Principal Risks

The Group's principal risks were reviewed, debated and approved by the Board, prior to disclosure in the 2019 annual report and accounts. However, since the publication of that report the likelihood and potential impact of a number of these risks and opportunities has been impacted by responses to the Covid-19 pandemic. The key specific impacts of Covid-19 on the Group's financial performance are:

- the extent and length of 'lock downs' where travel is severely limited;
- the impact of social distancing on load factors and hence profitability per trip; and
- any lasting impact on the propensity to use public transport through either reduced discretionary travel or reduced commuting.

We have introduced a new principal risk “global pandemic” to continue to monitor these aspects and as at 30 June 2020, this risk is categorised as both high likelihood and high impact. In addition, Covid-19 has impacted a number of other principal risks (positively and negatively) as outlined below.

Principal Risk	*Covid-19 Impact*	*Mitigating Actions*
1. Economic conditions	The actions taken to slow the spread of the virus have led to unprecedented declines in economic output and are likely to negatively impact economic conditions for the foreseeable future. This may lead to reduced discretionary travel and, in the case of high levels of unemployment, to reduced commuting travel.	• The Group’s diversified nature limits exposure to any single economy • A large proportion of the Group’s revenues are protected from fluctuations in passenger numbers, due to customer invoicing being based on distance / routes operated or on a “cost plus” basis • The Group’s business lines are typically the lowest cost modal options • We have made significant capital and operating cost savings across all business lines
2. Political / regulatory landscape	*Macro*: Social distancing rules have implications for load factors and consequently profitability. *Specific*: The economic upheaval may result in continued delay to Spanish franchise renewals.	• Governments are supplementing grant payments to offset losses incurred through imposing lower load factors • We have increased communication and lobbying activity in each market • We have rapidly modified vehicles and services to operate under the new conditions
5. Alternative fuel vehicles (AFVs)	The financial burden on governments could reduce their ability to provide incentives for transport operators to invest in AFVs. On the other hand, the reduction in pollution levels during Covid-19 lockdowns could increase the popular, political and customer demand for AFVs.	• Continued discussion with governments, transport authorities and fleet providers on the financing and subsidy options for AFVs • The first electric buses are now operational in the West Midlands, UK, providing us with valuable learning and insights into operating an AFV fleet
6. Competition & market dynamics	*Competition*: a number of less financially secure operators are failing, creating opportunities for business expansion. *Market*: Near-term impact of the fear of infection on the propensity to travel on public transport.	• The recent share placing has provided funding for the Group to take advantage of opportunistic business growth opportunities • We have invested in enhanced cleaning regimes as well as increased advertising to demonstrate safety measures and stimulate demand
7. Attraction / retention of talent	A consequence of the economic slowdown is a cooling labour market, particularly for School Bus drivers where we are seeing increased application levels coupled with lower wage demands.	• We have stepped up hiring activity in North America to prioritise customer service • We remain committed to paying at least the living wage to all employees • We have made use of salary deferrals and sacrifices as well as furlough schemes to limit the requirement for redundancies in areas of the business suffering prolonged lower demand
8. Cyber security	With significant numbers of staff working from home and communicating via electronic media there is increased risk of a cyber incident and increased reliance on the core IT systems.	• Continuous monitoring of the cyber security threat landscape • Procurement of additional equipment and licences for secure remote access through existing solutions • Increased awareness material for staff on potential risks associated to remote working • Simulated phishing campaign on key members of staff to assist in differentiating scam email messages
12. Credit / financing	*Macro*: The Covid-19 response has drawn heavily on public finances in all the countries in which we operate *Specific*: The significant short-term reduction in demand as economies have ‘locked down’ has materially impacted Group finances	• The crisis has demonstrated that the majority of the Group’s businesses are seen as ‘critical services’ by Governments across the markets in which we operate and are likely to continue to be prioritised for funding • The Group has received strong support from shareholders and lenders enabling us to raise sufficient funding to weather the storm and ratings agencies have confirmed our rating

Outlook

With the continuing uncertainty of the impact of Covid-19 across the countries in which we operate it remains difficult to forecast financial performance with any level of reliability although the going concern analysis outlined in note 1 to the financial statements on pages 26 to 28 provides a range of potential scenarios. For the remainder of the year, the actions we have taken, coupled with ongoing support from customers and governments will ensure that we continue to deliver positive EBITDA and cash flow through a reasonable worst case scenario.

Chris Davies
Group Finance Director
13 August 2020

Glossary of Alternative Performance Measures

In the reporting of financial information, the Group has adopted various Alternative Performance Measures ("APMs"). APMs should be considered in addition to IFRS measurements. The Directors believe that these APMs assist in providing useful information on the performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance. The key APMs that the Group focuses on are as follows:

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
EBITDA	Operating profit[1]	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking Underlying Operating Profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. A reconciliation of Underlying Operating Profit to EBITDA is included on page 11.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group's gearing ratio.
Gearing ratio	No direct equivalent	The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
Free cash flow	Net cash generated from operating activities	The cash flow equivalent of underlying profit after tax. A reconciliation of Underlying Operating Profit and net cash flow from operating activities to free cash flow is included on page 12.	Free cash flow allows us and external parties to evaluate the cash generated by the Group's operations and is also a key performance measure for the Executive Directors' annual bonus structure and management remuneration.
Net maintenance capital expenditure	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group's profit.
Growth capital expenditure	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
Net debt	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest). The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 14.	Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.

Underlying earnings	Profit after tax	Is the underlying profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column.	Underlying earnings is a key measure used in the calculation of underlying earnings per share.
Underlying earnings per share	Basic earnings per share	Is underlying earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled. A reconciliation of statutory profit to underlying profit for the purpose of this calculation is provided within note 8 of the financial statements.	Underlying earnings per share is widely used by external stakeholders, particularly in the investment community.
Underlying Operating Profit	Operating profit[1]	Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column. Separately disclosed items are items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods.	Underlying Operating Profit is a key performance measure for the Executive Directors' annual bonus structure and management remuneration. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders. The Group does not recognise any separately disclosed items which look to normalise business performance by excluding the estimated impact of the Covid-19 pandemic, other than for certain incremental costs which we have been able to directly attribute to the pandemic, as outlined in Note 5.
Organic revenue and profit growth	Revenue and operating profit[1]	Year on year movement in revenue or profit derived from the Group's continuing businesses in existence at the start of the current period.	This measure illustrates the year-on-year growth in revenue and profit, excluding the impact of in-year acquisitions.

[1] Operating profit is presented on the Group income statement. It is not defined per IFRS, however is a generally accepted profit measure.

Directors’ Responsibilty Statement

The Directors confirm that, to the best of their knowledge:

- the condensed financial statements of the Company have been prepared in accordance with IAS 34; and
- the interim management report of the Company includes:
  - a fair review of the important events during the first six months of the year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R; and
  - a fair review of related party transactions and changes therein, as required by DTR 4.2.8R.

On behalf of the Board

Dean Finch
Chief Executive Officer

Chris Davies
Group Finance Director

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For the six months ended 30 June 2020

		Unaudited six months to 30 June						
	Note	**Underlying result 2020 £m**	**Separately disclosed Items (note 5) 2020 £m**	**Total 2020 £m**	Underlying result 2019 £m	Separately disclosed Items (note 5) 2019 £m	Total 2019 £m	Audited Year to 31 December Total 2019 £m
Revenue	3	**1,031.5**	**–**	**1,031.5**	1,334.5	–	1,334.5	2,744.4
Operating costs		**(1,062.1)**	**(59.1)**	**(1,121.2)**	(1,195.2)	(26.2)	(1,221.4)	(2,502.1)
Group operating (loss)/profit	3	**(30.6)**	**(59.1)**	**(89.7)**	139.3	(26.2)	113.1	242.3
Share of results from associates and joint ventures		**(0.9)**	**–**	**(0.9)**	0.3	–	0.3	0.4
Finance income	4	**2.4**	**–**	**2.4**	4.8	–	4.8	8.6
Finance costs	4	**(31.6)**	**(2.4)**	**(34.0)**	(29.8)	–	(29.8)	(64.3)
(Loss)/profit before tax		**(60.7)**	**(61.5)**	**(122.2)**	114.6	(26.2)	88.4	187.0
Tax credit/(charge)	6	**9.6**	**21.6**	**31.2**	(25.9)	6.7	(19.2)	(38.7)
(Loss)/profit for the period		**(51.1)**	**(39.9)**	**(91.0)**	88.7	(19.5)	69.2	148.3
(Loss)/profit attributable to equity shareholders		**(53.0)**	**(39.8)**	**(92.8)**	86.3	(19.5)	66.8	141.1
Profit/(loss) attributable to non-controlling interests		**1.9**	**(0.1)**	**1.8**	2.4	–	2.4	7.2
		(51.1)	**(39.9)**	**(91.0)**	88.7	(19.5)	69.2	148.3
Earnings per share:	8							
– basic earnings per share				**(17.3)p**			13.1p	27.6p
– diluted earnings per share				**(17.3)p**			13.1p	27.5p
Underlying earnings per share:								
– basic earnings per share		**(9.9)p**			16.9p			
– diluted earnings per share		**(9.9)p**			16.9p			

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020

	Unaudited six months to 30 June 2020 £m	Unaudited six months to 30 June 2019 £m	Audited year to 31 December 2019 £m
(Loss)/profit for the period	**(91.0)**	69.2	148.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension plans	**(46.8)**	(9.3)	23.8
Deferred tax on actuarial (losses)/gains	**10.6**	1.6	(4.3)
	(36.2)	(7.7)	19.5
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)	**84.6**	(0.1)	(71.0)
Exchange gains reclassified to Income Statement on disposal of subsidiaries	**–**	–	(1.0)
Cost of hedging	**(0.3)**	0.5	1.0
(Losses)/gains on cash flow hedges	**(32.9)**	17.6	10.8
Hedging losses/(gains) reclassified to Income Statement	**6.8**	(3.7)	(3.2)
Exchange differences on retranslation of non-controlling interests	**2.6**	–	(1.9)
Tax on exchange differences	**(0.7)**	0.8	(1.7)
Deferred tax on cash flow hedges	**4.9**	(2.5)	(2.5)
	65.0	12.6	(69.5)
Comprehensive income/(expenditure) for the period	**28.8**	4.9	(50.0)
Total comprehensive (expenditure)/income for the period	**(62.2)**	74.1	98.3
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders	**(66.6)**	71.7	93.0
Non-controlling interests	**4.4**	2.4	5.3
	(62.2)	74.1	98.3

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2020

	Note	**Unaudited 30 June 2020 £m**	Unaudited 30 June 2019 £m	Audited 31 December 2019 £m
Non-current assets				
Intangible assets		**2,022.3**	1,910.1	1,901.8
Property, plant and equipment		**1,415.0**	1,303.9	1,348.2
Available for sale investments		**15.2**	6.7	14.2
Derivative financial instruments	11	**3.3**	9.5	10.7
Deferred tax assets		**69.4**	47.4	31.8
Investments accounted for using the equity method		**17.9**	15.5	17.9
Trade and other receivables		**5.4**	2.2	9.6
Finance lease receivable		**6.0**	–	3.6
Defined benefit pension assets	12	**13.8**	14.8	14.2
Total non-current assets		**3,568.3**	3,310.1	3,352.0
Current assets				
Inventories		**29.1**	28.1	29.4
Trade and other receivables		**496.5**	474.8	496.8
Finance lease receivable		**2.9**	–	1.4
Derivative financial instruments	11	**12.0**	23.9	44.5
Current tax assets		**4.6**	–	1.6
Cash and cash equivalents	9	**585.4**	190.2	478.3
Total current assets		**1,130.5**	717.0	1,052.0
Assets classified as held for sale		–	23.8	4.3
Total assets		**4,698.8**	4,050.9	4,408.3
Non-current liabilities				
Borrowings		**(1,450.6)**	(927.7)	(1,104.9)
Derivative financial instruments	11	**(25.6)**	(4.5)	(9.6)
Deferred tax liability		**(54.3)**	(64.9)	(56.4)
Other non-current liabilities		**(175.8)**	(123.5)	(164.3)
Defined benefit pension liabilities	12	**(148.8)**	(139.7)	(104.2)
Provisions		**(57.3)**	(46.9)	(43.1)
Total non-current liabilities		**(1,912.4)**	(1,307.2)	(1,482.5)
Current liabilities				
Trade and other payables		**(885.3)**	(945.3)	(1,052.9)
Borrowings		**(500.5)**	(558.5)	(652.8)
Derivative financial instruments	11	**(54.3)**	(33.0)	(37.8)
Current tax liabilities		**(14.7)**	(23.8)	(8.8)
Provisions		**(53.2)**	(60.1)	(61.0)
Total current liabilities		**(1,508.0)**	(1,620.7)	(1,813.3)
Liabilities classified as held for sale		–	(4.3)	–
Total liabilities		**(3,420.4)**	(2,932.2)	(3,295.8)
Net assets		**1,278.4**	1,118.7	1,112.5
Shareholders' equity				
Called up share capital		**30.7**	25.6	25.6
Share premium account		**533.6**	532.7	532.7
Capital redemption reserve		**0.2**	0.2	0.2
Own shares		**(6.3)**	(3.9)	(6.0)
Other reserves		**417.0**	208.8	130.5
Retained earnings		**260.2**	312.5	391.4
Total shareholders' equity		**1,235.4**	1,075.9	1,074.4
Non-controlling interest in equity		**43.0**	42.8	38.1
Total equity		**1,278.4**	1,118.7	1,112.5

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020

	Share Capital £m	Share premium £m	Capital Redemption Reserve £m	Own Shares £m	Other Reserves £m	Retained earnings £m	Total £m	Non-controlling Interests £m	Total £m
At 1 January 2020	**25.6**	**532.7**	**0.2**	**(6.0)**	**130.5**	**391.4**	**1,074.4**	**38.1**	**1,112.5**
(Loss)/profit for the period	–	–	–	–	–	(92.8)	(92.8)	1.8	(91.0)
Comprehensive income/(expenditure) for the period	–	–	–	–	62.4	(36.2)	26.2	2.6	28.8
Total comprehensive (expenditure)/income	–	–	–	–	62.4	(129.0)	(66.6)	4.4	(62.2)
Shares issued during the year (net of transaction costs)	5.1	0.9	–	–	224.1	–	230.1	–	230.1
Shares purchased	–	–	–	(3.8)	–	–	(3.8)	–	(3.8)
Own shares released to equity employee share schemes	–	–	–	3.5	–	(3.5)	–	–	–
Share based payments	–	–	–	–	–	1.2	1.2	–	1.2
Tax on share based payments				–	–	0.1	0.1	–	0.1
Other movements with non-controlling interests	–	–	–	–	–	–	–	0.5	0.5
At 30 June 2020 (unaudited)	30.7	533.6	0.2	(6.3)	417.0	260.2	1,235.4	43.0	1,278.4

In May 2020, the Group issued 101,918,947 ordinary shares of 230p each. The net proceeds were £229.1 million and as the share issue qualified for merger relief under section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued has been credited to a merger reserve rather than the share premium account. At the same time, the Group directly issued 428,782 ordinary shares of 230p each to members of the Board and Executive Management Team. The net proceeds were £1.0m and the excess proceeds over the nominal value of the shares has been recorded in share premium.

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020

	Share Capital £m	Share Premium £m	Capital Redemption Reserve £m	Own Shares £m	Other Reserves £m	Retained Earnings* £m	Total* £m	Non-Controlling Interests £m	Total £m
At 1 January 2019	25.6	532.7	0.2	(7.0)	196.2	415.3	**1,163.0**	22.9	**1,185.9**
Profit for the period	–	–	–	–	–	66.8	**66.8**	2.4	**69.2**
Comprehensive income for the period	–	–	–	–	12.6	(7.7)	**4.9**	–	**4.9**
Total comprehensive income	–	–	–	–	12.6	59.1	**71.7**	2.4	**74.1**
Shares purchased	–	–	–	(3.4)	–	–	**(3.4)**	–	**(3.4)**
Own shares released to equity employee share schemes	–	–	–	6.5	–	(6.5)	**–**	–	**–**
Share based payments	–	–	–	–	–	2.5	**2.5**	–	**2.5**
Tax on share based payments	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends	–	–	–	–	–	(51.9)	**(51.9)**	–	**(51.9)**
Dividends payable to non-controlling interests	–	–	–	–	–	–	**–**	(0.7)	**(0.7)**
Recognition of liabilities with non-controlling interests	–	–	–	–	–	(105.0)	**(105.0)**	–	**(105.0)**
Non-controlling interests on acquisition of subsidiary	–	–	–	–	–	–	**–**	16.0	**16.0**
Other movements with non-controlling interests	–	–	–	–	–	(0.6)	**(0.6)**	2.2	**1.6**
At 30 June 2019 (unaudited)	**25.6**	**532.7**	**0.2**	**(3.9)**	**208.8**	**312.5**	**1,075.9**	**42.8**	**1,118.7**

* Opening balances were restated for the adoption of ‘IFRS 16 ‘Leases’

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2020

	Note	**Unaudited six months to 30 June 2020 £m**	Unaudited six months to 30 June 2019 £m	Audited year to 31 December 2019 £m
Cash generated from operations	15	**(94.4)**	194.2	438.2
Tax received/(paid)		**3.1**	(4.7)	(25.0)
Interest paid		**(19.0)**	(28.0)	(65.7)
Interest received		**4.4**	5.9	8.7
Net cash flow from operating activities		**(105.9)**	167.4	356.2
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	13	**(9.6)**	(82.2)	(108.3)
Deferred consideration for businesses acquired	13	**(14.8)**	(12.5)	(14.8)
Proceeds from disposal of business, net of cash disposed		**–**	–	21.7
Purchase of property, plant and equipment		**(111.1)**	(68.8)	(116.5)
Proceeds from disposal of property, plant and equipment		**8.5**	7.5	9.7
Payments to acquire intangible assets		**(10.2)**	(8.4)	(28.0)
Proceeds from disposal of intangible assets		**–**	1.8	1.5
Settlement of net investment hedge derivative contracts		**6.9**	–	(11.0)
Payments relating to associates and investments		**–**	(2.6)	(5.3)
Net cash flow from investing activities		**(130.3)**	(165.2)	(251.0)
Cash flows from financing activities				
Share issue proceeds[1]		**230.1**	–	–
Lease principal payments		**(49.0)**	(49.7)	(91.1)
Increase in borrowings		**729.4**	175.6	414.1
Repayment of borrowings		**(563.9)**	–	–
Settlements of foreign exchange forward contracts		**(11.0)**	(1.6)	20.8
Purchase of own shares		**(3.8)**	(3.4)	(6.2)
Contribution from non-controlling interests		**–**	3.0	3.1
Acquisition of non-controlling interests		**–**	(1.8)	(1.8)
Dividends paid to non-controlling interests		**(0.4)**	–	(0.7)
Dividends paid to shareholders of the Company		**–**	(51.9)	(78.3)
Net cash flow from financing activities		**331.4**	70.2	259.9
Increase in cash and cash equivalents		**95.2**	72.4	365.1
Opening cash and cash equivalents		**478.3**	117.7	117.7
Increase in cash and cash equivalents		**95.2**	72.4	365.1
Foreign exchange		**11.9**	0.4	(4.5)
Closing cash and cash equivalents	9	**585.4**	190.5	478.3

[1] Net of transactions fees totalling £5.3m

NATIONAL EXPRESS GROUP PLC
NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS
For the six months ended 30 June 2020

1. General information

Basis of preparation
The condensed interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with International Accounting Standards 34 'Interim Financial Reporting' as adopted by the European Union. It should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2019, which were prepared in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

These condensed interim financial statements for the six months ended 30 June 2020 do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the board of directors on 28 February 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Figures for the year ended 31 December 2019 have been extracted from the Group's Annual Report and Accounts for the year ended 2019. The interim results are unaudited but have been reviewed by the Group's auditor.

Going concern
The financial statements have been prepared on a going concern basis. In adopting this basis, the Directors have considered the Group's

- business activities;
- principal risks and uncertainties as set out in full on pages 50 to 53 of the 2019 annual report and updated on pages 14 to 15 of this announcement;
- exposure to the range of potential impacts of Covid-19 and also the depth and length of support provided by customers and governments, to the extent not already covered in the above; and,
- financial position, liquidity position and borrowing facilities as set out in the Group Finance Directors report within this announcement.

Notwithstanding the positive long term prospects for the Group, the Covid-19 pandemic has clearly had an unprecedented impact and on the transport sector in general. In every country in which the Group principally operates, nationwide lockdowns of varying lengths were imposed from March and this resulted in the Group's revenue reducing to around 50% of pre Covid-19 expectations during the months of April, May and June 2020. As lockdown restrictions are easing we are seeing an improvement in activity levels, passenger numbers and revenue, but there remains considerable uncertainty over the short to medium term.

The Group entered the Covid-19 pandemic in a strong liquidity position and this has been further strengthened with a further £190m of bank loans and £230m proceeds from the share placing in May. As at 30 June 2020, and also as of the date of publishing these financial statements, the Group had £3.0 billion of debt capital and committed facilities comprising: £650 million of Sterling bonds, £600 million under the Bank of England "CCFF", £81 million of bank loans, £782 million of Revolving Credit Facilities (RCFs), private placements of £488 million and £385 million of leases. For the purposes of the going concern assessment the Directors have excluded the £600 million CCFF when determining liquidity headroom. The Directors have also not assumed any renewal or replacement of the £368 million of borrowing facilities that are currently scheduled to mature between now and the end of July 2021; any renewal or replacement of these, as well as any amounts issued under the £600 million CCFF programme, would provide further upside to the liquidity headroom in the Group's going concern assessment.

1. General information (continued)

The Group has positive relationships and regular dialogue with its lenders. As set out on page 13, certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. The gearing covenant has been waived by the lenders for the 30 June 2020, 31 December 2020 and 30 June 2021 periods, and the interest cover covenant has been amended to 1.5x and 2.5x for the 31 December 2020 and 30 June 2021 test periods respectively. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum net debt test over the next 12 months. All covenants are assessed on a pre IFRS 16 basis.

The Directors have reviewed financial projections across a range of scenarios; principally including a base case and a reasonable worst case. The Directors have also applied reverse stress tests. These scenarios and stress tests were used to evaluate liquidity headroom and compliance with revised covenants.

The Group's base case assumes revenue to be around 50% of pre Covid-19 expectations until the end of August 2020 before recovering gradually to around 70% by the end of 2020, and then a further gradual recovery to around 80% by the end of 2021. The key assumptions within this scenario are as follows:

- Sporadic and localised lockdowns during 2020 and 2021 in each of the countries in which the Group operates, but no re-imposition of nationwide lockdowns.
- Occupancy and passenger levels adversely impacted throughout the rest of 2020 and 2021 through a combination of: mandatory or voluntary social distancing, reduced commuting and the impact of economic uncertainty on consumer spending on discretionary travel.
- All schools in North America open after the summer break, but with isolated closures in response to localised Covid-19 lockdowns during the rest of 2020 before returning to a full opening schedule in 2021.
- Government job retention schemes taper down during the second half of 2020 and cease to be available thereafter. We have assumed no government support in 2021.

In the base case scenario the Group has a strong liquidity position over the next 12 months; materially above what is required to meet its obligations as they fall due. Furthermore the Group has headroom on all of its revised covenant tests.

The Group's reasonable worst case reflects the following additional adverse impacts, over and above the base case:

- A slower recovery during 2020 and 2021, with Group revenue only recovering to around 60% of pre Covid-19 expectations by the end of the 2020 and around 70% by the end of 2021.
- A greater level of localised lockdowns in the second half of 2020, with schools in North America more impacted; for example, North America School Bus revenue only returning to around 80% of pre Covid-19 expectations by the end of the year.
- The re-imposition of nationwide lockdowns in the United Kingdom, United States of America, Spain and Morocco for one month in Q1 2021 with no job retention scheme support provided by governments.
- Slower cash collection from customers, adversely impacting working capital.
- No government support in 2021 other than the UK CBBSG bus grant during the one-month nationwide lockdown assumed in Q1 2021.

Against this reasonable worst case the Group has applied mitigations in the form of reductions in operating and capital expenditure. There are no significant structural changes assumed to be necessary in either the base case or reasonable worst case.

In this reasonable worst case scenario, and before applying the operating and capital expenditure mitigations, the Group has a strong liquidity position throughout and there would also be headroom on the revised covenant tests over the next 12 months. As explained above, this is without taking into account the £600m available from the Bank of England CCFF programme, which would further strengthen liquidity if it were to be drawn upon throughout the period of the going concern assessment.

1. General information (continued)
In addition to the base case and reasonable worst case scenarios, the Directors have reviewed reverse stress tests, in which the Group has assessed the set of circumstances that would be necessary for the Group to either breach the limits of its borrowing facilities or breach the revised covenant tests. At 30 June 2020, the Group had available a total of £1.7 billion in cash; undrawn committed facilities; and the undrawn component of the CCFF.

In applying a reverse stress test to this the Directors have concluded that the set of circumstances required to exhaust this level of liquidity are so extreme as to be considered clearly remote.

Covenants that include EBITDA as a component are more sensitive to reverse stress testing, because of the material impact that events or actions outside of the control of the Group, such as government-imposed lockdowns, can have on short-term revenue. The Directors have therefore conducted in-depth stress testing on the interest cover covenant and in doing have considered all cost mitigations that would be within their control, and indeed would have no alternative but to pursue, if faced with a short-term material EBITDA reduction and no lender support to amend or waive EBITDA-related covenants. In this scenario, examples of what the Group could withstand include, but are not limited to, the following: school closures in North America for the rest of 2020, a shutdown of the UK Coach network for the rest of 2020, a re-imposition of a nationwide lockdown in Spain for 3 months, and no job retention scheme support beyond what governments have currently committed to. Taking this into account the Directors concluded that the circumstances that would be necessary for covenants to be breached were remote.

In any case, should there be a more severe set of circumstances than those assumed in the reasonable worst case, the Group could also have a number of further mitigations available to it including: deeper and broader cost cutting measures, seeking further amendments or waivers of covenants, the renewal or replacement of borrowing facilities maturing in the next 12 months, raising further equity, sale and leaseback of vehicles, disposal of properties and disposal of investments or other assets.

In conclusion, the Directors have a reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the interim financial statements for the period ended 30 June 2020.

Accounting policies

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Group's 2019 Annual Report and Accounts, except for the adoption of amendments and interpretations effective as of 1 January 2020 below, none of which has a material impact on the financial statements:

- IFRS 3 'Business Combinations' – amendments to definition of a Business;
- IFRS 7, IFRS 9 and IAS 39: 'Financial Instruments' – amendments to Interest Rate Benchmark Reform; and
- IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – amendments to definition of Material.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Taxes on income in the interim periods are accrued using the tax rate that is expected to apply to total annual earnings.

The Group makes certain adjustments to the statutory profit measures in order to derive many of its APMs. The Group's policy is to exclude items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods. The Group's policy remains unchanged from prior periods, however has been clarified to confirm how these adjustments are identified. The Board believes that making these adjustments to profit gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key

1. General information (continued)

performance measures.   These measures are consistent with how business performance is measured internally by the Board and Executive Committee.

On this basis, the following items were included within separately disclosed operating items for the six months to 30 June 2020:

- Intangible amortisation for acquired businesses,
- Directly attributable gains and losses resulting from the Covid-19 pandemic.

As a result of the Covid-19 pandemic and subsequent worldwide restrictions resulting in significant and unprecedented market and business disruption, the Group has classified expenses incurred as a direct result of Covid-19 as separately disclosable for the first time. The impact of the Covid-19 pandemic on the Group's operations is discussed within the CEO and FD reports within this announcement

Use of judgements and estimates
In preparing these consolidated interim financial statements, the critical judgements and key sources of estimation uncertainty made by management in applying the Group's accounting policies have been re-evaluated in light of Covid-19. The key judgements and estimates are the same as those that applied in the most recent published consolidated financial statements, together with the following updates:

i) Critical accounting judgements

Going concern
In concluding that the going concern assessment without material uncertainties was appropriate the Directors have made a number of significant judgements as detailed above.

Separately disclosed items
The directors believe that the profit and earnings per share measures before separately disclosed items provide additional useful information to shareholders on the performance of the Group. These measures are consistent with how business performance is measured internally by the Board and Executive Committee. The classification of separately disclosed items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definition of separately disclosed items is outlined above. These definitions have been applied consistently year on year, with additional items due to, and certain directly attributable expenses resulting from the Covid-19 pandemic. Specifically, judgement has been required to identify incremental costs associated with the Covid-19 pandemic that are not expected to arise in future periods and do not form part of the underlying operating activities of the Group.

Note 5 provides further details on current year separately disclosed items.

ii) Key sources of estimation uncertainty

Impairment of property, plant and equipment and intangibles
Determining whether assets are impaired requires an estimation of the value in use of the cash-generating units and requires the entity to estimate the future cash flows expected to arise, the growth rate to extrapolate cash flows into perpetuity and a suitable discount rate in order to calculate present value. Cash flow projections involve the use of estimates, notably revenue levels, operating margins and the proportion of operating profit converted to cash in each year. Given the level of headroom in ALSA and, as a consequence of Covid-19, the volatility of inputs to the discount rate (particularly the beta and equity risk premiums including country-specific risk premiums) and short term cash flow projections, we consider impairment to be a new significant estimate with respect to our ALSA division. The key assumptions used and their sensitivities are included in note 10.

1. General information (continued)

Valuation of put liability

In conjunction with the acquisition of WeDriveU, Inc. during 2019 the Group issued put options to the seller to sell the remaining shares. The put option is exercisable in three tranches from 2020 to 2022, and each tranche can be rolled over if not exercised, up to 30 December 2022 at the latest. The put liability valuation is sensitive to EBITDA forecasts, discount rates and the expected timing of exercise.

During the period the put liability was re-measured, using forecast earnings over the exercise period (consistent with base case projections used for going concern), discounted at a rate of 0.6% and assuming that the option is exercised in full in the third year following the date of acquisition (Y1 – 0%; Y2 – 0%; Y3 – 40%). The table below shows on an indicative basis the Income Statement and Balance Sheet sensitivity of the put liability to reasonably possible changes in key assumptions. The sensitivity analysis below is based on a change in assumption while holding all other assumptions constant.

Increase/(decrease) in put liability and loss/(gain) in Income Statement	£m
10% increase in EBITDA	8.6
10% decrease in EBITDA	(8.6)
0.5% increase in discount rate	(1.0)
0.5% decrease in discount rate	1.0
Timing of exercise (Y1 – 10%; Y2 – 0%; Y3 – 30%)	(6.5)
Timing of exercise (Y1 – 0%; Y2 – 20%; Y3 – 20%)	(2.9)

Whilst the Group's long term expectations of WeDriveU are unchanged, during the period the short term earnings projections for the business have been adjusted for the disruption due to Covid-19. This resulted in a £34.5m reduction in the carrying value of the put liability. See note 5 for further details.

Seasonality

The Group operates a diversified portfolio of bus, coach and rail businesses operating in international markets. The North American bus business typically earns higher operating profits for the first half of the year (i.e. the 6 months to 30 June) than for the second half. This is because of the timing of school terms and the summer holiday period. The UK and Spanish coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. Therefore the Group's results have historically not been materially seasonal in nature. The Covid-19 pandemic has however impacted these typical patterns.

2. Exchange rates

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

	Six months to 30 June 2020		Six months to 30 June 2019		Year to 31 December 2019	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.24**	**1.26**	1.27	1.29	1.33	1.28
Canadian dollar	**1.68**	**1.72**	1.66	1.73	1.72	1.69
Euro	**1.10**	**1.14**	1.12	1.15	1.18	1.14

If the results for the 6 months to 30 June 2019 had been retranslated at the average exchange rates for the period to 30 June 2020, North America would have achieved an underlying operating profit of £66.0m on revenue of £643.3m, compared to underlying operating profit of £64.4m on revenue of £627.7m as reported, and ALSA would have achieved an underlying operating profit of £47.9m on revenue of £386.4m, compared to underlying operating profit of £47.9m on revenue of £385.9m as reported.

3. Segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide. Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. Group financing activities and income taxes are managed on a group basis and are not allocated to reportable segments.

Central functions is not a reportable segment but has been included in the segmental analysis for transparency and to enable a reconciliation to the consolidated Group.

Revenue is disaggregated by reportable segment, class and type of service as follows:

	Six months to 30 June 2020					
Analysis by class and reportable segment	**Contract revenues £m**	**Passenger revenues £m**	**Grants and subsidies £m**	**Private hire £m**	**Other revenues £m**	**Total £m**
UK	**10.3**	**114.1**	**52.4**	**1.1**	**11.9**	**189.8**
German Rail	**-**	**17.9**	**39.6**	**-**	**3.7**	**61.2**
ALSA	**83.1**	**150.4**	**7.7**	**18.4**	**7.4**	**267.0**
North America	**487.5**	**-**	**-**	**16.7**	**9.3**	**513.5**
Total	**580.9**	**282.4**	**99.7**	**36.2**	**32.3**	**1,031.5**
Analysis by major service type:						
Passenger transport	**580.9**	**282.4**	**99.7**	**36.2**	**15.9**	**1,015.1**
Other products and services	**-**	**-**	**-**	**-**	**16.4**	**16.4**
Total	**580.9**	**282.4**	**99.7**	**36.2**	**32.3**	**1,031.5**

	Six months to 30 June 2019					
Analysis by class and reportable segment	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
UK	15.6	222.4	27.2	7.6	12.5	285.3
German Rail	–	22.4	12.0	–	1.2	35.6
ALSA	98.0	229.8	5.4	34.2	18.5	385.9
North America	577.4	–	–	42.0	8.3	627.7
Total	691.0	474.6	44.6	83.8	40.5	1,334.5
Analysis by major service type:						
Passenger transport	691.0	474.6	44.6	83.8	19.5	1,313.5
Other products and services	–	–	–	–	21.0	21.0
Total	691.0	474.6	44.6	83.8	40.5	1,334.5

There are no material inter-segment sales between reportable segments.

3. Segmental analysis (continued)

Operating profit is analysed by reportable segment as follows:

	Six months to 30 June					
Analysis by class and reportable segment	**Underlying result 2020 £m**	**Separately disclosed items 2020 £m**	**Segment result 2020 £m**	Underlying result 2019 £m	Separately disclosed items 2019 £m	Segment result 2019 £m
UK	**(15.5)**	**(16.6)**	**(32.1)**	36.6	(0.4)	36.2
German Rail	**(6.3)**	**(1.1)**	**(7.4)**	2.3	(0.5)	1.8
ALSA	**(7.1)**	**(27.5)**	**(34.6)**	47.9	(7.5)	40.4
North America	**7.6**	**(3.2)**	**4.4**	64.4	(17.8)	46.6
Central functions	**(9.3)**	**(10.7)**	**(20.0)**	(11.9)	–	(11.9)
Operating (loss)/profit	**(30.6)**	**(59.1)**	**(89.7)**	139.3	(26.2)	113.1
Share of results from associates and joint ventures			**(0.9)**			0.3
Net finance costs			**(31.6)**			(25.0)
(Loss)/profit before tax			**(122.2)**			88.4
Tax credit/(charge)			**31.2**			(19.2)
(Loss)/profit for the period			**(91.0)**			69.2

4. Net finance costs

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year to 31 Dec 2019 £m
Bank and bond interest payable	**(21.0)**	(20.3)	(40.9)
Lease interest payable	**(6.5)**	(5.8)	(12.8)
Other interest payable	**(2.6)**	(1.6)	(4.7)
Unwind of discounting	**(0.6)**	(0.5)	(2.7)
Interest cost on defined benefit pension obligations	**(0.9)**	(1.6)	(3.2)
Finance costs before separately disclosed items	**(31.6)**	(29.8)	(64.3)
Separately disclosed items (see note 5)	**(2.4)**	–	–
Total finance costs	**(34.0)**	(29.8)	(64.3)
Lease interest income	**0.1**	–	0.2
Other financial income	**2.3**	4.8	8.4
Net finance costs	**(31.6)**	(25.0)	(55.7)

5. Separately disclosed items

As set out in our accounting policies, we report underlying measures because we believe they provide both management and stakeholders with useful additional information about the financial performance of the Group's businesses.

5. Separately disclosed items (continued)

The total separately disclosed items before tax for the six months to 30 June 2020 period ended is a net charge of £61.5m (2019: £26.2m). The items excluded from reported profit are:

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year to 31 Dec 2019 £m
Intangible amortisation for acquired businesses (a)	**(30.1)**	(26.2)	(53.0)
Directly attributable gains and losses resulting from the Covid-19 pandemic (b)	**(29.0)**	–	–
Restructuring costs (c)	**–**	–	(8.8)
Net gain on disposal of subsidiaries (d)	**–**	–	8.8
Separately disclosed operating items	**(59.1)**	(26.2)	(53.0)
Interest charges (e)	**(2.4)**	–	–
Total separately disclosed items	**(61.5)**	(26.2)	(53.0)

a) Intangible amortisation for acquired businesses
Consistent with previous periods the Group continues to classify the amortisation for acquired intangibles as a separately disclosed item.

b) Directly attributable gains and losses resulting from the Covid-19 pandemic
As a result of the Covid-19 pandemic and in order to improve the transparency and usefulness of the financial information, the Group has identified a net expense of £29.0m relating to directly attributable gains and losses resulting from the Covid-19 pandemic. The net result relates to four separately identifiable areas of accounting judgement and estimates as follows:

	£m
i) One off costs, cancellation charges and compensation payments	**(33.4)**
ii) Discontinuation of fuel trades	**(10.6)**
iii) Onerous contract provisions and impairment	**(19.5)**
iv) Re-measurement of the WeDriveU put liability	**34.5**
	(29.0)

These items are considered to be separately disclosed items as they meet the Group's definition, being both significant in nature and value to the results of the Group in the current period. The impact that Covid-19 has had on underlying trading, such as the impact of lost revenue, is not recognised within separately disclosed items.

Further charges are anticipated during 2020/21 to reflect actions that will be taken as a direct result of the length of time that any government restrictions or safety requirements are in place, and customer behaviour is impacted.

i) One off costs, cancellation charges and compensation payments (£33.4m expense)
The Group incurred a total of £9.1m of one-off charges primarily relating to incremental health and safety costs, fees in relation to the arrangement of additional short term banking facilities and fees associated with the gearing covenant waiver on the Group's USPP and banking facilities. The Group has also written off £5.2m of receivables where settlement arrangements have been reached with customers.

In addition, to maintain and secure the Group's supply base in order to be able to rapidly and flexibly increase capacity as demand picks up, the Group has made a number of compensatory payments to third party coach operators totalling £6.1m. The Group also incurred penalties due to the pandemic preventing it from fulfilling certain contractual obligations of £2.0m.

The Group has also made a provision of £11.0m for insurance claims as a consequence of Covid-19.

5. Separately disclosed items (continued)

ii) Discontinuation of fuel trades (£10.6m expense)
Hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption, as a result of the impact of Covid-19. This resulted in a £10.6m expense being recycled from other comprehensive income to the income statement.

For the remaining effective hedges, gains or losses on the derivatives continue to be recognised in equity and on settlement are recycled to the income statement against the respective operating expense, and are not included in separately disclosed items.

iii) Onerous contract provisions and impairment (£19.5m expense)
As a result of the Covid-19 pandemic, the Group undertook a review of its contracts with customers, and recorded onerous contract provisions totalling £22.8m across the Group. All of these contracts had only one to two years remaining and given the impact of Covid-19 on these contracts, particularly during Q2 2020, the Group considered it probable that the contract losses could not be recovered over the remaining contract term. In conjunction with these contracts, property, plant and equipment and costs to fulfil a contract, totalling £1.5m, were impaired.
In addition, following the termination of a contract in North America, a previously recognised onerous contract provision of £6.6m was released in full and assets of £1.8m dedicated to the contract were written down.

iv) Re-measurement of the WeDriveU put liability (£34.5m gain)
The put liability, resulting from the acquisition of WeDriveU, is required to be re-measured at each reporting date. The gain of £34.5m has been derived from an internal valuation, using forecast earnings over the exercise period and continues to assume that the option is exercised in full in the third year. Whilst WeDriveU was broadly tracking as expected prior to Covid-19, some level of re-measurement may have arisen if new growth opportunities had not materialised. However the most significant driver for the gain is the adjustment to the short term earnings as a result of the pandemic. Consequently the gain has been categorised as part of the overall impact due to Covid-19.

The key assumptions used and their sensitivities are included in note 1.

c) Restructuring costs
During the prior year, the Group incurred restructuring and redundancy costs in North America following changes in the management of school bus and transit businesses and other associated costs.

d) Net gain on disposal of subsidiaries
During the prior year the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchaser's holding company, Transit Technologies Holdco. A net gain of £8.8m, after transaction costs was recognised.

e) Interest charges
Interest charges of £2.4m primarily relates to interest in relation to the Bank of England's CCFF programme. This facility was unutilised during the period and not used to underpin the Group's underlying operating activities. Consequently these interest costs are not considered to be a normal finance cost of the Group.

6. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2020 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2020. The tax credit of £9.6m (2019 interim: £25.9m charge) represents an effective tax rate of 15.8% on the underlying result (2019 interim: 22.6%). The total tax credit of £31.2m (2019 interim: £19.2m charge) includes a deferred taxation credit of £30.8m (2019 interim: £1.1m charge). Deferred tax asset recoverability has been assessed using the base case forecast projections used for the going concern assessment.

7. Dividends paid and proposed

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year to 31 December 2019 £m
Declared and paid during the period:			
Ordinary final dividend for 2018 of 10.17p per share	**–**	51.9	51.9
Ordinary interim dividend for 2019 of 5.16p per share	**–**	–	26.4

In the period, due to the impact of Covid-19 and associated business and economic uncertainty the Group cancelled its final 2019 dividend of 11.19 pence per share, which would have been due on 12 May 2020.

An interim dividend has not been proposed for the current period.

8. Earnings per share

	Six months to 30 June 2020	Six months to 30 June 2019	Year to 31 December 2019
Basic earnings per share	**(17.3)p**	13.1p	27.6p
Underlying basic earnings per share	**(9.9)p**	16.9p	34.5p
Diluted earnings per share	**(17.3)p**	13.1p	27.5p
Underlying diluted earnings per share	**(9.9)p**	16.9p	34.4p

Basic earnings per share is calculated by dividing the loss attributable to equity shareholders of £92.8m (2019 interim: £66.8m profit; 2019 full year: £141.1m profit) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

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

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

	Six months to 30 June 2020	Six months to 30 June 2019	Year to 31 December 2019
Basic weighted average shares	**535,600,370**	510,272,515	510,435,913
Adjustment for dilutive potential ordinary shares	**1,285,200**	651,817	2,433,486
Diluted weighted average shares	**536,885,570**	510,924,332	512,869,399

Underlying basic and diluted earnings per share have been calculated to show performance before separately disclosed items since, in the opinion of the Directors, they reflect the underlying performance of the business' operations more appropriately.

The reconciliation of statutory profit to underlying profit for the financial period is as follows:

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year to 31 December 2019 £m
(Loss)/profit attributable to equity shareholders	**(92.8)**	66.8	141.1
Separately disclosed items	**61.5**	26.2	53.0
Separately disclosed tax	**(21.6)**	(6.7)	(16.5)
Separately disclosed minority interest	**(0.1)**	–	(1.4)
Underlying (loss)/profit attributable to equity shareholders	**(53.0)**	86.3	176.2

9. Cash and cash equivalents

	At 30 June 2020 £m	At 30 June 2019 £m	At 31 December 2019 £m
Cash at bank and in hand	**135.7**	91.0	111.2
Overnight deposits	**20.5**	2.2	2.1
Other short term deposits	**429.2**	97.3	365.0
	585.4	190.5	478.3
Less: amounts included within assets classified as held for sale	**–**	(0.3)	–
Cash and cash equivalents	**585.4**	190.2	478.3

10. Impairment

The impact of Covid-19 is a trigger of potential impairment, both in terms of the potential impact on cash flow projections and changes in discount rates. The Group has accordingly performed a more detailed impairment assessment.

Consistent with previous years, goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	At 30 June 2020 £m	At 30 June 2019 £m	At 31 December 2019 £m
UK	**48.2**	27.6	29.0
North America	**722.4**	694.5	679.4
ALSA	**831.0**	811.0	778.1
Total	**1,601.6**	1,533.1	1,486.5

The impairment assessment has been performed on North America and ALSA as these cash-generating units contain 97% of the Group's goodwill.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows into perpetuity	
	2020	2019	**2020**	2019
North America	6.9%	6.3%	2.8%	2.9%
ALSA	7.6%	7.3%	2.6%	2.5%

The growth rates used to extrapolate cash flow projections are derived from financial budgets and forecasts approved by the Board and senior management covering a three-year period. The assumptions in these forecasts, which include growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. The forecasts used are consistent with the base case used for the going concern review. Long-term growth rates take into account any known events which would impact cash flows outside of the three-year planning period and are set with reference to long-term CPI rates and projected GDP growth. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital ('WACC'). The long term growth rates and inputs to the calculation of the WACC are externally sourced.

The value in use of the North America division exceeds its carrying amount by £865.9m (2019: £1,371.6m).

The value in use of the ALSA division exceeds its carrying amount by £264.5m (2019: £424.9m).

10. Impairment (continued)

Sensitivities to key and other assumptions

a) ALSA

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 0.9% (2019: 1.5%) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 0.9% (2019: 1.5%).

A reduction in ALSA's long term operating profit margin of 1.5% (2019: 1.9%) will result in the value in use of the division being equal to its carrying amount.

Management have also performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the key assumptions would have on the recoverable amount. In combination, a 20% reduction in the cash flows in 2020 and 2021, a 0.25% reduction in the long term growth rate and a 1.0% increase in the pre-tax discount rate would lead to an £98.0m impairment.

b) North America

Sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 2.1% (2019: 3.0%) or a reduction in the growth rates used to extrapolate cash flows into perpetuity of 2.2% (2019: 3.2%).

In addition, for North America, a reduction in the long term operating profit margin of 2.8% (2019: 3.9%) will result in the value in use of the division being equal to its carrying amount.

Given the significant amount by which the value in use exceeds the carrying amount, management does not consider a reasonably possible change in key assumptions would result in an impairment.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts and therefore that goodwill is not impaired.

11. Derivative 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 fuel prices, foreign currency exchange rates and interest rates. 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 means of derivative financial instruments.

As at 30 June 2020 the Group's portfolio of hedging instruments included fuel price derivatives, cross currency swaps, foreign exchange derivatives and interest rate derivatives. The fuel price derivatives are in place to hedge the changes in price of the different types of fuel used in each division. The cross currency swaps are in place to hedge the risk of changes in foreign exchange rates. The foreign exchange derivatives are in place to hedge the foreign exchange risk on translation of net assets denominated in foreign currency. In addition, the Group holds two €39.25m denominated interest rate derivatives equal in value to a Euro Private Placement.

These derivative financial instruments are held in the balance sheet at fair value and are measured using level 2 inputs. The fair value is either determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments, or by the use of valuation techniques using market data. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, other than deferred contingent consideration and available for sale investments. There has not been a significant change in the sensitivities disclosed in the 2019 annual report for level 3 items. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value measurements.

11. Derivative financial assets and liabilities (continued)

The Group applies relevant hedge accounting to the majority of its derivatives outstanding as at 30 June 2020. Hedge accounting was discontinued for a number of fuel derivatives where volumes were in excess of actual or expected consumption due to Covid-19. As a result, accumulated fair value movements were recycled from other comprehensive income to the income statement. The resulting impact was an income statement charge of £10.6m in the period, as further described in note 5. This has increased the blended average fuel price for 2020 to 46.6 pence per litre, an increase from 37.2 pence as at the 2019 year-end.

The assessment of over-hedging for the remainder of 2020 has been based on latest forecasts, and whilst there is the potential for further over-hedges in the second half of 2020 and 2021, the potential impact on the income statement is not expected to be material in either year.

In order to further mitigate against the risk of future over-hedges, the hedging programme for 2021 was paused and based on the latest forecasts, 2021 is now around 80% hedged at an average price of 37.0p. The hedging programme has continued for later years, including out to 2023 to take advantage of the low-price environment. The Group is currently around 40% hedged for 2022 at an average price of 32.2p, and around 15% hedged for 2023 at an average price of 30.0p.

Derivative financial assets and liabilities on the balance sheet are as follows:

	At 30 June 2020 £m	At 30 June 2019 £m	At 31 December 2019 £m
Fuel derivatives	**–**	3.3	0.6
Interest rate derivatives	**2.7**	6.2	2.1
Cross currency swaps	**0.6**	–	8.0
Non-current derivative financial assets	**3.3**	9.5	10.7
Fuel derivatives	**–**	5.7	6.1
Interest rate derivatives	**0.6**	1.7	7.9
Cross currency swaps	**1.8**	2.9	3.5
Foreign exchange derivatives	**9.6**	13.6	27.0
Current derivative financial assets	**12.0**	23.9	44.5
Fuel derivatives	**(24.4)**	(4.5)	(3.1)
Cross currency swaps	**(1.2)**	–	(6.5)
Non-current derivative financial liabilities	**(25.6)**	(4.5)	(9.6)
Fuel derivatives	**(14.5)**	(3.0)	(2.3)
Interest rate derivatives	**–**	(2.0)	(3.7)
Cross currency swaps	**–**	(4.2)	–
Foreign exchange derivatives	**(39.8)**	(23.8)	(31.8)
Current derivative financial liabilities	**(54.3)**	(33.0)	(37.8)

12. Pensions and other post-employment benefits

The UK division ('UK') and National Express Group PLC (the 'Company') operate both defined benefit and defined contribution schemes.

Subsidiaries in North America contribute to a number of defined contribution plans.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and ALSA, and maintains a small, legacy rail defined benefit scheme. The post-employment benefits for these schemes have been combined into the 'Other' category below.

The assets of the defined benefits schemes are held separately from those of the Group and contributions to the schemes are determined by independent professionally qualified actuaries.

The total pension operating cost for the six months to 30 June 2020 was £5.4m (2019 interim: £4.8m; 2019 full year: £10.3m), of which £3.2m (2019 interim: £2.9m; 2019 full year: £6.4m) relates to the defined contribution schemes.

The defined benefit pension asset/(liability) included in the balance sheet is as follows:

	At 30 June 2020 £m	At 30 June 2019 £m	At 31 December 2019 £m
UK	**(142.7)**	(134.6)	(99.1)
Company	**13.8**	14.8	14.2
Other	**(6.1)**	(5.1)	(5.1)
Total	**(135.0)**	(124.9)	(90.0)

The net defined benefit pension asset/(liability) was calculated based on the following assumptions:

	Six months ended 30 June 2020		Year ended 31 December 2019	
	UK	**Company**	UK	Company
Rate of increase in salaries	**2.5%**	**–**	2.5%	–
Rate of increase in pensions	**2.1%**	**2.8%**	2.1%	2.9%
Discount rate	**1.5%**	**1.5%**	2.0%	2.1%
Inflation rate (RPI)	**2.9%**	**2.8%**	3.0%	2.9%
Inflation rate (CPI)	**2.1%**	**2.0%**	2.1%	2.0%

13. Business Combinations

(a) Acquisitions – UK

During the period, the UK division acquired 100% control of Lucketts Group, a coach operator in Hampshire, England.

The provisional fair values of the assets and liabilities acquired were as follows:

	£m
Property, plant and equipment	**15.2**
Inventory	**0.5**
Trade and other receivables	**1.9**
Cash and cash equivalents	**5.2**
Borrowings	**(15.7)**
Trade and other payables	**(2.8)**
Deferred tax liabilities	**(1.2)**
Net assets acquired	**3.1**
Goodwill	**19.2**
Total consideration	**22.3**
Represented by:	
Cash consideration	**14.8**
Deferred consideration	**7.5**
	22.3

Given the proximity of the acquisition to the period end, and as permitted by IFRS 3 Business Combinations, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of tangible assets and provisions acquired.

Trade and other receivables had a fair value and a gross contracted value of £1.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £19.2m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our operations in the UK, along with synergy and growth benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £7.5m. The Group is required to pay contingent consideration on pre-determined EBITDA thresholds being met over a rolling three year period, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £7.5m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired business contributed £2.2m of revenue and £1.4m loss to the Group's result for the period between acquisition and the Balance Sheet date. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue would have been £1,034.8m and the Group's operating loss would have been £89.1m.

13. Business Combinations (continued)

(b) Acquisitions – further information

Deferred consideration of £0.2m was paid in the period relating to acquisitions in the UK in earlier years. Total cash outflow in the period from acquisitions in the UK division was £9.8m, comprising consideration for current year acquisitions of £14.8m and deferred consideration of £0.2m, less cash acquired in the businesses of £5.2m.

In North America deferred consideration of £14.6m was paid in the period relating to acquisitions in earlier years.

In addition, during the period there was an increase in the provisional fair values of businesses acquired in prior years of £0.7m and £2.6m in the North America and ALSA divisions respectively, with a resultant decrease in goodwill. The change in North America included a reduction in the borrowings acquired of £0.4m.

Total acquisition transaction costs of £0.4m were incurred in the period to 30 June 2020 (2019 interim: £4.6m).

During the period to 30 June 2020, the movement in the Group's carrying value of goodwill principally relates to the acquisition of Lucketts Group and foreign exchange.

14. Net debt

	At 1 January 2020 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2020 £m
Components of financing activities						
Bank and other loans[1]	(184.5)	(205.5)	(11.3)	(6.2)	(0.6)	(408.1)
Bonds	(1,081.9)	446.4	–	(12.0)	0.6	(646.9)
Fair value of interest rate derivatives	3.3	–	–	–	(1.7)	1.6
Fair value of fx forward contracts	(20.4)	11.0	–	–	1.8	(7.6)
Cross currency swaps	11.7	–	–	–	(13.4)	(1.7)
Net lease liabilities[2]	(402.5)	49.0	(4.0)	(19.1)	(8.7)	(385.3)
Other debt payable	(68.3)	(405.9)	–	(13.6)	0.4	(487.4)
Total components of financing facilities	(1,742.6)	(105.0)	(15.3)	(50.9)	(21.6)	(1,935.4)
Cash	111.2	12.1	5.2	7.2	–	135.7
Overnight deposits	2.1	18.4	–	–	–	20.5
Other short-term deposits	365.0	59.5	–	4.7	–	429.2
Cash and cash equivalents	478.3	90.0	5.2	11.9	–	585.4
Other debt receivables	2.4	(0.5)	–	0.2	–	2.1
Remove: fair value of fx forward contracts	20.4	(11.0)	–	–	(1.8)	7.6
Net debt[3]	(1,241.5)	(26.5)	(10.1)	(38.8)	(23.4)	(1,340.3)

[1] Net of arrangement fees totalling £2.4m on bank and other loans
[2] Includes finance leases receivables which are reported separately from borrowings on the face of the Group's Balance Sheet
[3] Excludes accrued interest on long-term borrowings

14. Net debt (continued)

	At 1 January 2019* £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2019 £m
Components of financing activities						
Bank and other loans	(9.0)	(175.8)	(0.5)	(1.0)	0.3	(186.0)
Bonds	(852.4)	–	–	0.9	0.8	(850.7)
Fair value of interest rate derivatives	6.6	–	–	–	(1.1)	5.5
Fair value of fx forward contracts	(6.8)	1.6	–	(5.1)	–	(10.3)
Cross currency swaps	(0.2)	–	–	(0.5)	–	(0.7)
Lease liabilities*	(353.2)	49.7	(40.5)	(1.3)	(18.7)	(364.0)
Other debt payable	(73.7)	–	–	0.3	0.2	(73.2)
Total components of financing facilities	(1,288.7)	(124.5)	(41.0)	(6.7)	(18.5)	(1,479.4)
Cash	74.6	15.2	0.8	0.4	–	91.0
Overnight deposits	1.9	0.3	–	–	–	2.2
Other short-term deposits	41.2	56.1	–	–	–	97.3
Cash and cash equivalents	117.7	71.6	0.8	0.4	–	190.5
Other debt receivables	2.1	0.2	–	–	–	2.3
Remove: fair value of fx forward contracts	6.8	(1.6)	–	5.1	–	10.3
Net debt[1]	(1,162.1)	(54.3)	(40.2)	(1.2)	(18.5)	(1,276.3)

* Opening balances were restated for the adoption of 'IFRS 16 'Leases'

[1] Excludes accrued interest on long-term borrowings

Borrowings include non-current interest bearing loans and borrowings of £1,450.6m (2019 interim: £927.7m; 2019 full year: £1,104.9m).

Other non-cash movements represent lease additions and disposals of £8.7m (2019 interim: £18.7m), a £13.4m reduction in the value of cross currency swaps (2019 interim: £nil) and £1.0m loan and bond arrangement fee amortisation (2019 interim: £0.2m). A £1.7m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings less any P&L ineffectiveness. This comprises a £0.9m fair value increase in bonds and a £0.5m fair value increase in other debt payable, with £0.3m of ineffectiveness, which is recognised in the income statement.

15. Cash flow statement

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

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Year to 31 December 2019 £m
Net cash inflow from operating activities			
(Loss)/profit before tax	**(122.2)**	88.4	187.0
Net finance costs	**31.6**	25.0	55.7
Share of results from associates and joint ventures	**0.9**	(0.3)	(0.4)
Depreciation of property, plant and equipment	**112.0**	98.5	203.1
Intangible asset amortisation	**37.0**	29.2	59.7
Amortisation of fixed asset grants	**(1.5)**	(0.3)	(1.3)
Separately disclosed operating items[1]	**29.0**	–	–
Gain on disposal property, plant and equipment	**(0.6)**	(1.8)	(10.3)
Gain on disposal of intangible assets	**–**	(1.8)	(3.6)
Share-based payments	**1.6**	2.5	6.4
Decrease/(increase) in inventories	**2.3**	(0.4)	(2.6)
Decrease/(increase) in receivables	**12.9**	(46.1)	(75.0)
(Decrease)/increase in payables	**(140.5)**	17.6	53.4
Decrease in provisions	**(18.2)**	(16.3)	(26.7)
Cash flows relating to separately disclosed operating items	**(38.7)**	–	(7.2)
Cash generated from operations	**(94.4)**	194.2	438.2

[1] Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'

16. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2020 were £181.6m (2019 full year: £141.7m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £11.2m (2019 full year: £13.4m) relating to certain joint ventures.

Long term contracts

The Group has a long-term service contract to operate Rhine-Ruhr Express train services on behalf of the Public Transport Authority in Germany. Consideration for the Group's services is fixed, with profitability under the contract dependent on the value of operating costs incurred by the Group. Given the contract was only recently mobilised and the wide range of operating cost outcomes, the Directors are satisfied that, with mitigating actions available to the Group, it is possible, but not probable, that the contract could be loss making in the future.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2020, the Group has performance bonds in respect of businesses in the US of £150.1m (2019 full year: £157.9m), in Spain of £89.1m (2019 full year: £83.6m), in Germany of £27.9m (2019 full year: £26.0m) and in the Middle East of £6.5m (2019 full year: £6.2m). Letters of credit have been issued to support insurance retentions of £136.8m (2019 full year: £112.4m).

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's 2019 Annual Report 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 2020.

Independent Review Report to National Express Group PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Condensed Group Income Statement, the Condensed Group Statement of Comprehensive Income, the Condensed Group Balance Sheet, the Condensed Group Statement of changes in Equity, Condensed Group Statement of Cash Flows and the related notes 1 to 17. 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 set of financial statements.

This report is made solely to the company in accordance with 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. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed 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 set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with 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 inquiries, 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 (UK and Ireland) 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 set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This report is made solely to the company in accordance with 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 Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
13 August 2020