29 July 2021

National Express Group PLC: Half Year Results for the six months ended 30 June 2021

Consistently improving trajectory; well positioned for recovery and growth

Ignacio Garat, National Express Group Chief Executive said:

"It is pleasing to see the continued improving performance trajectory across the Group over the first half of the year, despite ongoing Covid restrictions and I'm delighted to report a return to positive Underlying Operating Profit and free cash flow in the period. I am particularly pleased that we have increased Underlying Operating Profit by £54 million year on year despite reduced revenue, highlighting the impact of the cost reduction actions taken as well as the early impact of our 'Driving Excellence' operational improvement programme in North America.

Throughout this period, we have remained focused on the health and wellbeing of our colleagues and passengers; working in partnership with governments and customers around our markets to deliver critical public transport services. I remain grateful both for the tireless work and commitment of our colleagues across the business and for the ongoing support from governments and customers, which is testament to the strength of the relationships that we have built over many years. As restrictions lift, we look forward to strengthening those relationships further as an ever more critical part of the solution to tackling climate change, with modal shift from cars to public transport leading the way to cleaner, greener and less congested cities.

We are completing work on the business review and it is clear that we have significant profitable growth opportunities ahead. I look forward to communicating our findings and priorities in the autumn. We remain focused on managing what we can control and I am confident that as restrictions are lifted across each of our markets, we will see a strong recovery in both the demand for our services and in our financial results."

Financial summary

	HY 2021	HY 2020	Change
Group Revenue	**£0.99bn**	£1.03bn	(3.8%)
Group EBITDA	**£128.2m**	£88.3m	45.2%
Group Underlying[1] Operating Profit/(Loss)	**£22.9m**	(£30.6m)	
Group Underlying[1] Profit/(Loss) Before Tax	**£0.1m**	(£60.7m)	
Underlying basic[1] EPS	**(2.1p)**	(9.9p)	

Statutory		
Group Operating Profit/(Loss)	**(£26.1m)**	(£89.7m)
Group Profit/(Loss) Before Tax	**(£50.2m)**	(£122.2m)
Group Profit/(Loss) After Tax	**(£24.1m)**	(£91.0m)
Basic EPS	**(5.8p)**	(17.3p)

Free cash flow	**£40.6m**	(£193.0m)
Net debt[2]	**£1,004.4m**	£1,322.8m

Performed Ahead of Expectations in the Period

- Steadily improving performance over time in revenue, EBITDA, profit and cash generation with results slightly ahead of management expectations
  - Constant currency revenue broadly flat year on year despite two months of pre-pandemic revenue in 2020
  - 45% increase in EBITDA to £128.2 million. Positive Underlying Operating Profit and Underlying PBT
  - Underlying Operating Profit increase of £54 million despite revenue being broadly flat demonstrating the impact of the £100 million cost savings outlined at the 2020 Full Year results
  - Positive free cash flow with 177% cash conversion
- Continuing trend of improving sequential performance despite ongoing Covid-related restrictions
  - H1 2021 EBITDA £30million higher than delivered in H2 2020
- Balance sheet remains robust with strong liquidity
  - £1.0bn in cash and undrawn committed facilities after repaying CCFF and short–term facilities as planned. No material refinancing required until 2023
  - Agreed an additional precautionary extension of covenant amendments out to and including June 2022

Well Positioned for Future Growth

- Whilst our focus is on accelerating the recovery to pre-Covid levels of trading, we remain committed to the sustainable, profitable growth of the Group
    - We have undertaken a detailed Business Review and will share the outcome with investors at a Capital Markets Day in October
- We continue to see significant opportunity in all our markets
    - Won new and expanded existing contracts in corporate shuttle in both North America and the UK, demonstrating the continuing long term attractions of this growing market
    - Made a small acquisition of an urban bus business in Granada, Andalusia, representing a further step in our strategy to consolidate the regional and urban bus market in Spain
    - ALSA has an active pipeline of both organic and inorganic opportunities worth over €400 million annualised revenue
    - North America has an active pipeline of bid opportunities in Transit and Shuttle worth over $150 million annualised revenue, including some sizeable paratransit contracts coming up for tender later this year
    - The UK has strong and active pipelines in both its NEAT and NETS businesses
- Governments around the world are increasingly committed to public transport - promoting modal shift away from cars onto buses, driving passenger growth for years to come
    - In the UK, the National Bus Strategy provides £3 billion of funding and we are working in partnership with Travel for West Midlands (TfWM) on a number of projects to further boost bus usage
    - In the US, an infrastructure deal worth $1.2 trillion, including $7.5 billion of funding for school and transit buses, has presidential support and we have a number of exciting candidate projects
    - Spain will be one of the largest beneficiaries of the Next Generation EU fund worth €750 billion, a recovery package which includes funds for more sustainable transport for which we have a number of potential options
- Whilst modal shift remains the single most important driver of reduced emissions and congestion, we remain focused on decarbonisation of our fleet:
    - Lead operator in Coventry, the first planned all-electric bus city in the UK
    - Working with TfWM to secure funding for around 200 hydrogen buses
    - In North America we are running a number of electric school bus pilots and now operate around 100 zero emission vehicles (ZEVs) in WeDriveU
    - In ALSA we are running around 20 ZEVs, with more vehicles arriving later this year.
    - Having conducted two trials for hydrogen fuel cell buses in Madrid and Oviedo, we will be the first company in Spain to operate hydrogen buses, when we take delivery of our first bus in the fourth quarter

Outlook

The exact timing of the recovery remains uncertain as restrictions are lifted at varying pace across the countries in which we operate. However the start of H2 has seen a continuation of the improving trends we saw in H1, and we continue to project a robust improvement in the second half of the year as vaccination programmes enable a fuller return to mobility. Looking ahead, we see a positive outlook as our services play an increasingly important role in tackling climate change, assisting economic recovery, and improving social mobility, and we have good visibility around a number of potential growth opportunities driven by these trends.

Website

The full release and supplementary data will be available on our website from 7:00am (London time) on 29 July 2021. The web address is www.nationalexpressgroup.com/investors/results

Enquiries

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There will be a webcast presentation for investors and analysts at 9.00am on 29 July 2021. Details are available from Audrey Da Costa at Maitland.

Notes:

1. *To supplement IFRS reporting, we also present our results (including EBITDA) on an underlying basis to show the performance of the business before separately disclosed items. These are detailed on page 14 and principally comprise intangible amortisation for acquired businesses. Given the unprecedented nature of the Covid-19 pandemic in this period, we have also excluded certain items arising as a direct consequence of the pandemic. 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. Further explanation in relation to these measures can be found on pages 19-20.*
2. *2020 net debt is re-presented for the transfer of £17.5 million out of net debt in respect of vehicle leases entered into in 2019 to fulfil contracts that have been deemed to be in scope of IFRIC 12. The effect of this re-presentation was to reduce 2019 closing net debt by £17.5 million, which therefore also reduces the H1 2020 closing net debt by the same amount compared with the previously reported figures.*

Notes

Legal Entity Identifier: 213800A8IQEMY8PA5X34
Classification: 1.2 (with reference to DTR6 Annex 1R)

Forward looking statements and other important information

This document contains forward-looking statements with respect to the financial condition, results and business of National Express Group PLC. By their nature, forward-looking statements involve risk and uncertainty and there may be subsequent variations to estimates. National Express Group PLC's actual future results may differ materially from the results expressed or implied in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, National Express does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise. Forward-looking statements can be made in writing but also may be made verbally by members of the management of the Group (including without limitation, during management presentations to financial analysts) in connection with this document.

Group Chief Executive's Statement

I am delighted to be reporting my first set of Half Year results, which demonstrate a steadily improving performance in revenue, EBITDA, profit and cash generation during the period, despite the ongoing lockdown restrictions, with the half year results slightly ahead of our expectations. The improving trajectory that we saw in the second half of last year, has continued into the first half of 2021, with the result that the Group has delivered £22.9 million Underlying Operating Profit, the first profit since the start of the pandemic, and an improvement of £54 million over the same period last year. This improved profit performance has also flowed through to free cash, where the Group has delivered £41 million in the period, representing an improvement of £234 million over the prior year. We continue to see a sequential improvement, with EBITDA of £128.2 million in the period, £30 million higher than in the second half of last year, which in itself was an improved trend from the first half of 2020.

This performance has been driven by a number of factors:

- strong recovery in demand for our services as economies start to emerge from lockdown restrictions;
- the management actions taken in 2020, with £100 million of annualised structural costs permanently removed across the business;
- encouraging early results from our new quality management process, notably the 'Driving Excellence' programme in North America; and
- ongoing support of customers and authorities, across all divisions.

Strong recovery in demand

Across each of our businesses we have seen an improving trend in demand for our services.

In North America we exited the first half with 96% of schools returning through a combination of traditional and hybrid learning, which bodes very well for the start of the new school year in September. In Shuttle, services levels have moved up slightly over the period, and encouragingly our big customers are expecting significantly more employees to return to offices over the next few months; and in Transit, patronage is building back steadily.

In ALSA, close to half of our contracts are revenue protected, but nevertheless it is pleasing to see patronage levels building back to almost 70% of pre-Covid levels. Our long haul business has seen a significant increase in demand since regional lockdown restrictions lifted in May, and we are currently operating 55% of services versus 2019, with occupancy levels now approaching 60%. As we enter the summer period, we expect to increase service levels to around 70% of pre-Covid levels by September. Patronage and revenue in Morocco is well ahead of pre-Covid levels driven by the mobilisation of the Rabat and Casablanca contacts, with the other cities showing a strong recovery with patronage 14% ahead of pre-Covid levels.

In the UK, our bus business is operating at 100% of service levels versus 2019, and with patronage at around 70% of pre-Covid levels, ahead of the industry average. Our coach business is now operating 37% of service versus 2019 and with around 33% of passengers pre-Covid levels, where the removal of social distancing restrictions in May has allowed occupancy rates to increase significantly to around 60%. We will continue to introduce new services over the summer, with many routes specifically targeted at staycation destinations.

Benefitting from cost reduction actions

As we outlined at the Full Year results, we took a series of actions across each of our businesses which has resulted in lower structural costs. Each division made permanent reductions to central costs, redesigning and relocating support operations. These restructuring programmes are expected to deliver annualised costs savings of around £100 million. The biggest single initiative within this programme of activity is 'Driving Excellence' in North America where we are rolling out the first phase of standardised operating procedures across our school bus depots, and are seeing efficiencies as well as operating benefits. For example, a greater focus on departure from the depot is not only improving on time performance for the customer, but is also removing waste from the schedule and reducing costs. Once fully implemented we expect our 'Driving Excellence' programme to deliver annualised benefits of around $40 million.

The benefits of these actions can be seen clearly in the period where we increased Underlying Operating Profit by £54 million year on year despite reduced revenue.

Continuing to Drive Profitable Growth

At the Full Year results I outlined my initial priorities on joining the Group, the "Big Deltas", and we have made good progress against these. I also explained that I had initiated a business review to identify our priorities for profitably growing the business – where we compete; what we offer; and how we operate. This work is nearing completion and we will communicate our findings through a Capital Markets Day in October. Through this work, we have distilled the five key solutions that we deliver for customers wherever we operate. These products and services are integral to a well-functioning society faced with the challenges of rising populations; congestion; the need for clean air; and carbon reduction.

1. We reinvigorate public transport. Recovery from the pandemic cannot be about the private car, but if cities are to drive modal shift they need a public transport system people trust. We rebuild the confidence in public transport systems by offering high-quality operations that passengers want to use. We have consistently demonstrated our ability to reverse declining passenger trends in places like the West Midlands and Spanish cities such as Bilbao. During the period, we have mobilised and scaled up our services in Rabat and Casablanca, transforming social mobility in these important cities.

2. We drive multi-modal expansion. Where we have an established presence, we expand the breadth of our product offering, based on global know-how and local relationships. We have demonstrated in cities like Chicago that we do this, but there is plenty more 'white space' to go after in cities where we already have established operations.

3. We deliver operational transformation. By focusing on processes enabled by technology, we drive value by delivering transport solutions more efficiently than the competition. During the period, through the 'Driving Excellence' programme in our North American School Bus business, we have standardised and improved a number of operational processes and locked them in with the roll-out of the new Digital Integrated Optimisation Platform (DIOP) to ensure flawless flow through to billing.

4. We bridge the "Transit Gap". Businesses and cities need to find ways to transition from the private car in places that are not well served by existing mass public transit. Our fast-growing employee shuttle business is an example of a solution to this pressing need. During the period we have mobilised a brand new customer and successfully extended a large existing account in the US as well as landing two new contracts in the UK.

5. We consolidate and compound. We professionalise and bring scale through the consolidation of fragmented markets. Our growth in the school bus market in North America is an example of this, and in the UK there is significant potential for NETS (private coach hire) and NEAT (accessible transportation). During the period, the acquisition of Rober, which operates the urban bus contract in Granada builds on ALSA's existing urban business in Almeria and regional services, consolidating our leadership position in Andalusia.

We have a healthy pipeline of opportunities across each of our markets in which to deliver these solutions to drive continued profitable growth for years to come.

Governments funding modal shift

We welcome the ambition in the Department for Transport's new National Bus Strategy (NBS) for England, which is supported by £3 billion of investment. At the heart of this strategy is the recognition that buses are critical to driving modal shift away from cars and on to buses in order to meet the clean air and decarbonisation targets. The NBS also reinforces the partnership model, something which we have pioneered and operated for many years in the West Midlands.

In North America, President Biden has previously stated his ambition to see the electrification of the entire US school bus fleet by 2030 and has recently announced his support for an infrastructure deal worth $1.2 trillion, which includes $7.5 billion of funding for school and transit buses. The Canadian Federal Government has also pledged $2.75bn to support the transition to ZEVs for both school buses and transit vehicles.

Spain will be one of the largest beneficiaries of the Next Generation EU fund worth €750 billion, a recovery package designed to revitalise the EU economy after the Covid-19 pandemic and which will also look to address major challenges such as the green transition. Spain's plan devotes 40% of its total allocation to measures that support climate objectives and include measures to promote urban and long-distance sustainable mobility as well as deploying new technologies for green hydrogen.

Continuing to Decarbonise

Whilst modal shift from private cars to public transport remains the single most important driver of reduced emissions and congestion, we continue to make good progress on the decarbonisation of our fleet.

In the UK, we are benefiting from the clean air zone in Birmingham whilst we commission the first tranche of 170 EVs as lead operator in the UK's first all-electric city, Coventry and work with TfWM to secure funding for around 200 hydrogen buses which we will start operating in late 2022.

In the US, we have identified a number of key states which are likely to lead the transition to a zero emission strategy for the school bus operations, and we are evaluating which school boards are currently best positioned to transition their fleet. Our Shuttle business will also be adding over 30 more electric vehicles to its ZEV fleet of around 100 in the coming year and is actively working to secure funding in California through the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) for a further 30 vehicles.

In ALSA, we are working in conjunction with Repsol, on the first pilot in Spain for the use of HVO, an advanced bio-fuel with near-zero emissions, produced from waste.

Given the lower ongoing operating costs associated with electric buses, coupled with the availability of grants to bridge the increased up-front purchase price, there is already a compelling total cost of ownership (TCO) proposition for the transition to ZEVs. Increasing the pace of transition however, requires solutions to be found for the level of up-front capital expenditure as well as for the residual value risk on faster fleet replacement and the risk of technology obsolescence in this rapidly evolving area. To this end, we have been actively evaluating 'availability contracts' in both the UK and North America and working on dual projects with third parties which would effectively provide the group with "EVs as a service" providing buses and charging infrastructure without the requirement for up-front capital expenditure and with the availability provider accepting risk transfer for issues such as battery performance and changing technology.

Outlook

We expect to see continued and accelerated improvement in the second half of the year as vaccination programmes allow economies to reopen further and mobility increases. We remain resolutely focused on managing what we can control and as restrictions are lifted across each of our businesses, we expect to see a continued recovery in demand for our services, reflected in our financial results. Whilst this improving trajectory is positive, it is still too early to provide guidance on the near-term outlook as there will inevitably be competing forces at play in the early days of reopening with the pent-up desire to travel working against any lingering concerns of returning to public transport.

The road to recovery will not be without challenges. The enhanced unemployment benefits package put in place in response to the pandemic in the US may complicate driver recruitment for the new school year and we have significantly up-weighted recruitment resources and refined our processes to ensure as smooth a restart as possible. In both the UK and Spain, our Coach businesses will face increased competition from Rail operators keen to rebuild patronage, and in the UK from a new entrant into the coach market, that appears willing to sustain heavy losses to build share.

Looking beyond 2021, we are confident that the prospects for our business remain strong. Firstly, there is an increasingly positive future for public transport as the provision of quality public transport is vital to both social and economic mobility, and is increasingly a critical component of how governments and local authorities around the world are tackling the challenges of climate change, driving modal shift away from cars onto mass transport. Secondly, the strength and breadth of our diversified portfolio, allied to our track record for operational and safety excellence gives an unrivalled platform from which to prosecute the many opportunities for profitable growth that we are already seeing and which will continue to arise as our customers look for a trusted partner to solve their mobility needs.

ALSA

	Half Year		Full Year
	2021	2020	2020
	m	m	m
Revenue	**£287.3**	£267.0	£559.3
Underlying Operating Profit/(Loss)	**£17.1**	(£7.1)	£6.7
Revenue	**€331.1**	€305.4	€629.3
Underlying Operating Profit/(Loss)	**€19.8**	(€8.1)	€7.5
Underlying Operating Margin	**6.0%**	(2.6%)	1.2%

Overview and Outlook

ALSA has delivered growth in both revenue and Underlying Operating Profit in the first half of the year, not only versus the same period last year, but also versus the second half of last year – demonstrating the continued improving trajectory in trading and also the benefit of management actions taken in 2020 to reduce structural costs. Revenue grew by 8.4% to €331.1 million on a constant currency basis (up 7.6% on a reported basis), driven by growth in our urban and regional businesses in Spain and strong growth in Morocco with the ongoing mobilisation of Casablanca and, pleasingly, record passenger numbers in Tangier. Underlying Operating Profit of €19.8 million represents a €27.9 million improvement versus the same period last year, and is also well ahead of the profit delivered in the second half of 2020.

We expect to see further progress in the second half of the year as the benefit of vaccination programmes enable higher levels of economic activity and demand for travel. In particular, we expect to see significant growth in demand for our long haul services over the summer months, despite increased competition from low cost high speed rail and further growth in Morocco, with the addition of new fleet in Casablanca and new routes in Tangier. We will remain focused on tight cost control and have implemented further restructuring in the period. Overall, we would expect the positive trajectory to continue with second half revenue and profit ahead of that delivered in the first half of this year.

Service Evolution

Our, revenue-protected, Spanish urban and regional bus operations continue to operate a full service with patronage levels now running at around two thirds of pre-Covid levels. Inter-regional travel restrictions impacted demand for our long haul services for the first four months of the period, but with restrictions lifting in May, we have gradually increased the level of service to meet demand from around a quarter of pre-Covid levels to around 55% by the end of the period with around 45% of passengers and rising occupancy levels, currently approaching 60%. We will continue to ramp up service levels on our long haul routes over the course of the summer and expect to be operating around 70% of service by September. In Morocco, passenger numbers are up overall by around 70% for the period as a whole versus the same period last year, boosted by the ongoing mobilisation of our Casablanca operations, coupled with strong performances in Tangier and Agadir.

Progress on 'Big Deltas'

ALSA has completed a major restructuring programme, as part of its transformational plan, reducing central costs by up to 30%, resulting in a leaner organisational structure, improved processes and increased efficiencies. The significant improvement in profit performance in the period is partly driven by these cost savings which are targeted to deliver €25 million on an annualised basis.

Another key part of the transformational plan involves the increasing digitisation of the business both operationally and commercially. A number of projects are underway including the introduction of new ticket kiosks which will enhance the customer experience through greater functionality, convenient payment options and customer information. In addition this will deliver operational efficiencies through a higher proportion of digital sales (already at around 47.6% and up 12.4% year on year) and reducing costs in the business, where we are targeting cost savings of €7 million on this one project alone.

We have made good progress with the mobilisation of Casablanca, our largest contract in Morocco, with the addition of 450 new buses in the first half of the year. A further 250 buses will be delivered by the end of September which will

complete the mobilisation of our Casablanca operations, transforming the quality and safety of transport for our customers in this city.

We will start the mobilisation of our new contracts in Lisbon and Porto towards the end of the year, with services due to start operating in 2022.

Looking Forward

We remain confident about the prospects for our business. Our strategy in recent years has been to build our presence in both the regional and urban bus markets in Spain. This has not only increased the proportion of demand-protected contracts within ALSA, but provides strong growth opportunities in both markets, both organically and inorganically. The acquisition of Rober, an urban bus business in Granada, represents a further logical step in consolidating our position in the regional and urban bus markets – a strategy which we have successfully executed in a number of regions and cities across Spain including Galicia, the Basque Region and Madrid.

We also see opportunities to grow in adjacent markets such as France, Italy and Portugal where we have pre-qualified for a regional bus contract in Madeira, to build on the two contracts already awarded in Lisbon and Porto. Indeed we see many attractive opportunities ahead, both organically and via acquisition and have an active pipeline worth over €400 million annualised revenue.

We continue to see good growth opportunities in Morocco, where we successfully mobilised two large contracts over the last 18 months, building on our reputation as a trusted partner and we see further opportunities to grow our urban bus business in other cities as well as in the long distance, intercity market which faces limited competition given the absence of a nationwide rail network. During the half we have extended our contracts in Khouribga for a further five years and in Marrakech for a further year. We are also bidding to operate Bus Rapid Transit services in Agadir from 2023 onwards.

Spain will be one of the largest beneficiaries of the Next Generation EU fund worth €750 billion, a recovery package designed to revitalise the EU economy after the Covid-19 pandemic and which will also look to address major challenges such as the green transition and digital transformation. Spain's plan devotes 40% of its total allocation to measures that support climate objectives and include measures to promote urban and long-distance sustainable mobility as well as deploying new technologies for green hydrogen. We are currently working with the wider bus industry as well as launching our own initiatives in order to access grant funding.

ALSA has a strong track record of reinvigorating public transport by offering high-quality operations that passengers want to use. The most recent examples are Rabat and Casablanca where services have been scaled up and transformed, with new vehicles providing higher frequency of services and greater comfort for passengers, with highly trained drivers and significantly improved safety standards - all of which has driven social mobility and passenger growth. We see many more opportunities to elevate and reinvigorate public transport in other cities not only within our existing footprint, but also in countries such as Italy and Dubai.

While we are likely to see a higher level of competition on a number of intercity routes with further liberalisation of the High Speed Rail market in the coming years, we will look to offer services that cover destinations and timed departures that are not served by the rail operators, while at the same time deploying our increasingly sophisticated revenue management and CRM systems to maximise occupancy and yield. Meanwhile the long haul concession renewal process remains on hold as the authorities continue to absorb the impact of the pandemic on transport, with no stated intention to restart the process in the near term. As a result industry expectations are for no impact from the long haul concession renewal process until late in 2023 at the earliest.

North America

	Half Year		Full Year
	2021	2020	2020
	m	m	m
Revenue	**£451.9**	£513.5	£869.2
Underlying Operating Profit	**£41.5**	£7.6	£12.4
Revenue	**US$627.6**	US$651.9*	US$1,122.0*
Underlying Operating Profit	**US$57.6**	US$10.3*	US$17.0*
Underlying Operating Margin	**9.2%**	1.6%	1.5%

* Revenue and Underlying Operating Profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Overview and Outlook

The improving trajectory has continued with North America delivering a significant increase in operating profit in the period, despite revenue being lower (with 2020 including two full months of pre-Covid performance), and strongly ahead of the second half of last year. This strong performance reflects a continual recovery throughout the period, particularly in our school bus operations where we also saw a very strong summer school season running over 6,000 routes, together with the benefit of management actions taken to reduce structural costs. Revenue declined by 3.7% to $627.6 million on a constant currency basis (down 12% on a reported basis), while Underlying Operating Profit of $57.6 million represents a $48 million improvement versus the same period last year. This was strongly ahead of the profit delivered in the second half of 2020 and delivered a profit margin of 9.2%, well on the way back to pre-Covid levels

We would expect to see further progress in the second half of the year as the benefit of vaccination programmes enable higher levels of economic activity and demand for our services. In particular, we would expect to see further growth in school bus revenues, with a strong return to school for the 2021/2022 school year, together with increasing demand for both our transit and corporate shuttle services. Overall, we would expect the positive trajectory to continue into the second half.

In terms of the 2021/2022 school bus bidding season, we have secured rate increases on expiring contracts of 3.7%, resulting in a 2.9% increase across the whole portfolio, with a 93% retention rate. As highlighted earlier in the year, we are budgeting for an increase in the cost of driver recruitment for the start of the new school year, having started the recruitment process earlier than normal given the [short-term] recruitment challenges in the US. While we are making progress on hiring ahead of the new school year, a shortage of drivers could potentially impact the start back to school, impacting both revenue and operating profit in the short-term.

Service Evolution

Each month we have seen an increase in the number of schools returning to either full in-school learning or a ‘hybrid’ of in-school and at home learning, and by the end of the 2020/21 school year, we were operating 96% of our school bus routes. This bodes well for the start back to school in September where we would expect to see broadly a full return either through ‘traditional’ or ‘hybrid’ arrangements for the 2021/2022 school year.

In our Transit business, we have continued to see an increasing demand for our services over the course of the first half of the year and are currently operating around 80% of pre-Covid levels; we would expect this to continue to rise over the course of the second half of the year with the success of vaccination programmes helping to drive further demand for our services.

Our Shuttle business is also seeing an increasing demand for services to restart. Earlier in the year around a quarter of services were operating; however in the last month we have seen a number of our larger customers returning to their workplaces, some with reduced volumes initially, and we are currently operating 47% of services with more customers indicating their intention to return over the next few months. By the end of this year we would expect all of our customers to return to some level of activity at the workplace with services close to pre-Covid levels.

Progress on 'Big Deltas'

We are making good progress on our 'Big Deltas' with the implementation of our 'Driving Excellence' programme already delivering financial benefits with record levels of on-time performance being delivered consistently across our school bus portfolio and finishing the first half at 96.4%, which represents a 3.3% improvement on the same period in 2019. In addition we have already rolled out the Digital Integrated Optimisation Platform (DIOP) to 15% of the routes on which we operate, automating and optimising many processes such as daily scheduling and dispatch and driver attendance records, driving efficiencies and improving service for our customers.

In our Transit business, where last year we conducted a review of all contracts, we have exited loss making contracts and achieved significant price increases on a number of other contracts which were previously earmarked as potential exits. In addition, the implementation of 'Driving Excellence' measures and tight cost control is delivering improved profitability for some previously poor performing contracts. Indeed, while revenue is lower, we have already delivered a significant improvement in profitability in our Transit business.

Looking Forward

We remain confident around the prospects for our business. There is a clear trend of schools increasingly looking to return to full in-school learning which bodes well for the new school year. Furthermore, we expect to see a big bid season for 2022/2023 with school boards now able to focus on longer term decisions which could drive a flight to quality and to a greater proportion of school boards looking to outsource their school bus operations. Indeed, last year we saw an increase in the number of school boards contacting us to explore potential outsourcing of their operations and we are very well positioned to take advantage of any such moves in the next year or so.

We continue to see strong growth opportunities in our Shuttle business, where our customers are continuing to grow and take on more office space to accommodate growing workforces, and this market remains robust despite the likelihood of some level of home-working continuing into the longer term. We see opportunities to grow not only with our existing customers in cities and states we are not currently operating in, but also to expand in both the universities and hospital sectors. Pleasingly, we have been awarded a significantly expanded contract on renewal with an existing customer worth $25 million annually, with revenue up by over 40%, demonstrating our ability to grow with customers as they expand their operations.

Recognising the vital role that public transport has played both before and during the pandemic, the US Government has pledged $30.5 billion, through the American Rescue Plan Act, which includes grant programmes for Paratransit operators, with funds distributed at the State level. In addition, a further $2 billion of grants are available through the Coronavirus Economic Relief for Transportation Services (CERTS) programme to support, amongst others, school bus companies. We will benefit from both programmes in the second half of this year.

Whilst the category is not as developed as in other markets, we are operating electric vehicles across our North American businesses, with around 100 in service in WeDriveU. Our Shuttle business will also be adding over 30 more electric vehicles to its fleet in the coming year and is actively working to secure funding in California through the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) for a further 30 vehicles. In School Bus, we have a number of operational pilots underway and we are working with various parties to develop ZEV availability models to avoid the up-front capital expenditure and transfer technology risk and thus enable us to accelerate our transition to ZEVs.

We have an active pipeline of bid opportunities in both our Transit and Shuttle businesses worth over $150 million of revenue on an annualised basis, including some sizeable paratransit contracts coming up for tender later this year. And longer term we see many more cities with sizeable paratransit systems, where we have focused business development activities as part of the 'Consolidate and Compound' model.

UK

	Half Year		Full Year
	2021	2020	2020
	£m	£m	£m
Revenue	**172.8**	189.8	388.2
Underlying Operating Loss	**(19.9)**	(15.5)	(49.0)
Underlying Operating Margin	**(11.5)%**	(8.1)%	(12.6)%

Overview and Outlook

Our UK business has seen an improved performance trajectory, both in terms of revenue and operating profit, from that delivered in the second half of last year. Revenue declined by 8.9% in the period to £172.8 million, reflecting the temporary mothballing of our coach operations for the first quarter of this year during the third England lockdown and significantly reduced services relative to pre-Covid levels in the second quarter with restrictions on long distance travel and social distancing in place for much of the period. Meanwhile revenue in our bus business grew during the period, reflecting the high service levels, where we have been operating at 102% of pre-Covid levels and receiving revenue support through the CBSSG. While the UK business delivered an operating loss in the first half of the year, this was at a much reduced level compared to the second half of 2020 and again reflects losses in our coach business, impacted by the combination of lockdown and social distancing restrictions which have enforced occupancy well below levels required to break-even and with no government support to compensate for the lost revenue.

Revenue is now starting to rebuild in our coach business as we ramp up services ahead of the summer, where we expect a strong pent-up desire to travel, a busy UK staycation season, and the final lifting of all restrictions in England, to drive increased demand for our services. Our UK Bus operations will continue to receive government support through to April 2022, with the recently announced extended funding package replacing the CBSSG at the end of August, once again underpinning performance for Bus. Overall, we would expect the positive trajectory to continue with second half revenue and profit ahead of that delivered in the first half of this year.

The attractiveness of the UK coach market is evidenced by the arrival of a new budget operator looking to build market share. Whilst this will inevitably put pressure on revenue and margins in the short term, it may help to reinvigorate the market as we rebound from Covid mobility restrictions.

Service Evolution

Our bus business is operating at 100% of service versus 2019, and with commercial patronage currently at close to 70% of pre-Covid levels, consistently ahead of the industry average. Our coach business restarted service at the end of March, gradually introducing new routes and services over the second quarter and is now operating 37% of service versus 2019 and with around 33% of passengers pre-Covid levels, where the removal of social distancing restrictions at the end of May has allowed occupancy rates to increase significantly to 62%. We will continue to introduce new services over the summer, with many routes specifically targeted at staycation destinations.

Progress on 'Big Deltas'

A key driver for improved performance in 2021 is the restart and ramp up of services of our Coach operations. As noted above, services restarted on a number of routes at the end of March, with a newly designed and optimised network with fewer stops enabling faster journeys, which not only improves the customer experience but also drives efficiencies through lower 'dead' mileage and also has environmental benefits though lower emissions.

Our NEAT and NETS businesses have both seen significant growth in the period. NETS has won a number of new shuttle contracts and also won further business with a major online retailer. During the period NETS also provided bussing for a number of high profile events including the G7 Summit, transporting officials at Wimbledon, the England Team Coach and Adidas officials for the Euros 2020, along with transport for each team in the Cricket 100 tournament. NEAT has successfully retained and grown its largest contract with Birmingham City Council and also won two new demand responsive contracts worth £0.5 million.

Looking Forward

We remain confident around the prospects for both our bus and coach businesses. At each stage of lockdown restrictions lifting, we have seen rising passenger volumes and it is clear from the high occupancy levels in our coach business that there is pent-up demand to travel.

We have strong and active pipelines in both NEAT and NETS: their addressable markets are highly fragmented, and we see opportunities to implement our 'Consolidate and Compound' model to scale activities in each of the market segments.

We see Government policy as highly supportive for growth in the regional bus market, with the new National Bus Strategy for England backed by £3 billion of funding. At the heart of this strategy is the recognition that buses are critical to driving modal shift away from cars and onto buses in order to meet clean air and decarbonisation targets. We also welcome the recently announced extended funding support of £226.5 million for bus operators, which will provide ongoing support through to April 2022 and will bridge the gap through to the Bus Service Improvement Plans, which are in many ways, based around the successful partnership model that has been in place for many years in the West Midlands.

The West Midlands Combined Authority has published its first Five Year Plan which includes specific targets to reduce the percentage of trips made by cars through to 2041, down by 6% in the first 5 years and 56% by 2041. There are also plans to reduce journey times for commuters, with 'Sprint' being the biggest bus priority project underway. This will link Walsall through to Solihull and reduce journey times on some of our biggest corridors by 20%.

The National Bus Strategy also provides funding for the transition to zero emission vehicles. We are growing the fleet of ZEVs to operate services in Coventry, which will be the first electric bus city in the UK. Here we successfully worked in partnership with TfWM to secure funding for 170 EVs and we are currently working, again with TfWM, to secure funding for around 200 Hydrogen buses to operate services in Birmingham. These zero-emissions buses will not only bring environmental benefits to the West Midlands but will reduce operating costs. To enable faster transition to ZEVs, we are working with third parties on an "availability contract" for the provision of electric buses as a service, where buses would be provided on an 'availability' basis, avoiding up-front capital expenditure as well as transferring technology obsolescence to accelerate the transition to ZEVs, enabling us to achieve our ambition of a zero emission fleet in UK Bus by 2030.

Germany

Reported revenue in Germany is up 32% to €92.6 million (2019: €70.1m), reflecting the start-up of the final service to be mobilised for the Rhine-Ruhr Express (RRX) services, in December 2020. The Underlying Operating Loss of €8.8 million in the period, compared with the Underlying Operating Loss of €7.2 million in the prior year is driven by lower patronage due to Covid restrictions. In the second half, we expect to receive subsidies from the local passenger transport authorities to compensate for these reduced levels of patronage, which should lead to an improved performance for the balance of the year.

With another successful mobilisation of services, National Express is increasingly seen by the local passenger transport authorities (PTAs) as an operator with a reputation for high performance and reliability.

Group Chief Financial Officer's review

Summary Income Statement

	Six months to 30 June					
	Underlying result[1] 2021 £m	**Separately disclosed items[1] 2021 £m**	**Total 2021 £m**	Underlying result 2020 £m	Separately disclosed items 2020 £m	Total 2020 £m
Revenue	**992.4**	**-**	**992.4**	1,031.5	-	1,031.5
Operating costs	**(969.5)**	**(49.0)**	**(1,018.5)**	(1,062.1)	(59.1)	(1,121.2)
Operating profit/(loss)	**22.9**	**(49.0)**	**(26.1)**	(30.6)	(59.1)	(89.7)
Share of results from associates	**(0.1)**	**-**	**(0.1)**	(0.9)	-	(0.9)
Net finance costs	**(22.7)**	**(1.3)**	**(24.0)**	(29.2)	(2.4)	(31.6)
Profit/(loss) before tax	**0.1**	**(50.3)**	**(50.2)**	(60.7)	(61.5)	(122.2)
Tax	**-**	**26.1**	**26.1**	9.6	21.6	31.2
Profit/(loss) for the year	**0.1**	**(24.1)**	**(24.1)**	(51.1)	(39.9)	(91.0)

1: To supplement IFRS reporting, we also present our results on an underlying basis which shows the performance of the business before separately disclosed items, comprising amortisation of intangibles for acquired businesses and certain costs arising as a direct consequence of the pandemic. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on page 20.

In a period that continued to be shaped by the mobility restrictions imposed to slow the spread of Covid-19, Group revenue was £992.4 million (H1 2020: £1,031.5m), a decrease of £39.1 million (3.8%). On a constant currency basis, Group revenue increased by 1% year-on-year, comprising a decline of 27% in the first three months of the year, as we annualised the pre pandemic period in the previous year, and an increase of 57% in the second quarter.

In the UK, the Group recognised £62.7 million from the Covid-19 Bus Services Support Grant (CBSSG) in return for maintaining bus services at around 100% of pre-pandemic levels. In addition, the Group recognised £15.8 million and £4.6 million for Covid-19 government compensation in ALSA and German Rail respectively. Had these various revenue-related grants not been available the Group would have operated a significantly lower level of services in order to further reduce costs. There was no revenue support provided by the Government for UK coach.

The Group recorded an Underlying Operating Profit for the period of £22.9 million (H1 2020: £30.6m loss). The £53.5 million year-on-year improvement in profit is despite £39.1 million lower revenue, reflecting cost savings from fixed cost reductions as well as early benefits from the Driving Excellence programme in North America. After £49.0 million (H1 2020: £59.1m) of separately disclosed items, the statutory operating loss was £26.1 million (H1 2020: £89.7m loss).

The Group continued to utilise government job retention schemes in the period, albeit to a continually decreasing degree. The total cost support recognised in the period, all of which was recognised as a credit against payroll costs, was £23.0 million of which £7.9 million was in the UK, £7.5 million in ALSA and £7.6 million in North America.

Underlying net finance costs decreased by £6.5 million to £22.7 million (H1 2020: £29.2m) reflecting the impact of lower net debt.

The Group recorded an Underlying Profit Before Tax of £0.1 million (H1 2020: £60.7m loss).

The underlying effective tax rate of 24.4% (H1 2020: 15.8%) resulted in a marginal underlying tax charge (H1 2020: £9.6m credit). The statutory tax credit was £26.1 million (H1 2020: £31.2m) and included a £13.4m credit, included in separately disclosed items, in respect of the revaluation of deferred tax balances in the UK following the changes in the UK corporation tax rates that were substantively enacted during the period.

The statutory loss for the period, after the separately disclosed items explained below, was £24.1 million (H1 2020: £91.0m loss).

Separately disclosed items

Separately disclosed items of £50.3 million (H1 2020: £61.5m) were recorded as a net cost before tax in the Income Statement, of which £34.3 million (H1 2020: £40.1m) represented cash outflows in the period.

Separately disclosed items	**Income Statement Six months to 30 June 2021 £m**	Income Statement Six months to 30 June 2020 £m	**Cash Six months to 30 June 2021 £m**	Cash Six months to 30 June 2020 £m
Intangible amortisation for acquired businesses	**(19.4)**	(30.1)	**-**	-
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(18.6)**	(29.0)	**(22.0)**	(31.7)
Restructuring and other costs	**(11.0)**	-	**(11.6)**	(7.0)
Separately disclosed operating items	**(49.0)**	(59.1)	**(33.6)**	(38.7)
Interest charges directly resulting from the Covid-19 pandemic	**(1.3)**	(2.4)	**(0.7)**	(1.4)
Total (before tax)	**(50.3)**	(61.5)	**(34.3)**	(40.1)

Further detail is set out in note 5 to the Financial Statements.

Segmental performance

	Six months to 30 June					
	Underlying Operating Profit/(Loss) 2021 £m	**Separately disclosed items 2021 £m**	**Segment result 2021 £m**	Underlying Operating Profit/(Loss) 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m
ALSA	**17.1**	**(15.8)**	**1.3**	(7.1)	(27.5)	(34.6)
North America	**41.5**	**(21.1)**	**20.4**	7.6	(3.2)	4.4
UK	**(19.9)**	**(6.5)**	**(26.4)**	(15.5)	(16.6)	(32.1)
German Rail	**(7.6)**	**(3.9)**	**(11.5)**	(6.3)	(1.1)	(7.4)
Central functions	**(8.2)**	**(1.7)**	**(9.9)**	(9.3)	(10.7)	(20.0)
Operating profit/(loss)	**22.9**	**(49.0)**	**(26.1)**	(30.6)	(59.1)	(89.7)

The performance of both North America and ALSA improved strongly through the period whilst the UK performed broadly in line with the prior period. In North America almost all schools had returned to classroom-based teaching, either full or part time, by the end of the period and this, coupled with the exit of loss-making Transit contracts; strong revenue support in Shuttle; and the early results from Driving Excellence drove the improvement. The improvement in ALSA broadly followed the lifting of mobility restrictions as occupancy levels were not restricted by the social distancing rules imposed in the UK. In the UK, the Bus business made a small profit as the CBSSG grant payments offset the cost of running a full service under social distancing restrictions. The Coach business received no such support, resulting in an operating loss driven by restricted mobility, restricted occupancy levels and competition with a new entrant operating significantly below cost.

Cash management

The Group generated EBITDA of £128.2 million in the period (H1 2020: £88.3m).

The £56.7 million of maintenance capital investment was much reduced year-on-year, reflecting the actions taken in 2020 to reduce capital additions, and principally comprised fleet replacement. At the period end there was £250.3 million (31 December 2020: £289.6m) owing to vehicle suppliers.

Working capital was broadly flat in the period; an outflow of £4.5 million (H1 2020: £139.6m outflow). Cash collection remained strong but the mix of revenue, away from cash-upfront passenger revenue to subsidies and compensation paid in arrears continued during the period. The diversified nature of the Group's revenue streams and the predominantly government-backed or blue-chip profile of the customer base helps mitigate the potential credit risk impact of the pandemic 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 usage of these arrangements was £134.1 million (31 December 2020: £111.6m).

Funds flow	**Six months to 30 June 2021 £m**	Six months to 30 June 2020 £m
Underlying Operating Profit/(Loss)	**22.9**	(30.6)
Depreciation and other non-cash items	**105.3**	118.9
EBITDA	**128.2**	88.3
Net maintenance capital expenditure	**(56.7)**	(113.0)
Working capital movement	**(4.5)**	(139.6)
Pension contributions above normal charge	**(3.6)**	(3.8)
Operating cash flow	**63.4**	(168.1)
Net interest paid	**(17.6)**	(28.0)
Tax paid	**(5.2)**	3.1
Free cash flow	**40.6**	(193.0)
Growth capital expenditure	**(74.9)**	(9.1)
Acquisitions and disposals (net of cash acquired/disposed)	**(46.9)**	(39.6)
Separately disclosed items	**(34.3)**	(40.1)
Proceeds from equity issues	-	230.1
Payment on hybrid instrument	**(5.3)**	-
Other, including foreign exchange	**58.1**	(47.1)
Net funds flow	**(62.7)**	(98.8)
Net debt	**(1,004.4)**	(1,322.8)

Note: H1 2020 closing net debt is re-presented for the transfer of £17.5 million out of net debt in respect of vehicle leases entered into in 2019 to fulfil contracts that have been deemed to be in scope of IFRIC 12. The effect of this representation was to reduce 2019 net growth capital expenditure and hence the opening and closing H1 2020 net debt by £17.5 million compared with the previously reported figures.

Net interest paid decreased by £10.4 million to £17.6 million (H1 2020: £28.0m), reflecting the final interest repayment on the 2020 bond in June 2020 (payable annually in arrears) along with interest savings from lower borrowings.

The net impact of the factors outlined above was a free cash inflow of £40.6 million in the year (H1 2020: £193.0m outflow).

Growth capital expenditure of £74.9 million predominantly related to vehicles to service contracts in ALSA, particularly Casablanca, and North America. Acquisitions and disposals were a £46.9 million outflow, including £23.0m for the acquisition of Transportes Rober in Spain in June and £17.5 million for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor), with the remainder predominantly being deferred consideration in respect of acquisitions in previous years.

A cash outflow of £34.3 million was recorded in respect of the items excluded from underlying results as explained above. £5.3m of coupon payments on the hybrid instrument were made in the period. Other cash inflows of £58.1 million principally reflect the movement in exchange rates and settlement of foreign exchange derivatives.

Net funds outflow for the period of £62.7 million (H1 2020: £98.8m outflow) resulted in net debt of £1,004.4 million (H1 2020: £1,322.8m).

Reconciliation to statutory cash flow statement

Statutory cash generated from operations for the period was an inflow of £85.4 million (H1 2020: £94.4m outflow) as shown in the Group Statement of Cash Flows and expanded further in note 15. Free cash flow for the period was an inflow of £40.6 million (H1 2020: £193.0m outflow). A reconciliation of free cash flow to net cash flow from operating activities is set out on page 20. The principal differences are that the free cash flow includes net maintenance capital expenditure (£56.7 million outflow) but excludes the cash outflow in respect of separately disclosed items.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns, reducing net debt to within our revised target range of 1.5x to 2.0x EBITDA and paying a growing dividend to shareholders. As previously guided, in light of the exceptional economic circumstances and conditions attaching to our amended covenants, the Group will not be paying an interim dividend in respect of 2021. Looking ahead, the Board recognises the importance of the shareholder returns and will reinstate the dividend when

economic conditions permit and it is appropriate to do so. Such a decision will be based upon the Group's prevailing and expected free cash flow generation as well as gearing returning to within pre-amendment covenant levels.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating.

In light of the impact of the pandemic on EBITDA generation, the Group renegotiated its covenants. The gearing covenant has been waived by the lenders throughout 2021 and will next apply as at 30 June 2022 at an amended limit of no greater than 5.0x. The usual covenant of 3.5x will apply again from the 31 December 2022 test onwards. The interest cover covenant has been amended to 1.5x and 2.5x for the 30 June 2021 and 31 December 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 during the waiver period. In addition the Group has agreed to pay no dividend during the period of the amendments if gearing exceeds 3.5x or interest cover is below 3.5x. At 30 June 2021, the gearing ratio was 4.4x (31 December 2020: 5.1x) on a reported basis and 5.6x (31 December 2020: 6.4x) on a covenant basis (the principal difference being that the impact of IFRS 16 is removed in the covenant basis). Interest cover at the end of the period was 4.1x (31 December 2020: 2.7x); this compares to an amended covenant of 1.5x. All covenants are on a pre-IFRS 16 basis.

At 30 June 2021, the Group had £1.9 billion of debt capital and committed facilities, with an average maturity of 4.9 years. At 30 June 2021, the Group's RCFs were undrawn and the Group had available a total of £1.0 billion in cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 30 June 2021 £m	Headroom at 30 June 2021 £m	Maturity year
Core RCFs	495	-	495	2025
2023 bond	400	400	-	2023
2028 bond	247	247	-	2028
Private placement	398	398	-	2027-2032
Private placement	67	67	-	2021
Leases	273	273	-	various
	1,880	1,385	495	
Cash and cash equivalents		(464)	464	
Total		**921**	**959**	

During the first half of 2021, the short-term facilities that were put in place after the start of the Covid-19 pandemic lapsed and were not refinanced, as planned, given the ample liquidity headroom. This included the Bank of England Covid Corporate Financing Facility (CCFF). The only facility to mature during the next 12 months is the €78.5m private placement maturing in August.

To ensure sufficient availability of liquidity, the Board requires the Group to maintain a minimum of £300 million in cash and undrawn committed facilities at all times. This does not include factoring facilities which allow the without-recourse sale of receivables. These arrangements provide the Group with more economic alternatives to early payment discounts for the management of working capital, and as such are not included in (or required for) liquidity forecasts.

At 30 June 2021, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 30 June 2021, the proportion of Group debt at floating rates was 5% (31 December 2020: 7%).

Group tax policy

We adopt a prudent approach to our tax affairs, aligned to business transactions and economic activity. We have a constructive and good working relationship with the tax authorities in the countries in which we operate and there are

no outstanding tax audits in any of our main three markets of the UK, Spain and the USA. The Group's tax strategy is published on the Group website in accordance with UK tax law.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 30 June 2021 was £96.0 million (31 December 2020: £135.1m), with the decrease being principally driven by an increase in discount rates. 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 IAS 19 valuations for the principal schemes at 30 June 2021 were as follows:

- WM Bus: £104.6 million deficit (31 December 2020: £141.6m deficit); and
- UK Group scheme: £11.7 million surplus (31 December 2020: £12.3m surplus).

Fuel costs

Fuel cost represents approximately 7% 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 100% hedged for 2021 at an average price of 38.0p per litre; around 70% hedged for 2022 at an average price of 30.7p; and around 40% hedged for 2023 at an average price of 31.2p. 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 the pandemic. 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 £0.9 million in the period which has been treated as a separately disclosed item.

Brexit

As previously explained, given the diversified nature of our business model and the fact that we no longer run scheduled operations between the UK and the Continent, we do not believe that the UK's exit from the EU presents any direct material risk to our business. The main risks to the Group relate to suppliers of parts and vehicles, as we purchase some vehicles from European manufacturers for UK operations, and cross-border data sharing. So far the Group has not experienced any significant issues in this regard and we have active mitigation plans in place.

Going concern

The Board continues to believe that the Group's prospects are positive. We are diversified geographically, by mode of transport and by contract type and no single contract contributes more than 3% 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. Public transport is key to increasing social mobility as well as being fundamental to addressing the challenges of congestion and poor air quality.

The Financial Statements have been prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of not less than 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 28 to 30.

Risks and uncertainties

In the 2020 annual report the Board sets out what it considers to be the principal risks and uncertainties. Having subsequently reviewed these again the Board considers them to remain relevant. The principal risks are summarised below:

- Pandemic: the risk that new virus mutations may delay the recovery or there may be lasting implications such as residual fear of travel; significantly less travel for shopping; or a material change in working patterns.
- Economic conditions: parts of the business may be adversely affected by economic conditions as discretionary travel in some areas of the business is historically correlated to GDP and employment.
- Political, geopolitical and regulatory changes: can impact a regulated transport business through the operation of concessions; safety procedures; equipment specifications; employment requirements, and environmental procedures.
- Brexit: an economic downturn in the UK and/or the EU could adversely impact demand for our services; reduced travel to the UK could impact demand for our coach services at UK airports.
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.

- Alternative fuel vehicles: rapidly increased demand for alternative fuel vehicles could require a significant change to infrastructure.
- Competition and market dynamics: increased competition from other modes of transport and/or in terms of increased price competition.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs; lack of available management talent/leaderships skills which could inhibit growth; shortages in drivers and other key staff.
- Cyber security, IT failure and General Data Protection Regulations: loss of confidential data causing damage to brand reputation and incurring penalties; major IT failure causing severe or sustained disruption to the business.
- Terrorism: the longer term impact of terrorism attacks potentially softening demand for travel.
- Safety, litigation and claims: a major safety-related incident could impact the Group both financially and reputationally.
- Hazard risk: asset loss due to natural disaster which may also impact Group revenue and profits; widespread events such as extreme weather causing interruptions to operations and loss of revenue.
- Credit/financing risk: Group liquidity could be impacted by a material increase in borrowing costs; and a material tightening of credit markets

Outlook

There is increasing optimism around the recovery from the pandemic, with vaccination rates high in the countries in which the Group principally operates and mobility and social distancing restrictions being relaxed. We are seeing the impact of this in the Group's financial results, with increasing revenue trends and a return to underlying profit for the first half of 2021.

Despite the positive recovery trajectory, there remain uncertainties over the impact that new variants of the virus could have. It remains difficult to forecast financial performance with any level of certainty. The going concern analysis outlined in note 1 to the Financial Statements on pages 28 to 30 provides a range of potential scenarios. Our base case scenario assumes that there will be a steady recovery in the second half such that by December 2021 Group revenue recovers to levels similar to December 2019 on a constant currency basis. Under this scenario we continue to anticipate robust positive free cash flow in 2021 as performance improves through the year and the capital expenditure reduction actions taken in 2020 take effect on the maintenance capital outflows.

We remain confident in the medium to long term opportunities and look forward to updating you on these in the Capital Markets Day in October.

Chris Davies
Group Chief Financial Officer
29 July 2021

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 underlying 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. This is illustrated in the summary income statement presented in the Group Chief Financial Officer's Report on page 15.	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. For covenant purposes the calculation excludes the impact of IFRS 16 as well as some other, smaller adjustments.	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 set out in the supporting tables below.	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. It includes the capitalisation of leases incepted in the year in respect of existing business. A reconciliation of capital expenditure in the statutory cash flow statement to net maintenance capital expenditure (as presented in the Group Chief Financial Officer's Report) is set out in the supporting tables below.	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. It includes the capitalisation of leases incepted in the year in respect of new business.	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.	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.
Return on capital employed (ROCE)	Operating profit[1] and net assets	Underlying Operating Profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates. The calculation of ROCE is set out in the reconciliation tables below.	ROCE gives an indication of the Group's capital efficiency and is a key performance measure for the Executive Directors' remuneration.

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

Supporting reconciliations

Reconciliation of net cash flow from operating activities to free cash flow	**Six months to 30 June 2021 £m**	Six months to 30 June 2020 £m
Net cash flow from operating activities	**62.4**	(105.9)
Remove: Cash expenditure in respect of separately disclosed items	**34.3**	40.1
Add: Net maintenance capital expenditure	**(56.7)**	(113.0)
Add: Other non-cash movements	**(0.4)**	(14.8)
Profit on disposal of fixed assets	**1.0**	0.6
Free cash flow	**40.6**	(193.0)

Reconciliation of capital expenditure in statutory cash flow to funds flow	**Six months to 30 June 2021 £m**	Six months to 30 June 2020 £m
Purchase of property, plant and equipment	**(116.6)**	(111.1)
Proceeds from disposal of property, plant and equipment	**2.1**	8.5
Payments to acquire intangible assets	**(6.0)**	(10.2)
Proceeds from disposal of intangible assets	**0.7**	-
Net capital expenditure in statutory cash flow statement	**(119.8)**	(112.8)
Add: capitalisation of leases incepted in the year, less disposals	**(11.8)**	(9.3)
Net capital expenditure in the funds flow (presented in the Group Chief Financial Officer's Report)	**(131.6)**	(122.1)
Split as:		
Net maintenance capital expenditure	***(56.7)***	*(113.0)*
Growth capital expenditure	***(74.9)***	*(9.1)*

Reconciliation of ROCE	**Six months to 30 June 2021 £m**
Group statutory operating profit	**(317.8)**
Add back: separately disclosed items	**320.5**
Return – Underlying Group Operating Profit	**2.7**
Average net assets	**1,380.5**
Remove: Average net debt	**1,163.6**
Remove: Average derivatives, excluding amounts within net debt	**18.7**
Foreign exchange adjustment	**(4.7)**
Average capital employed	**2,558.1**
Return on capital employed	**0.1%**

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

Ignacio Garat	**Chris Davies**
Chief Executive Officer	**Group Finance Director**

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For the six months ended 30 June 2021

		Unaudited six months to 30 June						
			Separately disclosed Items (note 5)			Separately disclosed Items (note 5)		Audited Year to 31 December Total
		Underlying result		**Total**	Underlying result		Total	
		2021	**2021**	**2021**	2020	2020	2020	2020
	Note	**£m**	**£m**	**£m**	£m	£m	£m	£m
Revenue	3	**992.4**	**–**	**992.4**	1,031.5	–	1,031.5	1,955.9
Operating costs		**(969.5)**	**(49.0)**	**(1,018.5)**	(1,062.1)	(59.1)	(1,121.2)	(2,337.3)
Group operating profit/(loss)	3	**22.9**	**(49.0)**	**(26.1)**	(30.6)	(59.1)	(89.7)	(381.4)
Share of results from associates and joint ventures		**(0.1)**	–	**(0.1)**	(0.9)	–	(0.9)	(2.1)
Finance income	4	**1.6**	–	**1.6**	2.4	–	2.4	3.3
Finance costs	4	**(24.3)**	**(1.3)**	**(25.6)**	(31.6)	(2.4)	(34.0)	(64.5)
Profit/(loss) before tax		**0.1**	**(50.3)**	**(50.2)**	(60.7)	(61.5)	(122.2)	(444.7)
Tax credit	6	–	**26.1**	**26.1**	9.6	21.6	31.2	118.0
Profit/(loss) for the period		**0.1**	**(24.2)**	**(24.1)**	(51.1)	(39.9)	(91.0)	(326.7)
Loss attributable to equity shareholders		**(2.7)**	**(22.5)**	**(25.2)**	(53.0)	(39.8)	(92.8)	(331.7)
Profit/(loss) attributable to non-controlling interests		**2.8**	**(1.7)**	**1.1**	1.9	(0.1)	1.8	5.0
		0.1	**(24.2)**	**(24.1)**	(51.1)	(39.9)	(91.0)	(326.7)
Earnings per share:	8							
– basic earnings per share				**(5.8)p**			(17.3)p	(57.9)p
– diluted earnings per share				**(5.8)p**			(17.3)p	(57.9)p

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2021

	Unaudited six months to 30 June 2021 £m	Unaudited six months to 30 June 2020 £m	Audited year to 31 December 2020 £m
Loss for the period	**(24.1)**	(91.0)	(326.7)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	**35.1**	(46.8)	(48.4)
Deferred tax on actuarial gains/(losses)	**(0.9)**	10.6	10.8
Losses on equity instruments classified as fair value through other comprehensive income	**–**	–	(1.6)
	34.2	(36.2)	(39.2)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations	**(51.6)**	146.8	34.5
Exchange differences on retranslation of non-controlling interests	**(1.2)**	2.6	0.7
Gains/(losses) on net investment hedges	**24.5**	(62.2)	(10.0)
Gains/(losses) on cash flow hedges	**35.7**	(32.9)	(50.3)
Cost of hedging	**0.1**	(0.3)	0.2
Hedging losses reclassified to Income Statement	**4.5**	6.8	34.8
Tax on exchange differences	**(1.4)**	(0.7)	1.6
Deferred tax on cash flow hedges	**(9.4)**	4.9	3.8
	1.2	65.0	15.3
Comprehensive income/(expenditure) for the period	**35.4**	28.8	(23.9)
Total comprehensive income/(expenditure) for the period	**11.3**	(62.2)	(350.6)
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders	**11.4**	(66.6)	(356.3)
Non-controlling interests	**(0.1)**	4.4	5.7
	11.3	(62.2)	(350.6)

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2021

	Note	**Unaudited 30 June 2021 £m**	Unaudited 30 June 2020[1] £m	Audited 31 December 2020 £m
Non-current assets				
Intangible assets		**1,790.4**	2,022.3	1,851.8
Property, plant and equipment		**1,166.2**	1,415.0	1,233.2
Available for sale investments		**12.6**	15.2	12.9
Derivative financial instruments	11	**18.6**	3.3	1.4
Deferred tax assets		**142.7**	69.4	140.5
Investments accounted for using the equity method		**15.4**	17.9	15.6
Trade and other receivables		**134.0**	5.4	91.7
Finance lease receivable		**14.8**	6.0	10.6
Defined benefit pension assets	12	**11.7**	13.8	12.3
Total non-current assets		**3,306.4**	3,568.3	3,370.0
Current assets				
Inventories		**27.1**	29.1	27.0
Trade and other receivables		**426.8**	496.5	391.7
Finance lease receivable		**4.3**	2.9	4.3
Derivative financial instruments	11	**24.7**	12.0	44.9
Current tax assets		**13.5**	4.6	2.6
Cash and cash equivalents	9	**464.4**	585.4	520.5
Total current assets		**960.8**	1,130.5	991.0
Assets classified as held for sale		**18.0**	–	18.8
Total assets		**4,285.2**	4,698.8	4,379.8
Non-current liabilities				
Borrowings		**(1,319.3)**	(1,436.7)	(1,313.0)
Derivative financial instruments	11	**(7.2)**	(25.6)	(10.6)
Deferred tax liability		**(30.8)**	(54.3)	(40.7)
Other non-current liabilities		**(239.4)**	(189.7)	(202.7)
Defined benefit pension liabilities	12	**(107.7)**	(148.8)	(147.4)
Provisions		**(43.3)**	(57.3)	(54.8)
Total non-current liabilities		**(1,747.7)**	(1,912.4)	(1,769.2)
Current liabilities				
Trade and other payables		**(778.6)**	(888.9)	(861.3)
Borrowings		**(184.7)**	(496.9)	(167.0)
Derivative financial instruments	11	**(8.9)**	(54.3)	(23.0)
Current tax liabilities		**(5.7)**	(14.7)	(2.2)
Provisions		**(76.8)**	(53.2)	(81.1)
Total current liabilities		**(1,054.7)**	(1,508.0)	(1,134.6)
Liabilities classified as held for sale		**–**	–	–
Total liabilities		**(2,802.4)**	(3,420.4)	(2,903.8)
Net assets		**1,482.8**	1,278.4	1,476.0
Shareholders' equity				
Called up share capital		**30.7**	30.7	30.7
Share premium account		**533.6**	533.6	533.6
Own shares		**(2.7)**	(6.3)	(3.5)
Hybrid reserve		**502.2**	–	497.6
Other reserves		**370.2**	417.2	367.8
Retained earnings		**10.0**	260.2	9.6
Total shareholders' equity		**1,444.0**	1,235.4	1,435.8
Non-controlling interest in equity		**38.8**	43.0	40.2
Total equity		**1,482.8**	1,278.4	1,476.0

[1] Prior year balances have been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade payables as reported in the 2020 Annual Report

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2021

	Share Capital £m	Share premium £m	Own Shares £m	Hybrid Reserve £m	Other Reserves £m	Retained earnings £m	Total £m	Non-Controlling Interests £m	Total £m
At 1 January 2021	**30.7**	**533.6**	**(3.5)**	**497.6**	**367.8**	**9.6**	**1,435.8**	**40.2**	**1,476.0**
(Loss)/profit for the period	–	–	–	–	–	**(25.2)**	**(25.2)**	**1.1**	**(24.1)**
Comprehensive income/(expenditure) for the period	–	–	–	–	**2.4**	**34.2**	**36.6**	**(1.2)**	**35.4**
Total comprehensive income/(expenditure)	–	–	–	–	**2.4**	**9.0**	**11.4**	**(0.1)**	**11.3**
Shares purchased	–	–	**(0.2)**	–	–	–	**(0.2)**	–	**(0.2)**
Own shares released to equity employee share schemes	–	–	**1.0**	–	–	**(1.0)**	–	–	–
Tax on share based payments	–	–	–	–	–	**0.2**	**0.2**	–	**0.2**
Transaction costs on issuance of hybrid instrument	–	–	–	**(0.6)**	–	–	**(0.6)**	–	**(0.6)**
Accrued payments on hybrid instrument	–	–	–	**10.5**	–	**(10.5)**	–	–	–
Payments on hybrid instrument	–	–	–	**(5.3)**	–	–	**(5.3)**	–	**(5.3)**
Deferred tax on hybrid bond payments	–	–	–	–	–	**(1.2)**	**(1.2)**	–	**(1.2)**
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	**3.9**	**3.9**	**(4.3)**	**(0.4)**
Other movements with non-controlling interests	–	–	–	–	–	–	–	**3.0**	**3.0**
At 30 June 2021 (unaudited)	**30.7**	**533.6**	**(2.7)**	**502.2**	**370.2**	**10.0**	**1,444.0**	**38.8**	**1,482.8**

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	Own Shares £m	Hybrid reserve £m	Other Reserves £m	Retained earnings £m	Total £m	Non-controlling Interests £m	Total £m
At 1 January 2020	25.6	532.7	(6.0)	–	130.7	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	(6.3)	–	417.2	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 was 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 were recorded in share premium.

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2021

	Note	Unaudited six months to 30 June 2021 £m	Unaudited six months to 30 June 2020 £m	Audited year to 31 December 2020 £m
Cash generated from operations	15	**85.4**	(94.4)	(31.0)
Tax (paid)/received		**(5.2)**	3.1	(8.1)
Interest paid		**(18.6)**	(19.0)	(64.7)
Interest received		**0.8**	4.4	7.1
Net cash flow from operating activities		**62.4**	(105.9)	(96.7)
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	13	**(21.0)**	(9.6)	(9.6)
Deferred consideration for businesses acquired	13	**(5.4)**	(14.8)	(27.3)
Proceeds from disposal of business, net of cash disposed[4]		**(1.0)**	–	4.4
Purchase of property, plant and equipment		**(116.6)**	(111.1)	(215.3)
Proceeds from disposal of property, plant and equipment		**2.1**	8.5	17.7
Payments to acquire intangible assets		**(6.0)**	(10.2)	(22.7)
Proceeds from disposal of intangible assets		**0.7**	–	2.3
Payments to settle net investment hedge derivative contracts		**–**	(2.9)	(15.7)
Receipts on settlement of net investment hedge derivative contracts		**30.6**	9.8	10.9
Payments relating to associates and investments		**–**	–	(0.1)
Net cash flow from investing activities		**(116.6)**	(130.3)	(255.4)
Cash flows from financing activities				
Share issue proceeds[1]		**–**	230.1	230.1
Issuance of hybrid instrument[2]		**(0.1)**	–	495.5
Dividends paid to holders of hybrid instrument		**(5.3)**	–	–
Lease payments		**(45.8)**	(49.0)	(97.7)
Increase in borrowings		**66.0**	729.4	732.3
Repayment of borrowings		**(3.3)**	(563.9)	(940.5)
Payments to settle foreign exchange forward contracts		**(6.6)**	(26.9)	(39.8)
Receipts on settlement of foreign exchange forward contracts		**17.0**	15.9	18.8
Purchase of own shares		**(0.2)**	(3.8)	(3.9)
Acquisition of non-controlling interests[3]		**(17.9)**	–	(4.0)
Dividends paid to non-controlling interests		**(0.5)**	(0.4)	(2.2)
Net cash flow from financing activities		**3.3**	331.4	388.6
(Decrease)/increase in cash and cash equivalents		**(50.9)**	95.2	36.5
Opening cash and cash equivalents		**520.5**	478.3	478.3
(Decrease)/increase in cash and cash equivalents		**(50.9)**	95.2	36.5
Foreign exchange		**(5.2)**	11.9	5.7
Closing cash and cash equivalents	9	**464.4**	585.4	520.5

[1] Net of transactions fees totalling £5.3m
[2] Net of transaction fees totalling £4.5m incurred during 2020. A further £0.1m of transaction costs were paid in 2021
[3] Amounts in 2021 include £17.5m paid on exercise of 10% of the WeDriveU put liability
[4] Amounts in 2021 relate to the payment of transaction costs in relation to the disposal of Tayside Public Transport Co Limited that took place in 2020

NATIONAL EXPRESS GROUP PLC
NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS
For the six months ended 30 June 2021

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'. It should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2020, which were prepared in accordance with applicable law and International Financial Reporting Standards.

These condensed interim Financial Statements for the six months ended 30 June 2021 do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2020 were approved by the board of directors on 18 March 2021 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 2020 have been extracted from the Group's Annual Report and Accounts for the year ended 2020. 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 in the 2020 annual report and summarised on page 17 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; and,
- financial position, liquidity position and borrowing facilities as set out in the Group Finance Director's report within this announcement.

As at 30 June 2021, and also as of the date of publishing these Financial Statements, the Group had £1.9 billion of debt capital and committed facilities. Given the strength of the Group's liquidity position and the Directors' view of prospects, including under downside scenarios, the Group has allowed £0.9 billion of short-term facilities to lapse since 31 December 2020, including the £600m Bank of England Covid Corporate Financing Facility (CCFF). At 30 June 2021 the Group had £1.0 billion in cash and undrawn committed facilities available to it. For the purposes of the going concern assessment the Directors have not assumed any renewal or replacement of the £67 million of borrowing facilities that are currently scheduled to mature between now and the end of July 2022.

The Group has positive relationships and regular dialogue with its lenders. Certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. For the 30 June and 31 December 2021 test dates the gearing covenant has been waived by the lenders and the interest cover covenant has been amended to a minimum of 1.5x and 2.5x at 30 June and 31 December 2021 respectively. The gearing covenant at 30 June 2022 has been amended to a maximum of 5.0x. In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test (up to and including Q3 2022), a £1.6 billion maximum net debt test as at 30 June 2021, 31 December 2021 and 30 June 2022 and a restriction on dividend payments until covenant amendments / waivers have expired (or until the Group has voluntarily relinquished them). All covenants are assessed on a pre IFRS 16 basis.

The Directors continue to have a high degree of confidence in the long-term prospects. The Group continues to win new contracts, with a strong pipeline of further opportunities. Whilst the pandemic has had a profound and rapid impact on travel patterns, with a shift away from public transport, this is not, in our view, sustainable as economies recover. Infrastructure constraints have not disappeared and climate change is rising in the public conscience and on government agendas. Clean, safe and efficient public transport is a clear solution, and this continues to provide a strong backdrop for long-term growth for the Group.

1. General information (continued)

Additionally, financial performance for the first half outperformed the base case projections set out at the time of publishing the 2020 Financial Statements in March 2021. This has been achieved through upsides in both revenue, particularly in North America where the recovery was faster than we had anticipated, and cost, due to tight cost control and early benefits of efficiency programmes.

Notwithstanding the above, the pandemic has clearly had an unprecedented impact on the Group and on the transport sector in general, and there continues to be uncertainty over the pace of recovery in revenue over the short-term, including from the threat of new variants of the virus.

Our observations of, and responses to, the impact of the pandemic over recent months, along with our latest expectations of its continued impact over the going concern assessment period, have been carefully considered in arriving at an updated base case and reasonable worst case. We have then corroborated our own assumptions with external references, such as the predictions published by the IMF and OECD. The Directors have reviewed the base case and reasonable worst case projections, along with reverse stress tests. These scenarios and stress tests were used to evaluate liquidity headroom and compliance with revised covenants.

The key assumptions in the base case scenario are as follows:

- In the second half of 2021, there is a significant increase in passenger volumes compared to the first half of the year as mobility restrictions are lifted and public confidence returns following the success of the vaccine roll-out in the Group's key markets. This drives a steady recovery in revenue such that by December 2021 group revenue recovers to close to what it was in December 2019, although on a like-for-like basis (excluding the net of new and lost business and contracts in the last 18 months) it would remain below 2019.
- In the first half of 2022 Group revenue is assumed to recover to higher than it was in H1 2019 albeit still marginally below 2019 on a like-for-like basis (i.e. excluding net new business).
- Covid-related government support continues to be available as follows:
    - Job retention schemes in UK until end of September 2021, utilised in Coach but not in Bus.
    - Job retention scheme available in Spain at the enhanced level until September 2021 and then at pre-pandemic levels of support thereafter. We also assume further support funding from national and regional transport authorities in H2 2021, but to a lesser extent than in H1, with no support funding in 2022.
    - US government funding is available in the second half of 2021 at similar levels to that received in the first half of the year, with no support assumed for 2022 onwards.
    - Covid-19 Bus Services Support Grant ("CBSSG") continues to operate in the UK until the end of August 2021, after which it is replaced by the new Department for Transport Recovery Funding package. The details of this are yet to be finalised but the financial impact is assumed to be similar to CBSSG whereby it compensates bus operators to maintain full service levels whilst passenger levels increase. This new support package is available until April 2022.
- There is an ongoing benefit from substantial cost saving initiatives implemented during 2020 and 2021, including group-wide reductions in administrative and managerial headcount, as well as the benefit of process efficiency improvements.
- A partial unwind (cash inflow) in H2 2021 of the negative working capital movement incurred in 2020 and H1 2021, reflecting an increase in passenger revenue (and a reduction in subsidies, compensation or grants paid in arrears), along with an increase in payables as activity levels increase.

The reasonable worst case scenario assumes significant reductions in revenue across the Group, compared to the base case, due to a combination of a prolonged impact of continuing mobility restrictions similar to those seen in Q2 of 2021, customer reticence to travel, increased competition and lower government support. This results in a much slower recovery trajectory, with revenue for the 12 months to June 2022 being significantly down on pre-pandemic levels. In particular, this scenario assumes that 10% of schools remain closed in North America after the summer break and throughout H1 2022 (compared to a base case assumption of all schools being open) and that passenger numbers are significantly lower in the Spanish and UK coach markets.

Furthermore, a much lower partial unwind of the negative working capital outflow incurred in the last 18 months has been assumed, reflecting slower cash collection and lower levels of trade payables.

1. General information (continued)
Against this reasonable worst case the Group has applied mitigations in the form of further reductions in expenditure, over and above those reflected in the reasonable worst case. The majority of these further cost savings have already been identified and can be swiftly implemented should the reasonable worst case scenario occur. Whilst the cost savings in the base case and reasonable worst case would involve restructuring activity, they do not involve significant structural changes to the Group.

In the base case and reasonable worst case scenarios the Group has a strong liquidity position over the next 12 months. Even in the reasonable worst case, the Group's monthly cash flow projections over the next 12 months are, on average, marginally positive; this compares to £1.0 billion of liquidity as at 30 June 2021. In the base case and reasonable worst case scenarios the Group also has headroom on all of its revised covenant tests.

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 any of the covenant tests.

In applying a reverse stress test to liquidity the Directors have concluded that the set of circumstances required to exhaust it are 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 covenants and the June 2022 gearing covenant, these being the covenant tests during the going concern period that contain an EBITDA component. In doing so, the Directors have considered all cost mitigations that would be within their control. 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 2021.

Accounting policies
The accounting policies adopted in the preparation of the interim condensed consolidated Financial Statements are consistent with those followed in the preparation of the Group's 2020 Annual Report and Accounts, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated Financial Statements of the Group.

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

Use of judgements and estimates
The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the Group's Annual Report and Accounts for the year ended 2020, except for the following update:

Valuation of put liability

In conjunction with the acquisition of WeDriveU, Inc. during 2019 the Group issued put options (40%) to the seller to sell the remaining shares. In previous periods the valuation of the options was considered a significant estimate given the sensitivity of its valuation to future forecasts, discount rate and timing of exercise. During the six months to June 2021, 10% of the option was exercised and, in light of Covid-19 growth assumptions were reduced within the future forecasts, reducing the sensitivity of its valuation to reasonably possible changes. As a result we no longer consider the valuation to be a key estimate.

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. In 2020, revenue and profit in the second half of the year were higher than in the first half, reflecting the full nationwide lockdowns that occurred following the onset of the pandemic. In 2021, the first half was impacted by lockdowns and continued mobility restrictions, which are being lifted as vaccination programmes progress. Accordingly, and consistent with the outlook set out in the CFO report of this announcement, we expect the second half of 2021 to be stronger than the first half in terms of both revenue and operating profit.

2. Exchange rates

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

	Six months to 30 June 2021		Six months to 30 June 2020		Year to 31 December 2020	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.38**	**1.39**	1.24	1.26	1.37	1.28
Canadian dollar	**1.71**	**1.73**	1.68	1.72	1.74	1.72
Euro	**1.17**	**1.15**	1.10	1.14	1.12	1.13

If the results for the 6 months to 30 June 2020 had been retranslated at the average exchange rates for the period to 30 June 2021, North America would have achieved an Underlying Operating Profit of £7.2m on revenue of £469.5m compared to Underlying Operating Profit of £7.6m on revenue of £513.5m as reported, and ALSA would have achieved an Underlying Operating Loss of £7.0m on revenue of £265.0m, compared to Underlying Operating Loss of £7.1m on revenue of £267.0m 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.

3. Segmental analysis (continued)

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

	Six months to 30 June 2021					
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	**17.7**	**60.1**	**83.8**	**7.6**	**3.6**	**172.8**
German Rail	-	**18.5**	**59.3**	-	**2.6**	**80.4**
ALSA	**76.1**	**120.7**	**65.3**	**16.3**	**8.9**	**287.3**
North America	**434.9**	-	-	**12.4**	**4.6**	**451.9**
Total	**528.7**	**199.3**	**208.4**	**36.3**	**19.7**	**992.4**
Analysis by major service type						
Passenger transport	**528.7**	**199.3**	**208.4**	**36.3**	**8.5**	**981.2**
Other products and services	-	-	-	-	**11.2**	**11.2**
Total	**528.7**	**199.3**	**208.4**	**36.3**	**19.7**	**992.4**

Included in grants and subsidies is £62.7m (2020: £27.4m) revenue recognised in the UK in respect of the Covid Bus Services Support Grant (CBSSG) in England; in the prior year it also included the Covid Support Grant (CSG) in Scotland. Under these schemes, grant income may be claimed by operators of local bus services to close the shortfall of revenue earned by them during the period affected by Covid-19 and the costs incurred by them in that period. The grant income is recognised in the Income Statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (i) the Group will comply with the conditions attaching to the grant and (ii) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the review process.

Also included in grants and subsidies is £4.6m (2020: £nil) additional subsidies in Germany in respect of the Federal Framework Regulation on Aid to Public Transport. Under this arrangement, additional subsidies may be claimed by public transport operators in Germany to compensate for the loss of passenger revenue due to Covid-19. Similarly, a further £15.8m (2020: £nil) was recognised in ALSA from Public Transport Authorities to compensate for revenue shortfalls due to Covid-19. In both cases subsidy income has been recognised in the same period in the Income Statement to match the period in which the related shortfall of revenue occurred and to the extent there is reasonable certainty that the Group has complied with the conditions.

	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[1]	65.9	132.7	42.6	18.4	7.4	267.0
North America	487.5	-	-	16.7	9.3	513.5
Total	563.7	264.7	134.6	36.2	32.3	1,031.5
Analysis by major service type:						
Passenger transport	563.7	264.7	134.6	36.2	15.9	1,015.1
Other products and services	-	-	-	-	16.4	16.4
Total	563.7	264.7	134.6	36.2	32.3	1,031.5

[1] Amounts in ALSA have been represented to report subsidies in respect of IFRIC 12 contracts in Spain and Morocco from contract and passenger revenues to grants and subsidies

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 2021 £m**	**Separately disclosed items 2021 £m**	**Segment result 2021 £m**	Underlying result 2020 £m	Separately disclosed items 2020 £m	Segment result 2020 £m
UK	**(19.9)**	**(6.5)**	**(26.4)**	(15.5)	(16.6)	(32.1)
German Rail	**(7.6)**	**(3.9)**	**(11.5)**	(6.3)	(1.1)	(7.4)
ALSA	**17.1**	**(15.8)**	**1.3**	(7.1)	(27.5)	(34.6)
North America	**41.5**	**(21.1)**	**20.4**	7.6	(3.2)	4.4
Central functions	**(8.2)**	**(1.7)**	**(9.9)**	(9.3)	(10.7)	(20.0)
Operating profit/(loss)	**22.9**	**(49.0)**	**(26.1)**	(30.6)	(59.1)	(89.7)
Share of results from associates and joint ventures			**(0.1)**			(0.9)
Net finance costs			**(24.0)**			(31.6)
Loss before tax			**(50.2)**			(122.2)
Tax credit			**26.1**			31.2
Loss for the period			**(24.1)**			(91.0)

In addition to revenue related grants, government grants relating to expenses have also been recognised as a credit within operating expenses totalling £23.0m (2020: £21.1m) in response to the Covid-19 pandemic. These arrangements were designed to provide relief to companies in respect of staff costs for jobs retained amid the pandemic. The principal arrangements are the Coronavirus Job Retention Scheme (CJRS) in the UK, ERTE in Spain and Switzerland and the US CARES Act in North America. The amounts recognised reflect the grants receivable in respect of the period to 30 June 2021 and relate to the costs reclaimable for employees furloughed or retained to the extent that it is reasonably certain that the grant will be received.

4. Net finance costs

	Six months to 30 June 2021 £m	Six months to 30 June 2020 £m	Year to 31 Dec 2020 £m
Bank and bond interest payable	**(15.5)**	(21.0)	(36.3)
Lease interest payable	**(5.3)**	(6.5)	(12.6)
Other interest payable	**(1.4)**	(2.6)	(4.3)
Unwind of discounting	**(1.2)**	(0.6)	(1.6)
Interest cost on defined benefit pension obligations	**(0.9)**	(0.9)	(1.7)
Finance costs before separately disclosed items	**(24.3)**	(31.6)	(56.5)
Separately disclosed items (see note 5)	**(1.3)**	(2.4)	(8.0)
Total finance costs	**(25.6)**	(34.0)	(64.5)
Lease interest income	**0.3**	0.1	0.6
Other financial income	**1.3**	2.3	2.7
Net finance costs	**(24.0)**	(31.6)	(61.2)

5. Separately disclosed items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results.

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.

Those items which relate to the ordinary course of the Group's operating activities remain within underlying results.

5. Separately disclosed items (continued)

The total separately disclosed items before tax for the six months to 30 June 2021 is a net charge of £50.3m (2020: £61.5m). The items excluded from reported profit are:

	Six months to 30 June 2021 £m	Six months to 30 June 2020 £m	Year to 31 Dec 2020 £m
Intangible amortisation for acquired businesses (a)	**(19.4)**	(30.1)	(52.6)
Directly attributable gains and losses resulting from the Covid-19 pandemic (b)	**(18.6)**	(29.0)	(262.5)
Restructuring costs (c)	**(10.1)**	–	(14.0)
Other separately disclosed items (d)	**(0.9)**	–	(1.5)
Separately disclosed operating items	**(49.0)**	(59.1)	(330.6)
Interest charges (e)	**(1.3)**	(2.4)	(8.0)
Total separately disclosed items	**(50.3)**	(61.5)	(338.6)

a) Intangible amortisation for acquired businesses

Consistent with previous periods the Group classifies the amortisation for acquired intangibles as a separately disclosed item by virtue of its size and nature. Its exclusion enables comparison and monitoring of divisional performance by the Group Executive Committee regardless of whether through acquisition or organic growth. Equally it improves comparability of the Group's results with those of peer companies.

b) Directly attributable gains and losses resulting from the Covid-19 pandemic

The pandemic continued to impact the Group throughout 2021 and therefore directly attributable gains and losses due to Covid-19 continue to be separately identified. The net expense of £18.6m (2020: £29.0m) relates to four separately identifiable areas of accounting judgement as follows:

	Six months to 30 June 2021 £m	Six months to 30 June 2020 £m
i) One off costs, cancellation charges and compensation payments	**(4.7)**	(33.4)
ii) Discontinuation of fuel trades	**(0.9)**	(10.6)
iii) Onerous contract provisions and impairment	**(3.1)**	(19.5)
iv) Impairment charges	**(9.9)**	–
v) Re-measurement of the WeDriveU put liability	–	34.5
	(18.6)	(29.0)

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

i) One off costs, cancellation charges and compensation payments (£4.7m expense)

Given the re-imposition of lockdowns at the beginning of the year and the scale back of our service offering, the Group continued to make a number of compensatory payments totalling £3.2m to third party operators in order to maintain and secure the Group's supply base for when demand picks up.

In addition, the Group incurred a further £1.5m of one off charges relating to incremental health and safety costs and penalties whereby the pandemic prevented it from fulfilling certain contractual obligations.

5. Separately disclosed items (continued)

ii) Discontinuation of fuel trades (£0.9m expense)

During the period, hedge accounting was discontinued for a small number of fuel derivatives where volumes were in excess of actual or expected consumption. The majority arose in UK Coach and ALSA following more stringent lockdown measures being implemented in early 2021. This resulted in a £0.9m expense being recycled from other comprehensive income to the income statement and has been recorded as separately disclosable for consistency with the treatment in the prior year.

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 (£3.1m net expense)

During the period, the Group undertook a review of its contracts with customers to firstly establish the re-measurement of previously recognised onerous contract provisions and secondly to identify any new ones. This resulted in a net exceptional credit of £3.5m in the 6 months to June 2021 reflecting overall an improvement in performance against initial expectations at 31 December 2020. Despite this some new onerous contracts were identified, typically where the contract length has been shortened (less time to recover contract losses due to the pandemic) or where recovery has been slower. In conjunction with the review, customer contract intangibles of £2.2m and property, plant of equipment totalling £1.2m were impaired.

In addition, an impairment of £3.2m was recognised with respect to Rhine-Ruhr Express contract costs, where the latest assessment of contract profitability identified a further impairment was required (in addition to the impairment recognised during 2020), after which the contract was assessed to be profitable over the remaining term.

iv) Impairment charges (£9.9m expense)

In addition to the Group's goodwill impairment test and the identification of assets relating to onerous contracts, the Group reviewed its non-current assets. During the period the Group has continued to exit certain contracts or lines of business that were anticipated to be low margin over the medium term and/or that were now considered less strategically relevant. Accordingly, any dedicated assets associated with these contracts or lines of business were identified and assessed for impairment, after first considering if they could be re-used or repurposed.

The overall result of this review was the impairment of £9.4m of customer contracts and property, plant and equipment of £0.5m.

c) Restructuring costs

During the period, the Group incurred £10.1m of costs in respect of group-wide restructuring initiatives and redundancies, as part of the Group's mitigations against the adverse impact of the pandemic on profit and cash.

d) Other separately disclosed items

Other relates to a fine imposed in ALSA relating to tenders between 2011 and 2019. Given this relates to prior periods of which there is no incremental benefit in the current period, we consider this to be a separately disclosed item based on its nature.

e) Interest charges

Interest charges of £1.3m primarily relate to fees associated with the gearing covenant waivers on the Group's US private placement and banking facilities. These 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 2021 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2021. The tax charge of £nil (2020 interim: £9.6m credit) represents an effective tax rate of 24.4% on the underlying result (2020 interim: 15.8%).

Tax credits on separately disclosed items is £26.1m (2020: £21.6m). This is made up of a £7.8m tax credit on tax deductible exceptional costs (2020: £13.8m credit), a £13.4m exceptional tax credit (2020: £nil) and a £4.9m tax credit on intangible amortisation (2020: £7.8m).

The exceptional tax credit of £13.4m relates to the reassessment of the UK deferred tax asset due to the statutory enacted change in the tax rate from 19% to 25% due to happen in 2023. This is a one off tax credit that has been disclosed separately from tax on underlying profits by virtue of its size and nature. The 2020 exceptional costs included a non-taxable credit of £34.5m in relation to the WeDriveU put liability. All other costs within exceptional costs were tax deductible, leading to a proportionally higher tax credit on the net exceptional costs for 2020.

The total tax credit of £26.1m (2020 interim: £31.2m credit) includes a deferred taxation credit of £23.7m (2020 interim: £30.8m credit). Deferred tax asset recoverability has been assessed using the strategic plan projections used for the going concern assessment.

7. Dividends paid and proposed

An interim dividend has not been proposed for the current period (2020 interim: £nil).

8. Earnings per share

	Six months to 30 June 2021	Six months to 30 June 2020	Year to 31 December 2020
Basic earnings per share	**(5.8)p**	(17.3)p	(57.9)p
Underlying basic earnings per share	**(2.1)p**	(9.9)p	(14.6)p
Diluted earnings per share	**(5.8)p**	(17.3)p	(57.9)p
Underlying diluted earnings per share	**(2.1)p**	(9.9)p	(14.6)p

Basic earnings per share is calculated by dividing the loss attributable to equity shareholders of £35.7m (2020 interim: £92.8m loss; 2020 full year: £333.8m loss) 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. Earnings attributable to equity shareholders is inclusive of amounts accruing to the holders of the hybrid instrument and is calculated as follows:

	Six months to 30 June 2021	Six months to 30 June 2020	Year to 31 December 2020
Loss attributable to equity shareholders	**(25.2)**	(92.8)	(331.7)
Accrued payments on hybrid instrument	**(10.5)**	–	(2.1)
Loss attributable to equity shareholders	**(35.7)**	(92.8)	(333.8)

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.

8. Earnings per share (continued)

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

	Six months to 30 June 2021	Six months to 30 June 2020	Year to 31 December 2020
Basic weighted average shares	**613,309,998**	535,600,370	576,031,523
Adjustment for dilutive potential ordinary shares[1]	**–**	–	–
Diluted weighted average shares	**613,309,998**	535,600,370	576,031,523

[1] Potential ordinary shares have the effect of being anti-dilutive and therefore have been excluded from the calculation

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 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Loss attributable to equity shareholders	**(35.7)**	(92.8)	(333.8)
Separately disclosed items	**50.3**	61.5	338.6
Separately disclosed tax	**(26.1)**	(21.6)	(88.7)
Separately disclosed minority interest	**(1.7)**	(0.1)	(0.3)
Underlying loss attributable to equity shareholders[1]	**(13.2)**	(53.0)	(84.2)

[1] Includes amounts accruing to the holders of the hybrid instrument

9. Cash and cash equivalents

	At 30 June 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Cash at bank and in hand	**167.8**	135.7	131.9
Overnight deposits	**0.3**	20.5	49.7
Other short term deposits	**296.3**	429.2	338.9
Cash and cash equivalents	**464.4**	585.4	520.5

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions. These amounts held are not readily available for other purposes within the Group and total £11.8m.

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.
Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

10. Impairment

The impact of Covid-19 is a trigger of potential significant impairment, both in terms of the potential impact on cash flow projections and changes in discount rates. The Group has accordingly performed a formal 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 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
UK	**52.6**	48.2	52.6
North America	**647.4**	722.4	652.7
ALSA	**805.9**	831.0	820.1
Total	**1,505.9**	1,601.6	1,525.4

10. Impairment (continued)

North America and ALSA carry the majority of the Group's goodwill assets. Based on the levels of headroom and sensitivities at December 2020, we consider there to be an indicator of potential impairment for the ALSA division as at 30 June 2021 but not within the North America and UK cash-generating units. As such, only ALSA has been formally reviewed for impairment.

The key assumptions used for the ALSA cash-generating unit is as follows:

	Pre-tax discount rate applied to cash flow projections			Growth rate used to extrapolate cash flows into perpetuity		
	30 June 2021	30 June 2020	31 December 2020	**30 June 2021**	30 June 2020	31 December 2020
ALSA	8.7%	7.6%	8.3%	3.0%	2.6%	3.0%

The key estimates applied in the impairment review are the forecast level of revenue, operating margins and the proportion of operating profit converted to cash in each year and into perpetuity (the "terminal value"). Forecast revenue and operating margins are based on past performance and management's expectations for the future, including an estimate of the continuing impact of the Covid-19 pandemic, competitive pressures and the concession renewal process. The growth rate has been consistently applied in the impairment review based on current forecasts and long-term country specific GDP growth rates. The cash flows are discounted using pre-tax rates that are calculated from country-specific weighted average cost of capital (WACC), principally derived from external sources. Capital expenditure is projected over the first five years using a detailed, contract-by-contract level forecast of the capital requirements of the Group for new and replacement vehicles and other assets. In the extrapolation of cash flows into perpetuity, capital expenditure is assumed to be a 1:1 ratio to depreciation.

The value in use of the ALSA division exceeds its carrying amount by £190.8m (2020 interim: £264.5m, 2020 full year: £266.8m). This reduction is due to an increase in the discount rate; prior to discounting, the future cash flow projections are broadly unchanged from the previous assessment.

Sensitivities to key and other assumptions

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% (2020 interim: 0.9%; 2020 full year: 1.1%) or a reduction in growth rates used to extrapolate cash flows into perpetuity of 0.9% (2020 interim: 0.9%; 2020 full year: 1.1%).

A reduction in ALSA's operating profit margin of 1.3% (2020 interim: 1.5%; 2020 full year: 1.6%) 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 reasonable possible changes in the key assumptions would have on the recoverable amount of the ALSA division. In combination, a 20% reduction in the cash flows in 2021 and 2022, a 1.0% reduction in the long term growth rate and a 1.0% increase in the pre-tax discount rate would lead to a £169m impairment in ALSA.
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. The Directors have therefore concluded 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 2021 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, which will mature in August 2021.

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 financial assets at fair value through other comprehensive income. There has not been a significant change in the sensitivities disclosed in the 2020 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.

The Group applies relevant hedge accounting to the majority of its derivatives outstanding as at 30 June 2021. During the period, hedge accounting was discontinued for a small number of fuel derivatives where volumes were in excess of actual or expected consumption. The majority arose in UK Coach and ALSA following more stringent lockdown measures being implemented in early 2021.
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 £0.9m in the period, as further described in note 5.

Reflecting the adjustments to hedged volumes for 2021, the average fuel price for 2021 is 38.0 pence per litre. The Group is currently around 70% hedged for 2022 at an average price of 30.7p, and around 40% hedged for 2023 at an average price of 31.2p.
Derivative financial assets and liabilities on the balance sheet are as follows:

	At 30 June 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Fuel derivatives	**9.5**	–	0.4
Interest rate derivatives	**–**	2.7	–
Cross currency swaps	**9.1**	0.6	1.0
Non-current derivative financial assets	**18.6**	3.3	1.4
Fuel derivatives	**12.0**	–	0.4
Interest rate derivatives	**0.8**	0.6	1.5
Cross currency swaps	**2.3**	1.8	2.2
Foreign exchange derivatives	**9.6**	9.6	40.8
Current derivative financial assets	**24.7**	12.0	44.9
Fuel derivatives	**–**	(24.4)	(3.9)
Cross currency swaps	(7.2)	(1.2)	(6.7)
Non-current derivative financial liabilities	**(7.2)**	(25.6)	(10.6)
Fuel derivatives	**(1.2)**	(14.5)	(17.0)
Foreign exchange derivatives	**(7.7)**	(39.8)	(6.0)
Current derivative financial liabilities	**(8.9)**	(54.3)	(23.0)

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 2021 was £5.4m (2020 interim: £5.4m; 2020 full year: £11.2m), of which £3.0m (2020 interim: £3.2m; 2020 full year: £6.7m) relates to the defined contribution schemes.

12. Pensions and other post-employment benefits (continued)

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

	At 30 June 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
UK	**(104.6)**	(142.7)	(141.6)
Company	**11.7**	13.8	12.3
Other	**(3.1)**	(6.1)	(5.8)
Total	**(96.0)**	(135.0)	(135.1)

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

	Six months ended 30 June 2021		Year ended 31 December 2020	
	UK	**Company**	UK	Company
Rate of increase in salaries	**2.5%**	**–**	2.5%	–
Rate of increase in pensions	**2.7%**	**3.2%**	2.4%	2.9%
Discount rate	**1.8%**	**1.9%**	1.3%	1.4%
Inflation rate (RPI)	**3.3%**	**3.2%**	3.0%	2.9%
Inflation rate (CPI)	**2.7%**	**2.6%**	2.4%	2.3%

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

	Six months ended 30 June 2021		Year ended 31 December 2020	
	UK	**Company**	UK	Company
Effect of a 0.5% increase in pensions in payment	**(25.8)**	**–**	(27.6)	–
Effect of a 0.5% increase in the discount rate	**33.7**	**–**	35.8	–
Effect of a 0.5% increase in inflation	**(29.9)**	**–**	(32.0)	–
Effect of a 1 year increase in mortality rates	**(17.2)**	**–**	(18.5)	–

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK and Company schemes, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

13. Business Combinations

(a) Acquisitions – ALSA

On 22 June 2021, the ALSA division acquired 100% control of Transportes Rober group, a provider of urban bus services in Granada, Spain.

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

	£m
Property, plant and equipment	**0.5**
Inventory	**0.4**
Trade and other receivables	**24.9**
Cash and cash equivalents	**0.2**
Deferred tax asset	**0.8**
Borrowings	**(2.0)**
Trade and other payables	**(16.9)**
Provisions	**(0.6)**
Net assets acquired	**7.3**
Goodwill	**19.5**
Total consideration	**26.8**
Represented by:	
Cash consideration	**21.2**
Deferred consideration	**5.6**
	26.8

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 intangible assets and provisions acquired.
Trade and other receivables had a fair value and a gross contracted value of £24.9m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £19.5m 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 ALSA, along with synergy and growth benefits expected to be achieved in consolidating the regional and urban bus market in Granada. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £5.6m. The Group is required to pay contingent consideration on renewal of contracts and other post-closing conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £5.6m. 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 £2.7m of revenue and £0.2m profit 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 revenue would have been £1,006.1m and the Group's statutory operating loss would have been £27.9m.

(b) Acquisitions – further information

Deferred consideration of £0.6m was paid in the period relating to acquisitions in the ALSA in earlier years. Total cash outflow in the period from acquisitions in the ALSA division was £21.6m, comprising consideration for current year acquisitions of £21.2m and deferred consideration of £0.6m, less cash acquired in the businesses of £0.2m.

In North America and UK deferred consideration of £2.5m and £2.3m respectively was paid in the period relating to acquisitions in earlier years.

Transaction costs of £0.1m were incurred in the period to 30 June 2021 (2020 interim: £0.4m).

During the period to 30 June 2021, the movement in the Group's carrying value of goodwill principally relates to the acquisition of Transportes Rober and foreign exchange.

14. Net debt

	At 1 January 2021 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2021 £m
Components of financing activities						
Bank and other loans[1]	**(23.5)**	(61.8)	(2.0)	0.7	(0.3)	(86.9)
Bonds	**(647.0)**	–	–	–	(0.2)	(647.2)
Fair value of interest rate derivatives	**1.0**	–	–	–	(0.8)	0.2
Fair value of fx forward contracts	**4.6**	(10.4)	–	3.4	–	(2.4)
Cross currency swaps	**(5.7)**	–	–	7.5	–	1.8
Net lease liabilities[2]	**(311.3)**	45.8	–	3.0	(10.6)	(273.1)
Other debt payable	**(476.8)**	–	–	12.3	0.7	(463.8)
Total components of financing facilities	**(1,458.7)**	(26.4)	(2.0)	26.9	(11.2)	(1,471.4)
Cash	**131.9**	40.5	0.2	(4.8)	–	167.8
Overnight deposits	**49.7**	(49.4)	–	–	–	0.3
Other short-term deposits	**338.9**	(42.2)	–	(0.4)	–	296.3
Cash and cash equivalents	**520.5**	(51.1)	0.2	(5.2)	–	464.4
Other debt receivables	**1.2**	(0.9)	**–**	**(0.1)**	**–**	0.2
Remove: fair value of fx forward contracts	**(4.6)**	10.4	**–**	**(3.4)**	**–**	2.4
Net debt[3]	**(941.6)**	(68.0)	(1.8)	18.2	(11.2)	(1,004.4)

[1]Net of arrangement fees totalling £1.9m on bank and other loans
[2] Includes finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet
[3] Excludes accrued interest on long-term borrowings

	At 1 January 2020[4] £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2020[4] £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]	(385.0)	49.0	(4.0)	(19.1)	(8.7)	(367.8)
Other debt payable	(68.3)	(405.9)	–	(13.6)	0.4	(487.4)
Total components of financing facilities	(1,725.1)	(105.0)	(15.3)	(50.9)	(21.6)	(1,917.9)
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]	(1,224.0)	(26.5)	(10.1)	(38.8)	(23.4)	(1,322.8)

[1]Net of arrangement fees totalling £2.4m on bank and other loans
[2] Includes finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet
[3] Excludes accrued interest on long-term borrowings
[4] Lease liabilities has been represented to reclassify IFRIC 12 liabilities of £17.5m from borrowings to trade and other payables consistent with the 2020 Annual Report

Borrowings include non-current interest bearing loans and borrowings of £1,319.3m (2020 interim: £1,436.7m; 2020 full year: £1,313.0m).

Other non-cash movements represent lease additions and disposals of £10.6m (2020 interim: £8.7m), no change in the value of cross currency swaps (2020 interim: £13.4m reduction) and £0.5m loan and bond arrangement fee amortisation (2020 interim: £1.0m). A £0.8m 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.

15. Cash flow statement

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

	Six months to 30 June 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Net cash inflow from operating activities			
Loss profit before tax	**(50.2)**	(122.2)	(444.7)
Net finance costs	**24.0**	31.6	61.2
Share of results from associates and joint ventures	**0.1**	0.9	2.1
Depreciation of property, plant and equipment	**99.4**	112.0	223.6
Intangible asset amortisation	**26.7**	37.0	69.0
Amortisation of fixed asset grants	**(1.4)**	(1.5)	(2.9)
Separately disclosed operating items[1]	**29.6**	29.0	278.0
Gain on disposal property, plant and equipment	**(0.3)**	(0.6)	(8.7)
Gain on disposal of intangible assets	**(0.7)**	–	(2.3)
Share-based payments	**–**	1.6	0.2
(Increase)/decrease in inventories	**(0.3)**	2.3	2.9
(Increase)/decrease in receivables	**(0.5)**	12.9	56.6
Increase/(decrease) in payables	**1.7**	(140.5)	(122.7)
Decrease in provisions	**(9.1)**	(18.2)	(22.9)
Cash flows relating to separately disclosed operating items	**(33.6)**	(38.7)	(120.4)
Cash generated from operations	**85.4**	(94.4)	(31.0)

[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 2021 were £53.3m (2020 full year: £97.1m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £5.4m (2020 full year: £7.3m) relating to certain joint ventures.

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 2021, the Group has performance bonds in respect of businesses in the US of £181.7m (2020 full year: £165.3m), in Spain of £84.5m (2020 full year: £106.7m), in Germany of £30.6m (2020 full year: £32.0m) and in the Middle East of £5.8m (2020 full year: £6.0m). Letters of credit have been issued to support insurance retentions of £130.7m (2020 full year: £117.2m).

Covid-19 claims

The Group's claim reserve include a provision for employee compensation claims as a consequence of the Covid-19 pandemic. In addition the Group could be exposed to potential claims from the general public as a consequence of the pandemic. However, as yet no general public claims have been received and therefore it is not possible to reliably estimate what, if any, liability could arise.

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's 2020 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 2021.

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 2021 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-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

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 Financial Reporting Council 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 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 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report
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
Birmingham, United Kingdom
29 July 2021