Press release

24 July 2013

National Express Group PLC
Half Year Results for the six months ended 30 June 2013

National Express Group PLC ("National Express" or "the Group") is a leading international public transport operator, with bus, coach and rail services in the UK, Continental Europe, North Africa and North America.

Overview
National Express' first Half Year has seen a record performance in non-rail profit. This has helped mitigate significant headwinds and the end of a rail contract. This performance has been augmented by a particularly successful six months securing new contracts and starting new services.

The first Half Year has seen National Express successfully:

- Secure £1.7 billion of contract wins, including: two German Rail services; four US Transit services; bus services in Tangiers; and a new Luton Airport-London Victoria coach service.
- Integrate the Petermann acquisition in North America with the school bus business now running at nearly double the 2009 operating margin.
- Deliver revenue growth in Spain and Morocco, including profitable new services in Guadalajara and Bilbao.
- Extend the c2c rail franchise until September 2014 and be shortlisted for the Crossrail contract.
- Deliver nearly 10% passenger growth on the core National Express coach network.

Financial highlights

	H1 2013 £m	H1 2012 £m
Revenue	**956.7**	934.1
Non-rail operating profit	**92.4**	90.0
Group operating profit	**97.2**	105.5
Group pre-tax profit	**71.8**	82.0
Statutory profit before tax	**34.3**	39.8
Dividend	**3.25p**	3.15p

- Record non-rail performance in revenue and operating profit for the first Half Year.
- Non-rail revenue up 10% and operating profit up 2.7%.
- Substantially mitigated significant headwinds of nearly £20 million of cost inflation, the ongoing impact from government cuts and the end of the National Express East Anglia (NXEA) rail franchise in 2012.
- Delivered over £90 million of free cash flow in the first Half Year and increased Full Year target to £150 million.
- Group net debt reduced to £809.4 million (31 December 2012: £828.2m).
- Interim dividend increased 3% to 3.25 pence per share (2012: 3.15p).
- National Express remains on track to reduce its net debt to its target of 2x EBITDA by the end of 2014.

Dean Finch, National Express Group Chief Executive, said:
"*In tough trading conditions National Express has continued to make real strides at home and abroad. We have had to address some significant headwinds in our existing markets while continuing to build a strong pipeline of new business opportunities. Our commitment to operational excellence has helped us to secure £1.7 billion in new contract wins in the past six months alone. And our recent successes in Germany demonstrate that we are well placed to benefit from further liberalisation in Europe.*

"We are determined to make further progress on our debt reduction target and are pleased by our excellent cash generation. Our focus remains on delivering both excellent services for our customers and returns for our shareholders in the months and years to come."

Enquiries

National Express Group PLC	
Jez Maiden, Group Finance Director	0121 460 8657
Stuart Morgan, Head of Investor Relations	0121 460 8657
Anthony Vigor, Director of Policy and External Affairs	07767 425822
Maitland	
Neil Bennett/ Rebecca Mitchell	0207 379 5151

Definitions

Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: statutory result excluding charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

EBITDA is 'Earnings Before Interest, Tax, Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.

Free cash flow measures the cash generated after paying all non-discretionary payments such as interest and tax, but before discretionary items, such as growth and exceptional investments, acquisitions and dividends. A reconciliation is set out in the Financial Review.

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

BUSINESS REVIEW

Overview

The first half of 2013 has continued to be successful for National Express. Our non-rail businesses all delivered revenue growth and have achieved a new record operating profit. We have extended our remaining UK rail franchise and secured 15 year rail contracts in Germany. We generated over £90 million in free cash flow. We have created a pipeline of new business opportunities, adding contracts and services worth £1.7 billion in lifetime revenue.

We delivered revenue and profit[1] performance in line with our expectations. At the start of 2013, we recognised the challenging headwinds we faced this year – over £15 million of fuel price inflation, ongoing impact from austerity cuts to government rebates and concessions, and the loss of contribution from National Express East Anglia (NXEA), following the end of this rail franchise in 2012. As a result, operating margins have reduced in all divisions except UK Coach, with the Group margin at 10.2% (2012: 11.3%). However, in non-rail, the growth in revenue in every division has delivered an overall increase in operating profit to £92.4 million (2012: £90.0m).

Highlights in the first half year have included:

- 10% increase in reported non-rail revenue
- Successful integration of our Petermann school bus acquisition in North America
- Profitable new contracts in Spain and Morocco, offsetting domestic economic weakness
- Extension of our c2c rail franchise and being shortlisted for the Crossrail contract bid
- Almost 10% passenger growth in UK Coach
- Clear progress in expanding our new businesses, including bid wins in US Transit and German Rail, and new coach services launched in Germany
- £93 million of free cash flow[1], with debt reduced and dividend increased by 3%.

Following a successful first half of the year, the outlook for the second half of the year is to continue in line with our previous expectations. With passenger demand generally stable or improving, we will continue to strengthen our pipeline of new business opportunities and launch new services and contracts across our business portfolio. We are on course to deliver £150 million of free cash flow from the Group in 2013, at the upper end of our previous target. 2014 will bring a better fuel cost environment, with hedging already in place at unchanged prices on 2013; progressive revenue growth from our initiatives and investments in our existing divisions; and a growing revenue stream from new business opportunities. Our free cash generation is expected to continue above £150 million, targeting to reduce debt to two times EBITDA by the end of 2014 and improving our return on capital.

Revenue and profit performance

Reported Group revenue increased by 2% to £956.7 million (2012: £934.1m) and non-rail revenue increased by 10%. All non-rail divisions showed growth, with Spain 3% higher in local currency as new urban contracts in Spain and growth in Morocco offset weaker intercity coach revenue. North America grew strongly with the benefit of a full period of Petermann revenue, and UK Bus and UK Coach have both seen recent increases in commercial passenger volume. This provides a solid foundation for future growth, in line with our strategy, set out below.

Revenue in Sterling terms by division was as follows:

Revenue	First half 2013 £m	2012 £m	Change %
Spain	272.1	256.9	6
North America	358.0	299.5	20
UK Bus	134.8	133.5	1
UK Coach	121.7	120.0	1
Corporate	0.2	(1.0)	–
Total non-rail	886.8	808.9	10
Rail	69.9	125.2	(44)
Group	956.7	934.1	2

Normalised operating profit from non-rail operations, the core of the Group's business, grew to £92.4 million (2012: £90.0m). This reflected profit growth in North America from the Petermann acquisition and from foreign currency translation. Spain saw a small reduction in profit despite austerity pressure. UK Coach improved profit and margin in the first half of the year through revenue growth and cost efficiencies. UK Bus also partially offset profit headwinds, from a lower fuel duty rebate (BSOG) and a pension accounting standard change, with a progressive improvement in revenue growth. Overall, our non-rail businesses made further progress on the record profit level seen in 2012.

Normalised operating profit	First half 2013 £m	2012 £m	Full year 2012 £m
Spain	34.6	35.4	83.8
North America	41.6	36.9	59.1
UK Bus	15.0	17.2	34.1
UK Coach	7.8	6.3	20.6
Corporate	(6.6)	(5.8)	(12.4)
Total non-rail operating profit	92.4	90.0	185.2
Rail	4.8	15.5	26.7
Group operating profit	97.2	105.5	211.9

Rail operating profit declined to £4.8 million (2012: £15.5m), reflecting the ending of the NXEA rail franchise during 2012. Group operating profit was £97.2 million (2012: £105.5m), giving an operating margin of 10.2% (2012: 11.3%). Normalised profit before tax was £71.8 million (2012: £82.0m). Statutory profit for the period was £28.7 million (2012: £32.1m).

Dividend

With the continued strength of our non-rail earnings, we have increased the interim dividend by 3% to 3.25 pence per share (2012: 3.15p). Our policy is to pay a dividend at least two times covered by non-rail earnings per share (EPS) in the full year. First half year normalised basic non-rail EPS increased to 10.1 pence (2012: 10.0p). The dividend will be payable on 20 September 2013 to shareholders on the register at close of business on 6 September 2013.

Delivering our strategy

Our strategy focuses on three key steps:

1. Achieving operational excellence and delivering organic growth in our existing businesses

2. Generating superior cash flow and return on capital

3. Creating new business opportunities from our unique blend of assets.

1. Achieving operational excellence and delivering organic growth

The first step of our strategy is to achieve operational excellence and deliver organic growth from our existing businesses. We have seen revenue growth in every business in the half year, after adjusting for the end of the NXEA rail franchise, despite ongoing austerity and severe weather in the first quarter. Total revenue in the core bus and coach operations has grown by 10% through a combination of service improvement, contract wins and selective acquisitions. Our order book of contract and concession revenue in North America, Spain and Rail is worth over £5.3 billion, alongside our recurring passenger UK Bus and Coach revenues of over £500 million per annum.

Across the Group we are driving improved revenue through pricing and volume growth. In UK Coach we have reduced many ticket prices and seen nearly 10% growth in passengers as a result. New contracts, such as Luton Airport, and access to customers via new sales channels, such as Ryanair, will drive further growth. At the same time, the division is cutting its cost base, working in partnership with its operators. Following the adverse impact from the withdrawal of the senior citizen concession scheme in 2012, we are rebuilding our margin in this capital-light business.

In UK Bus, commercial and concession revenues are growing. Marketing of travelcards to colleges and businesses, sustained investment in new fleet and our partnership with Centro in 'Transforming Bus Travel', together with the introduction of real time vehicle information and mobile apps, are all supporting volume growth. The domestic Spanish economy and regulatory environment remain challenging but the Alsa business has the flexibility to adjust operations where required and mitigate the margin impact, whilst growing through new contracts. The first half of the year saw the successful start-up of urban bus operations in Guadalajara and Alsa has now fully integrated last year's low cost acquisition in Bilbao so that operations are significantly improved. Morocco is generating revenue growth of 23% and offers further new contract opportunities.

In North America our Petermann acquisition, completed in May of last year, has been fully integrated. Synergies have met the target and the business has contributed a good contract portfolio, along with an excellent management team. We have retained school bus contracts at improved prices and secured eight profitable conversion contracts to add to last year's eight. Having nearly doubled its margin since 2009, the school bus business is focused on improving its return on capital, targeting more defensible, relationship-based contracts and improving capital allocation. As a result, operating cash generation is strong and North America will have funded the Petermann acquisition in just two years.

Our growth continues to be supported by operational excellence. In the first half of 2013 we have delivered £15 million in synergy benefits and cost efficiencies across the Group. UK Bus has achieved key changes to working practices to support changing passenger needs, supported by automatic vehicle location and smartcard technologies to improve customer service and drive record punctuality. c2c continues to deliver industry-leading punctuality. In North America, our investment in vehicle location and scheduling software has delivered efficiencies through better route scheduling.

We continue to support operational excellence through our focus on our core values - safety, customers, employees and community - creating a platform for a sustainable future. In May, UK Bus reported its first month without a single lost time injury, reflecting improving safety trends and reduced costs across the Group from our 'Driving Out Harm' programme, launched in 2010. Customer satisfaction is strong across the Group – 96% contract retention in school bus, 90% passenger satisfaction in Midland Metro and 93% for c2c in the UK rail National Passenger Survey, the highest in the UK rail sector. Employee satisfaction is increasing in every division, with the US reporting a record level of 86% satisfaction, up for the third year in a row. I would like to acknowledge the efforts and commitment of our employees in helping to achieve these improvements, for delivering our vision to earn the lifetime loyalty of our customers and for supporting the communities in which we work.

2. Generating superior cash flow and return on capital

National Express is focused on cash generation. Our free cash flow pays dividends to shareholders, funds future growth and reduces debt. Following a successful first half of the year, we have increased our target free cash generation, from a minimum of £125 million, to £150 million for each of 2013 and 2014. We also reaffirm our target gearing of two times EBITDA by the end of 2014. Finally, we are targeting our capital carefully in order to grow the business and deliver a superior return on capital. We believe this will provide a clear improvement in shareholder returns in the future.

Operating cash flow in the first six months was £133.1 million (2012: £131.7m), representing 137% conversion of operating profit. Working capital reduced by £28 million. We invested £43 million in over 300 new vehicles to renew our fleet, ensuring that we maintain an appropriate fleet age and drive additional patronage through newer, better vehicles. At the same time, our investment requirement in North America has been reduced by our programme of targeting improved capital returns from school bus contracts, whilst we anticipate deferral of some capital investment in Spain due to the delay in the concession renewal process. The capital-light nature of our UK Coach, Rail and growth businesses of Transit and German Coach also reduces our investment needs. As a result, we expect annual replacement capital investment to be below £100 million in 2013 and 2014.

Free cash flow generated in the first six months of 2013 was £93.1 million (2012: outflow £1.7m). This funded payment of dividends, together with exceptional costs to invest in new business development of £5.8 million, which will generate future returns. Despite the reduction in rail profitability, our gearing remained at 2.5 times EBITDA and our debt decreased to £809.4 million from £828.2 million at the end of 2012. We will continue to drive this down and are targeting to achieve two times gearing by the end of 2014.

3. Creating new business opportunities

We are strengthening our pipeline of new business opportunities and in the period we secured £1.7 billion of total revenue from additional contracts and services. We are entering adjacent markets in existing geographies and taking our successful operations into new geographies. Most of these markets are capital-light, with the customer or public authority funding capital, supporting our cash generation focus. Since establishing our business development programme just 12 months ago, we have created a strong pipeline of opportunities, with regular contract wins and are establishing new businesses.

During the first half of 2013 we have developed the following opportunities:

- **US Transit**: we have now won four contracts this year worth over $15 million in annual revenue, extending our footprint to seven states in the US in the core Paratransit, Shuttle and Fixed Route markets. Overall, the annual revenue of our Transit business has increased to over $75 million and we have an active pipeline worth over $200 million in annual revenue;
- **German Rail**: we have now begun the mobilisation of the two German rail contracts secured earlier this year, which will run for 15 years from December 2015, having procured a new fleet of 35 Bombardier trains on behalf of our customer, the regional authority. We are continuing to bid regional rail contracts in selected regions in Germany with an attractive pipeline of contracts;
- **UK Rail:** having secured the extension to c2c, we are now focusing on the long-term tender for that franchise expected later this year. We support the recommendations of the Brown report on the future structure of the UK rail industry and believe that UK rail can, in the right circumstances, offer profitable future franchises. We are pleased to have been

shortlisted by Transport for London (TfL) to bid for its Crossrail contract, having demonstrated our capabilities as a high quality commuter and metropolitan rail operator;
- **New contracts and concessions**: in addition to new contracts in Guadalajara, Luton Airport and with Ryanair, we have been selected as preferred bidder to operate the urban bus service in Tangiers, Morocco, a 10 year contract with expected total revenue over that period of €125 million that should commence in early 2014;
- **German Coach**: operations in Germany started in April, based on the UK Coach model of outsourced service provision and using the Alsa website and booking systems. We now serve Frankfurt, Munich, Hamburg, Cologne and Dusseldorf.

In addition, we are exploring opportunities in selected markets internationally, where the Group's proven expertise as a public transport operator is attractive to authorities considering either liberalisation or new public transport services. We are excited by our business development pipeline which provides good opportunities into the medium term.

Dean Finch
Group Chief Executive
24 July 2013

FINANCIAL REVIEW

Revenue

Group revenue for the period was £956.7 million (2012 £934.1m), an increase of 2%. Growth in our bus and coach operations has successfully replaced reduced revenue in UK Rail, following the end of the NXEA franchise in February 2012.

Overall revenue in the period increased by 7% in constant currency and excluding rail franchises no longer operated, reflecting robust organic growth and the acquisition of the Petermann school bus business in North America in May 2012 and is summarised below (all tables have been rounded to the nearest million):

	£m	Change
2012 first half year revenue	934	
Rail franchises no longer operated	(57)	
2012 revenue adjusted for rail franchise exit	877	
Acquisitions	54	6%
Organic growth	12	1%
2013 revenue at constant currency	943	7%
Currency translation	14	
2013 first half year revenue	957	

Normalised profit

Normalised operating profit decreased by £8.3 million to £97.2 million (2012: £105.5m). Excluding the impact of rail franchises no longer operated, operating profit increased by £2 million as we successfully offset rising fuel and other inflation through revenue growth and cost efficiency savings, driven by our focus on operational excellence, as follows:

	£m
2012 first half year normalised operating profit	106
Rail franchises no longer operated	(11)
Changes to government subsidies	(2)
Pension accounting change	(1)
General cost inflation	(11)
Fuel price inflation	(8)
Reduction in discretionary routes in School Bus	(3)
Growth from acquisitions	3
Revenue growth (organic)	9
Synergy and cost efficiency savings	15
Currency translation	2
Other	(2)
2013 first half year normalised operating profit	97

Net finance costs increased to £25.8 million (2012: £24.0m), reflecting a higher level of debt post Petermann acquisition and a cash unwind from rail franchises no longer operated. With associate income of £0.4 million (2012: £0.5m), normalised profit before tax was £71.8 million (2012: £82.0m), as follows:

	Half year ended 30 June		Full year
	2013 £m	2012 £m	2012 £m
Revenue	956.7	934.1	1,831.2
Operating costs	(859.5)	(828.6)	(1,619.3)
Normalised operating profit	97.2	105.5	211.9
Share of results from associates	0.4	0.5	1.4
Net finance costs	(25.8)	(24.0)	(49.2)
Normalised profit before tax	71.8	82.0	164.1

The Group's effective tax rate was 22.5% (2012: 21.5%). It is expected that an effective rate of around 23% can be sustained in the medium term, subject to any future legislative changes. Normalised basic EPS were 10.8 pence (2012: 12.6p).

Non-rail earnings and dividend

Normalised operating profit from our bus and coach operations in the period increased to £92.4 million (2012: £90.0m), reflecting our successful focus on our non-rail businesses. Unlike rail franchises, we own these in perpetuity and believe that our core dividend should be financed only from these earnings. Future rail profits can then be returned to shareholders incrementally.

	Half year ended 30 June		Full year
	2013 £m	2012 £m	2012 £m
Normalised operating profit:			
Non-rail	92.4	90.0	185.2
Rail	4.8	15.5	26.7
Group	97.2	105.5	211.9
Normalised basic EPS:			
Non-rail	10.1	10.0	21.6
Rail	0.7	2.6	3.9
Group	10.8	12.6	25.5

The Group has a policy to pay a dividend at least two times covered by non-rail earnings in the full year. The interim dividend for 2013 has been increased by 3% to 3.25 pence per share (2012: 3.15p). Non-rail normalised basic EPS in the first half of 2013 were 10.1 pence (2012: 10.0p).

Statutory profit for the period

The Group invested £11.4 million in exceptional items in the period (2012: £16.3m). Acquisition and integration costs totalled £3.1 million, primarily to complete the Petermann integration and to realise synergies. One-off redundancy and rationalisation expenditure was £2.5 million, including closure of a depot in UK Coach and a call centre in UK Bus.

Within exceptional items, business development expenditure totalled £5.8 million. National Express is investing to create new bus and coach opportunities internationally, alongside bids in UK and German rail. The Group's policy is to charge development costs for new businesses to exceptional items until such time as a revenue stream has been created, from which time the business bears its own development costs as part of normalised profit. Consequently, business development costs in North America (school bus and transit), UK Bus and Coach, Spain and Morocco are all charged to normalised profit. Exceptional expenditure in the first half of the year was incurred in German Rail, German Coach (until the launch of the business in April 2013), international bid opportunities and in UK Rail; the latter is charged to exceptional items as the scale of potential bidding costs is material relative to the profit generated by the Group's only UK rail franchise, c2c. The Group expects to invest a total of £14 million in business development charged to exceptional items in 2013 as a whole, which should generate significant future earnings potential for National Express and its shareholders.

Intangible amortisation was broadly unchanged at £26.1 million (2012: £25.9m). Statutory profit for the period was £28.7 million (2012: £32.1m), as shown below. Basic EPS were 5.5 pence (2012: 6.2p).

	Half year ended 30 June		Full year
	2013 £m	2012 £m	2012 £m
Normalised profit before tax	71.8	82.0	164.1
Exceptional items	(11.4)	(16.3)	(42.6)
Intangible amortisation	(26.1)	(25.9)	(51.7)
Profit before tax	34.3	39.8	69.8
Tax charge	(5.6)	(7.7)	(8.5)
Profit for the period	28.7	32.1	61.3

Cash management and debt

The Group's core bus and coach operations are strong cash generators. The Group is increasing its target for free cash flow in each of 2013 and 2014 from the previous guidance of at least £125 million to £150 million. With limited capital required to achieve our growth plans, this will support delivery of the Group's target gearing to 2.0 times EBITDA by the end of 2014.

In the first half of the year, operating cash flow was £133.1 million (2012: £131.7m), a conversion rate of 137% of operating profit. Operating cash flow comprised EBITDA of £153.6 million (2012: £157.4m); net replacement capital expenditure of £43.3 million, which included the replacement of over 300 vehicles, supported by selected operating leases; and a reduction in working capital of £27.6 million (2012: £17.4m) through a range of cash collection initiatives from contracts in Spain and North America. Receivables in Spain continued to improve; at 30 June 2013 amounts due from public bodies were €22 million (31 December 2012: €35m), reflecting this strong control.

Free cash flow is a key performance metric for the Group. The period saw £93.1 million generated out of a full year target of £150 million (2012: £1.7m outflow).

	Half year ended 30 June		Full year
	2013 £m	2012 £m	2012 £m
Normalised operating profit	97.2	105.5	211.9
Depreciation and other non-cash items	56.4	51.9	109.3
EBITDA	153.6	157.4	321.2
Net replacement capital expenditure	(43.3)	(38.2)	(108.6)
Reduction in working capital	27.6	17.4	6.7
Pension deficit contributions	(4.8)	(4.9)	(9.7)
Operating cash flow	133.1	131.7	209.6
Payments to associates and minorities	(0.4)	(9.5)	(8.2)
Net interest paid	(35.2)	(36.2)	(47.3)
Tax paid	(3.0)	(5.5)	(13.3)
Rail franchises no longer operated	(1.4)	(82.2)	(87.0)
Free cash flow	93.1	(1.7)	53.8

The Group invests its free cash flow in growth capital projects; exceptional items, as described above, to reduce future costs and generate new business opportunities; and acquisitions, net of disposals. Growth capital investment was limited, reflecting the Group's focus on improving return on capital employed and its capital-light opportunity portfolio, and there were no significant acquisitions.

With a final dividend payment of £33.7 million (2012: £33.1m), the net inflow of funds in the period after foreign exchange movements was £18.8 million (2012 outflow: £196.0m) and net debt reduced to £809.4 million (31 December 2012: £828.2m).

	Half year ended 30 June		Full year
	2013 £m	2012 £m	2012 £m
Free cash flow	93.1	(1.7)	53.8
Net growth capital expenditure	(1.6)	(9.0)	(16.8)
Exceptional cash flow	(12.9)	(16.3)	(40.7)
Acquisitions and disposals	(2.2)	(146.9)	(157.8)
Dividends	(33.7)	(33.1)	(49.3)
Other, including foreign exchange	(23.9)	11.0	16.3
Net funds flow	18.8	(196.0)	(194.5)

Debt and treasury risk management
The Group has maintained a prudent approach to its financing and is committed to an investment grade rating on its debt. The Board's policy targets a level of debt that allows for disciplined investment and ample headroom on its covenants. This long-term policy is to maintain net debt to EBITDA at a ratio of between 2.0x to 2.5x in the medium term. In addition, as part of its strategy to increase shareholder returns through cash generation, the Group is targeting to reduce the gearing ratio to 2.0 times by the end of 2014.

The Group's key accounting debt ratios at 30 June 2013 were as follows:

- Gearing ratio: 2.5 times EBITDA (31 December 2012: 2.5x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 6.3 times interest (2012: 6.9x; bank covenant not to be less than 3.5x).

In line with our policy, the majority of our debt is funded from non-bank sources with long maturity. At 30 June 2013, this represented £793 million of funding, primarily from two Sterling-denominated bonds, comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, a private placement of €78 million maturing in 2021 and £156 million of finance leases. The residual debt balance is funded from the Group's £500 million revolving credit facility (RCF). At 30 June 2013, the Group had £499 million in cash and undrawn committed facilities available.

Subsequent to the end of the first half of 2013, National Express renewed its RCF, replacing the previous £500 million facility, which had been due to mature in 2014, with a £410 million facility, maturing in 2018. The Group reduced the size of the facility, which is primarily used for seasonal funding requirements, in light of its lower debt forecast. Following strong demand from its banking group, the margin on the new RCF was reduced to 1.1% over LIBOR (the previous facility was priced at a margin of 1.75%).

At 30 June 2013, the Group had foreign currency debt and swaps held as net investment hedges; these help mitigate volatility in foreign currency translation of profit with corresponding movements in the Sterling value of debt. These corresponded to 2.2 times

EBITDA earned in the US, held in US Dollars, and 2.1 times EBITDA earned in Spain, held in Euros.

The Group hedges its exposure to interest rate movements to maintain a 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. The net effect of these transactions was that, at 30 June 2013, the proportion of Group debt at floating rates was 37%.

Pensions
The Group's principal defined benefit pension schemes are all in the UK. These schemes had a combined deficit under IAS19 at 30 June 2013 of £13.3 million (31 December 2012: £19.3m). The Group has previously reached agreement with the trustees of its key schemes which have fixed the deficit payments, under most eventualities, to just under £10 million per annum until 2017, calculated on a scheme funding basis. For the UK Group scheme, this plan envisages employer contributions of £4.2 million per annum from January 2011 for just over six years. This follows closure of the scheme to new accrual in January 2011 and is planned to bring the fund to a 'self sufficiency' level, whereby the trustees would no longer be reliant on the Group for deficit funding. Deficit payments for the West Midlands Bus scheme are set at £5.5 million per annum, with this scheme remaining open to accrual for pre-1992 active members only. In addition, the majority of future payments for existing pensioners of this scheme have been secured through an insurance buy-in to the scheme.

Fuel costs
Non-rail fuel cost represents approximately 10% of related revenue. The Board's policy is to hedge fully a minimum of 15 months of its addressable consumption against movements in price in all businesses, together with at least 50% of the next 9 months consumption in contract businesses. The Group is fully hedged for 2013 and 2014 at an average price of 50p and 70% hedged for 2015, at an average price of 48p.

Principal risks and uncertainties
The Group's other principal risks and uncertainties remain in line with those detailed in the Annual Report and Accounts 2012 on pages 44 and 45 and are summarised here:

- Economic conditions: parts of the business may be adversely affected by economic conditions, for example in Spain and the UK, as revenues in many of the businesses are historically correlated to GDP and employment;
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in substantial, material charges to profit and cash flow;
- Contractual: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Renewal: there is a risk that contracts and concessions may not be renewed and may be underbid by competitors, for example in Spain and North America school bus and transit operations;
- Credit risk: there is a risk that contract customers are either late or unable to pay sums to the Group.

Jez Maiden
Group Finance Director
24 July 2013

DIVISIONAL PERFORMANCE REVIEWS

Spain

ALSA is the largest private long distance and regional coach operator in Spain and a significant urban bus and tram operator. It has a fast-growing presence in Morocco and is a partner in the Eurolines international coach service. In 2013 National Express launched its first coach operation in Germany (result reported under Corporate).

Half year ended 30 June	2013 m	2012 m
Revenue	£272.1	£256.9
Normalised operating profit	£34.6	£35.4
Revenue	€321.2	€312.4
Normalised operating profit	€40.8	€43.0
Operating margin	12.7%	13.8%

Our objective in our Spanish operations in 2013 is to protect Alsa's revenue and profitability in challenging economic conditions, whilst securing growth from selected new concessions in Spain, growing in Morocco and launching new services, for example in Germany. We are pleased with our success, growing overall divisional revenue by 3%, with operating profit only €2.2 million lower and reduced capital expenditure requirements driving strong cash generation.

Total revenue in local currency was €321.2 million (2012: €312.4m), up 6% in Sterling terms to £272.1 million (2012: £256.9m). Alongside continued strong growth in Morocco, the launch of a new urban bus contract in Guadalajara and successful integration of last year's Bilbao urban bus acquisition have offset softness in the intercity coach market.

	Underlying growth %
Intercity – passenger revenue	(3)
Urban (Spain) – like-for-like growth	(1)
Urban (Morocco) – like for like growth	17

Intercity Coach revenue decreased 3% in the period. Passenger volume has been constrained; however, coach services have been less impacted by economic austerity than other transport modes, reflecting the value offered to consumers. The business also secured a one-off regulated fare increase in March 2013 to offset recent fuel cost increases.

Revenue in the Urban Bus business in Spain has been broadly flat, with like-for-like revenue 1% lower. Core revenue across our 18 city concessions, where we do not take revenue risk, has been resilient. We have seen some changes to contract bonuses but expect overall performance payments in 2013 to be within €2 million of last year. Following last year's acquisition of a loss-making bus business in Bilbao, this contract is now fully integrated and performing ahead of expectations. We are also pleased with the start-up of the Guadalajara bus contract in April 2013, having won the competitive tender in December last year.

Morocco continues to perform well, where total revenue increased by 23%. A trend for urban living, increased student passenger volumes and a successful network redesign in Agadir have all contributed. We have been selected as the preferred bidder for a third urban bus operation, a 10-year contract in Tangiers which is due to start in the first half of 2014. Expected total contract revenue is €125 million, initially operating 120 buses.

In April 2013 we launched coach operations in Germany under the City2City brand. Our initial routes have proved popular, with promotional fares selling well as we introduce consumers to scheduled domestic coach travel for the first time. Adopting the UK coach operating model, where partners run services using their fleet in our livery, is allowing lower risk, capital-light development, supported by the Alsa Spain website for bookings.

Normalised divisional operating profit decreased to €40.8 million (2012: €43.0m) and in Sterling terms was £34.6 million (2012: £35.4m). Higher fuel costs and a reduction in intercity coach revenue adversely impacted margin by 1.1 percentage points to 12.7% (2012: 13.8%). However, kilometres operated were reduced by 6%, demonstrating the flexibility of the intercity model to cope with changes in demand. New urban bus revenues also helped profit. Other cost inflation reduced over previous years, reflecting positive benefits of austerity and structural labour changes. Overhead cost savings included improved maintenance and overhead efficiencies. The overall change in profit is analysed in the following bridge:

	€m
2012 first half year normalised operating profit	43
Net impact of changes in fares & services	–
Fuel cost	(4)
Cost inflation	(1)
Cost efficiencies	2
Other	1
2013 first half year normalised operating profit	41

The Spanish government's market-wide re-tender of intercity coach concessions, including those accounting for 30% of Alsa's revenue, remains on hold and is not expected to begin until the end of 2013 or during 2014. We continue to monitor changes to the tendering process but believe that, as a high quality, innovative and efficient operator, Alsa is well positioned to retain and secure new business.

North America

In North America, National Express operates over 20,000 school buses across the US and Canada, mostly through 3 to 5 year contracts with local school boards, which provide good medium term revenue visibility. In addition, we now operate transit contracts in 7 US states.

Half year ended 30 June	2013 m	2012 m
Revenue	£358.0	£299.5
Operating profit	£41.6	£36.9
Revenue	US$554.5	US$473.1
Operating profit	US$64.4	US$58.2
Operating margin	11.6%	12.3%

Our focus in North America in 2013 is to maintain our margin leadership in School Bus, whilst progressively reshaping the business to drive greater return on capital, and to grow our Transit operation profitably. We have made good progress in the first half of the year, successfully completing the integration of the Petermann acquisition and delivering synergies that exceeded $10 million, improving the pricing on school bus contract renewal, achieving excellent customer service and contract retention, and starting up four new transit contract wins. Margin declined by 0.7 percentage points due to higher fuel costs. This pressure will continue in the second half of the year but will abate in the coming years.

Revenue was US$554.5 million (2012: $473.1 million), an increase of 17%. In Sterling terms, revenue increased by 20% to £358.0 million (2012: £299.5 million). Alongside a full period of revenue from Petermann acquired in May 2012, underlying revenue grew by 2%. This reflected a net increase of 850 buses secured during the previous bid season. The start of the year was adversely impacted by poor weather and lower discretionary routes from the beginning of the school year but both trends improved in the second quarter.

Following our progress between 2010 and 2012 to deliver industry-leading operating margins in school bus, we are now focused on improving our return on capital, in preference to unconstrained contract growth. We have achieved average price increases on contract retentions that are a significant improvement over previous years. Where we have not been able to achieve our minimum return criteria, we have exited contracts at renewal, with 17 contracts relinquished in total. We are targeting new contracts where service and relationship are valued by the customer and 30 contracts have been secured, including 8 first-time outsourced conversion contracts. The effect of this approach is that we will end the bid season slightly down, but with a retention rate that remains high at 96%. With a low average fleet age and reduced capital investment in new contracts, North America is expected to have generated sufficient operating cash flow in two years to have paid for the acquisition of Petermann.

In 2012 we established our North American Transit business through acquisitions in our three target markets – disabled/paratransit, shuttle and suburban fixed route. In 2013 so far, we have won and started up four new contracts, secured annual transit revenue of $75 million, and widened our geographic footprint to a presence in seven states, including our most recent start up in California. Our active bid pipeline exceeds $200 million of annual revenue, having achieved a success rate of 30% to date. As Transit revenue becomes a larger proportion of our North America business, overall division operating margin is expected to decline, reflecting the lower margin but capital-light nature of this business where, unlike school bus, vehicles are funded by the Federal Government or our customers.

Divisional normalised operating profit increased to $64.4 million (2012: $58.2m). We offset a $4 million increase in the fuel cost and $4m of general inflation, through the delivery of synergies and cost efficiencies. The latter included further investment in our people and in depot systems, as we continue to roll out our Compass IT platform.

	$m
2012 first half year normalised operating profit	58
Annualisation of Petermann acquisition	5
Net impact of changes in pricing & contracts	7
Reduction in discretionary routes in School Bus	(5)
Fuel cost	(4)
Cost inflation	(4)
Synergies & cost efficiencies	8
Other	(1)
2013 first half year normalised operating profit	64

UK Bus

National Express is the market leader in the UK's largest urban bus market outside London, operating over 1,500 buses in the West Midlands region. We also provide bus services in Dundee, as well as the Midland Metro tram service.

Half year ended 30 June	2013 £m	2012 £m
Revenue	134.8	133.5
Operating profit	15.0	17.2

Operating margin	11.1%	12.9%

Our objective in UK Bus in 2013 is to offset the headwinds of reduced government fuel duty rebate (‘BSOG’), changes to pensions accounting and higher fuel costs, by growing patronage in both commercial and concession revenues. After a slow start to the year, which was also impacted by adverse weather, we have started to make better progress, with margin down only 1.8 percentage points to 11.1% (2012: 12.9%). The second quarter saw a turnaround in commercial passenger numbers and concession revenue grew. We are also driving cost efficiency through network improvements and by renegotiating inefficient legacy cost structures.

UK Bus revenue increased to £134.8 million (2012: £133.5m). Like-for-like commercial revenue increased by 2%, with travelcard sales driving commercial growth, particularly through marketing to colleges and companies. Second quarter commercial passenger volume rose 3% year-on-year, and concession passenger volume was broadly flat, a significant improvement after a decline in the latter in the first quarter of nearly 10%.

	Growth %
Like-for-like commercial revenue	2
Mileage (increase)/reduction	–
Underlying commercial revenue	2
Concession revenue	(1)
Total revenue	1

We are driving ridership through improvements to our operational performance and by sustained investment in our services. 90 new buses were added in the first half of the year, bringing the total new vehicles over the last two years to 340. We are supporting this with the introduction of new technology. Our Automatic Vehicle Location (“AVL”) system allows us to manage frequencies and regulate services. Waiting times are consequently decreasing, with a record level of punctuality at our Wolverhampton depot. AVL is also supporting our new customer mobile app, allowing users to check the location and timings of the nearest bus and bus stop. Our smart card pilot scheme in Dundee has been successful and is now being tested in Coventry, prior to introduction across the division.

Normalised operating profit decreased to £15.0 million (2012: £17.2m). We have partially mitigated increased cost of fuel and pensions (following introduction of a new accounting standard), together with the final quarter’s impact of the government’s BSOG reduction introduced in April 2012. We are encouraged that no further reductions are planned in government subsidies, supporting bus as an environmentally friendly form of public transport.

Our cost efficiency programme continues to drive improvements to working practices, improving flexibility and services, particularly in response to changes in weekend travel habits. Our increasing use of mobile technology as an information source has enabled us to make cost savings in our call centre. Our ‘Driving Out Harm’ safety programme has significantly reduced insurance claims costs.

	£m
2012 first half year normalised operating profit	17
Fuel cost	(2)
Fuel duty (BSOG) reduction	(1)
Changes to pension accounting	(1)
Cost inflation	(3)
Net impact from revenue growth	1
Cost efficiencies	4

As part of our commitment to drive long term passenger growth in the West Midlands, in July 2013 we launched the third stage of our ground-breaking Transforming Bus Travel partnership with Centro, the local Passenger Transport Executive. The partnership includes a range of innovative initiatives to deliver frequent, accessible services at a fair value. It will see a further 300 new buses added to our fleet by June 2015. Alongside increased flexibility of our cost base, we expect this initiative to allow UK Bus to progress towards an industry-leading margin.

UK Coach

National Express is the market leading scheduled coach operator in the UK, linking hundreds of destinations. Its partnership in Eurolines, alongside its Airlinks and Kings Ferry contract businesses, provide a comprehensive service to its customers.

Half year ended 30 June	2013 £m	2012 £m
Revenue	121.7	120.0
Operating profit	7.8	6.3
Operating margin	6.4%	5.3%

Our objective in UK Coach in 2013 has been to restore positive momentum to revenue and margin, following the adverse impact of the government's withdrawal of senior citizen concessions on our 2012 performance. The first half of the year has seen excellent progress made, with a sharp rise in passenger volumes and delivery of cost efficiencies. As a result, operating margin during this seasonally weaker half year improved to 6.4% (2012: 5.3%).

Overall divisional revenue increased by 1% to £121.7 million (2012: £120.0m). The National Express core coach brand saw passenger volume 9% higher, with lower fares and effective promotions driving success. With a reduced yield, underlying revenue increased by 3%, with performance improving month on month. This growth was supplemented in May by the start of operations on a new exclusive Luton Airport to London Victoria contract, alongside a new sales channel through Ryanair which is driving strong sales. We have also expanded our senior citizen coach card offer, which now includes a money-back guarantee, bespoke web area and exciting third party discounts.

The performance in our core express network was supported by growth in Airlinks (particularly at Gatwick Airport), The Kings Ferry (with a new commuter service to be launched in November), Events (carrying a record number to the Glastonbury Festival) and Eurolines. However, revenue from Rail Replacement was all but eliminated, following the end of the NXEA rail franchise.

	Growth %
Passenger yield	(6)
Passenger volume	9
Change in Core Express revenue	3
Other revenues (primarily Rail Replacement)	(11)
Total revenue	1

Normalised operating profit increased to £7.8 million (2012: £6.3m). This reflected improved revenue, especially in the core express network. In addition, cost management initiatives included completing the closure of our Crawley depot in March, saving £0.5 million per year by centralising operations at our Heathrow base; improvements to our network; a programme of joint cost reduction with our operator partners; and consolidation of under-performing operators. Together, these are helping to restore profit and margin in UK Coach. The second half of the year will see a tougher comparative for the division, due to the lack of

Olympic contract profits, but continued progress in revenue growth and cost efficiency are anticipated.

	£m
2012 first half normalised operating profit	6
Cost inflation	(4)
Impact of government rebate changes	(1)
Net impact of growth and new contracts	4
Cost efficiencies & network changes	4
Other	(1)
2013 first half normalised operating profit	8

Rail

National Express operates one franchise in the UK, c2c, delivering industry-leading punctuality and customer performance. It is also mobilising two new regional rail franchises in Germany commencing in 2015.

Half year ended 30 June	2013 £m	2012 £m
Revenue	69.9	125.2
Operating profit	4.8	15.5
Operating margin	6.9%	12.4%

Our objectives in 2013 for Rail have been to extend the c2c franchise profitably, secure our first rail franchise in Germany and bid for new long-term UK rail franchises. We have achieved success in the first half of the year, retaining c2c until at least September 2014 and winning two contracts in the Rhine-Ruhr area of Germany. We have also been shortlisted by TfL to bid for the Crossrail franchise.

Total revenue in the Rail division decreased to £69.9 million (2012: £125.2m), reflecting the end of the NXEA franchise during 2012. Revenue in our remaining franchise continued to grow, with c2c the UK's best performing rail operator. We have maintained our position at the top of the public performance tables* and customer satisfaction remains high, reaching an industry-leading 92% in the January National Passenger Survey results. We continue to deliver projects that directly benefit customers - our new timetable in May added an extra 14,000 seats per week.

Normalised operating profit was £4.8 million (2012: £15.5m). A lower operating margin of 6.9% reflected the end of franchise profits on NXEA included last year (2012: 12.4%). Profits are expected to continue in the extension to the c2c contract agreed with the UK Department for Transport ('DfT'), under which profits are shared with the DfT. The extension initially runs until September 2014, with an option for the DfT to extend up to May 2015. We remain focused on delivering excellent customer service and will use these credentials to support our bid for the long-term Essex Thameside tender expected later this year. We are also pleased to have been shortlisted for the Crossrail bid, the only wholly UK company to pre-qualify. The contract is expected to be awarded to the successful bidder in 2014 and will operate from 2015.

In Germany, our UK expertise was crucial in securing our first two contracts, providing rail services to the regional government of North Rhine Westphalia. We have begun mobilisation, procuring 35 trains from Bombardier for the regional authority, and are due to operate from December 2015 for 15 years. We have an attractive pipeline of additional bid opportunities over the next 12 months, targeting to build a portfolio of smaller, lower-risk contracts from authorities that are receptive to new market operators.

Cautionary statement

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

24 July 2013

Key performance indicators

The following key performance indicators (KPIs) are those on which we manage our business. For the half year, these are as follows:

Financial

Underlying revenue growth (%)	First half 2013	First half 2012	Full year 2012
Spain†	(2)	4	4
N. America†	3	3	3
UK Bus (commercial)	2	3	3
UK Coach (core network)	3	(6)	2
Rail (c2c)	3	7	7

†local currency

Normalised operating margin (%)	First half 2013	First half 2012	Full year 2012
Spain	12.7	13.8	15.7
N. America	11.6	12.3	10.2
UK Bus	11.1	12.9	12.7
UK Coach	6.4	5.3	8.1
Rail	6.9	12.4	13.7

Non-financial KPIs

Passenger numbers (million)	First half 2013	First half 2012	Full year 2012
Spain	126.0	108.5	242.3
UK Bus	132.8	135.3	271.6
UK Coach – core network	8.3	7.7	16.5
c2c	18.4	18.3	37.2

Mileage operated (million)	First half 2013	First half 2012	Full year 2012
Spain	87.9	88.9	292.6
UK Bus	34.3	34.5	69.2
UK Coach	41.4	41.8	85.0

Routes operated (thousand)	First half 2013	First half 2012	Full year 2012
North America	18.3	17.3	17.9

Safety KPIs

Signals passed at danger (per million train miles)	First half 2013	 2012
c2c	1.06	0.93

Preventable vehicle accidents (last 12 months, per million vehicle miles)	First half 2013	 2012
Spain	20.3	22.1
North America	13.9	13.4
UK Bus	51.1	43.3
UK Coach	13.2	13.6

Lost-time employee injuries (last 12 months, per thousand full-time equivalent employees)	First half 2013	 2012
Spain	22.3	33.2
North America	18.2	17.0
UK Bus	14.3	34.0
UK Coach	12.8	22.5
UK Rail	–	3.3

The Group's *'Driving Out Harm'* safety improvement programme is continuing to show improvements across the Group. As management make continued progress in embedding a change in safety culture, this is expected to lead to a sustained material reduction in vehicle accidents and employee injuries and to benefit all stakeholders in the Group in the long term.

[1] Definitions

Unless otherwise stated, revenue is on an underlying basis, which compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency, acquisitions, disposals and rail franchises no longer operated. Like-for-like revenue in bus operations adjusts underlying revenue for the impact of changes in mileage operated.

Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: Statutory result excluding charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

Operating margin is the ratio of normalised operating profit to revenue.

EBITDA is 'Earnings Before Interest, Tax, Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments.

Free cash flow measures the cash generated after paying all non-discretionary payments such as interest and tax, but before discretionary items, such as growth and exceptional investments, acquisitions and dividends. A reconciliation is set out in the Financial Review.

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

Gearing ratio is the ratio of net debt to EBITDA over the last twelve months.

The EPS generated by the Rail business is calculated using the normalised operating profit of the Rail division, taxed at the UK tax rate.

** The c2c Public Performance Measure (PPM) of punctuality was 97.3% moving annual average to 22 June 2013*

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2013

	Note	Total before intangible amortisation & exceptional items 2013 £m	Intangible amortisation & exceptional items 2013 £m	Total 2013 £m	Total before intangible amortisation & exceptional items 2012 £m	Intangible amortisation & exceptional items 2012 £m	Total 2012 £m	Audited Year to 31 December Total 2012 £m
		Unaudited six months to 30 June						
Continuing operations								
Revenue	**4**	**956.7**	**–**	**956.7**	934.1	–	934.1	1,831.2
Operating costs before intangible amortisation & exceptional items		**(859.5)**	**–**	**(859.5)**	(828.6)	–	(828.6)	(1,619.3)
Intangible amortisation	**5**	**–**	**(26.1)**	**(26.1)**	–	(25.9)	(25.9)	(51.7)
Exceptional items	**6**	**–**	**(11.4)**	**(11.4)**	–	(16.3)	(16.3)	(42.6)
Total operating costs		**(859.5)**	**(37.5)**	**(897.0)**	(828.6)	(42.2)	(870.8)	(1,713.6)
Group operating profit	**4**	**97.2**	**(37.5)**	**59.7**	105.5	(42.2)	63.3	117.6
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.4**	**–**	**0.4**	0.5	–	0.5	1.4
Finance income	**7**	**3.0**	**–**	**3.0**	2.0	–	2.0	4.4
Finance costs	**7**	**(28.8)**	**–**	**(28.8)**	(26.0)	–	(26.0)	(53.6)
Profit before tax		**71.8**	**(37.5)**	**34.3**	82.0	(42.2)	39.8	69.8
Tax (charge)/credit	**6,8**	**(16.2)**	**10.6**	**(5.6)**	(17.6)	9.9	(7.7)	(8.5)
Profit for the period		**55.6**	**(26.9)**	**28.7**	64.4	(32.3)	32.1	61.3
Profit attributable to equity shareholders		**55.0**	**(26.9)**	**28.1**	64.1	(32.3)	31.8	60.0
Profit attributable to non-controlling interests		**0.6**	**–**	**0.6**	0.3	–	0.3	1.3
		55.6	**(26.9)**	**28.7**	64.4	(32.3)	32.1	61.3
Earnings per share:								
– basic earnings per share	**10**			**5.5p**			6.2p	11.8p
– diluted earnings per share	**10**			**5.5p**			6.2p	11.7p
Normalised earnings per share:								
– basic earnings per share	**10**	**10.8p**			12.6p			25.5p
– diluted earnings per share	**10**	**10.7p**			12.5p			25.4p

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2013

	Unaudited six months to 30 June 2013 £m	Unaudited six months to 30 June 2012 £m	Audited year to 31 December 2012 £m
Profit for the period	**28.7**	32.1	61.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	**1.4**	(38.0)	(31.1)
Deferred tax on actuarial gains/(losses)	**(0.3)**	9.2	7.2
	1.1	(28.8)	(23.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**77.2**	(30.7)	(44.2)
Exchange differences on retranslation of non-controlling interests	**0.5**	(0.3)	(0.2)
(Losses)/gains on cash flow hedges	**(2.7)**	(11.4)	2.2
Less: reclassification adjustments for gains or losses included in profit	**(1.5)**	(7.4)	(20.2)
Tax on exchange differences	**4.3**	(0.8)	1.6
Deferred tax on cash flow hedges	**1.0**	5.1	4.9
	78.8	(45.5)	(55.9)
Total comprehensive income/(expenditure) for the period	**108.6**	(42.2)	(18.5)
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders	**107.5**	(42.3)	(19.6)
Non-controlling interests	**1.1**	0.1	1.1
	108.6	(42.2)	(18.5)

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2013

	Note	**Unaudited 30 June 2013 £m**	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
Non-current assets				
Intangible assets		**1,305.9**	1,282.4	1,262.9
Property, plant and equipment		**799.7**	783.8	787.4
Available for sale investments		**7.5**	7.1	7.1
Derivative financial instruments	**11**	**15.9**	17.2	31.1
Investments accounted for using the equity method		**5.0**	6.0	4.4
Trade and other receivables		**5.0**	2.5	5.6
Defined benefit pension assets	**12**	**17.1**	18.6	16.6
		2,156.1	2,117.6	2,115.1
Current assets				
Inventories		**19.9**	17.3	19.3
Trade and other receivables		**174.9**	198.9	194.8
Derivative financial instruments	**11**	**4.6**	9.5	4.7
Deferred tax assets		**14.5**	12.5	7.8
Current tax assets		**–**	–	0.8
Cash and cash equivalents		**163.0**	85.8	72.8
		376.9	324.0	300.2
Total assets		**2,533.0**	2,441.6	2,415.3
Non-current liabilities				
Borrowings		**(783.2)**	(729.0)	(786.8)
Derivative financial instruments	**11**	**(2.8)**	(5.2)	(2.2)
Deferred tax liability		**(87.0)**	(86.8)	(84.8)
Other non-current liabilities		**(7.8)**	(3.4)	(5.9)
Non-current tax liabilities		**(0.2)**	(2.6)	–
Defined benefit pension liabilities	**12**	**(30.4)**	(52.4)	(35.9)
Provisions		**(27.4)**	(26.4)	(28.3)
		(938.8)	(905.8)	(943.9)
Current liabilities				
Trade and other payables		**(346.3)**	(360.2)	(348.4)
Borrowings		**(216.5)**	(219.1)	(169.0)
Derivative financial instruments	**11**	**(3.3)**	(4.0)	(3.0)
Current tax liabilities		**(26.3)**	(27.6)	(19.9)
Provisions		**(27.3)**	(34.0)	(28.7)
		(619.7)	(644.9)	(569.0)
Total liabilities		**(1,558.5)**	(1,550.7)	(1,512.9)
Net assets		**974.5**	890.9	902.4
Shareholders' equity				
Called up share capital		**25.6**	25.6	25.6
Share premium account		**532.7**	532.7	532.7
Capital redemption reserve		**0.2**	0.2	0.2
Own shares		**(1.2)**	(2.4)	(0.5)
Other reserves		**122.5**	54.7	44.2
Retained earnings		**284.4**	272.2	290.7
Total shareholders' equity		**964.2**	883.0	892.9
Non-controlling interest in equity		**10.3**	7.9	9.5
Total equity		**974.5**	890.9	902.4

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2013

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2013	25.6	532.7	0.2	(0.5)	44.2	290.7	**892.9**	9.5	**902.4**
Own shares released to satisfy employee share schemes	–	–	–	2.2	–	(2.2)	**–**	–	**–**
Shares purchased	–	–	–	(2.9)	–	–	**(2.9)**	–	**(2.9)**
Total comprehensive income	–	–	–	–	78.3	29.2	**107.5**	1.1	**108.6**
Share-based payments	–	–	–	–	–	0.5	**0.5**	–	**0.5**
Tax on share-based payments	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Dividends	–	–	–	–	–	(33.7)	**(33.7)**	–	**(33.7)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.3)	**(0.3)**
At 30 June 2013	**25.6**	**532.7**	**0.2**	**(1.2)**	**122.5**	**284.4**	**964.2**	**10.3**	**974.5**

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total £m**
At 1 January 2012	25.6	532.7	0.2	(14.0)	99.9	313.1	**957.5**	7.9	**965.4**
Own shares released to satisfy employee share schemes	–	–	–	2.6	–	(2.6)	**–**	–	**–**
Shares purchased	–	–	–	(4.8)	–	–	**(4.8)**	–	**(4.8)**
Loss on disposal of own shares	–	–	–	13.8	–	(9.8)	**4.0**	–	**4.0**
Total comprehensive income	–	–	–	–	(45.2)	2.9	**(42.3)**	0.1	**(42.2)**
Share-based payments	–	–	–	–	–	2.5	**2.5**	–	**2.5**
Tax on share-based payments	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Dividends	–	–	–	–	–	(33.2)	**(33.2)**	–	**(33.2)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Purchase of non-controlling interests	–	–	–	–	–	–	**–**	0.4	**0.4**
At 30 June 2012	**25.6**	**532.7**	**0.2**	**(2.4)**	**54.7**	**272.2**	**883.0**	**7.9**	**890.9**

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2013

	Note	**Unaudited six months to 30 June 2013 £m**	Unaudited six months to 30 June 2012 £m	Audited year to 31 December 2012 £m
Cash generated from operations	**15**	**162.1**	52.2	169.6
Tax paid		**(3.0)**	(5.5)	(13.4)
Net cash from operating activities		**159.1**	46.7	156.2
Cash flows from investing activities				
Payments to acquire businesses, net of cash		**(1.9)**	(153.1)	(156.9)
Deferred consideration for businesses acquired, net of those disposed		**(0.3)**	(0.5)	(0.6)
Purchase of property, plant and equipment		**(50.7)**	(39.5)	(103.8)
Proceeds from disposal of property, plant and equipment		**8.8**	12.1	16.7
Payments to acquire intangible assets		**(1.2)**	–	(2.9)
Payments to acquire associates		**–**	–	(0.5)
Proceeds from disposal of associates		**–**	–	1.6
Dividends received from associates		**–**	–	0.9
Interest received		**9.0**	8.3	3.7
Net cash used in investing activities		**(36.3)**	(172.7)	(241.8)
Cash flows from financing activities				
Proceeds from sale of treasury shares		**–**	3.9	4.0
Purchase of treasury shares		**(2.9)**	(4.8)	(4.8)
Interest paid		**(44.2)**	(44.5)	(48.8)
Finance lease principal payments		**(9.8)**	(10.8)	(18.0)
Net loans drawn down		**61.0**	204.2	174.5
(Payment)/receipt on the maturity of foreign currency swaps		**(4.5)**	5.5	8.9
Dividends paid to non-controlling interests		**(0.3)**	(0.4)	(0.1)
Dividends paid to shareholders of the Company		**(33.7)**	(33.2)	(49.3)
Net cash (used in)/from financing activities		**(34.4)**	119.9	66.4
Increase/(decrease) in cash and cash equivalents		**88.4**	(6.1)	(19.2)
Opening cash and cash equivalents		**72.8**	92.5	92.5
Increase/(decrease) in cash and cash equivalents		**88.4**	(6.1)	(19.2)
Foreign exchange		**1.8**	(0.6)	(0.5)
Cash and cash equivalents		**163.0**	85.8	72.8

NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2013

1. General information

These interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared using the accounting policies set out on pages 88 to 96 of the Group's Annual Report & Accounts 2012 except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting". Taxes on income in the interim periods are accrued using the tax rate that is expected to apply to total annual earnings.

The interim results are unaudited but have been reviewed by the Group's auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2012 have been extracted from the Group's Annual Report and Accounts 2012 which has been filed with the Registrar of Companies. The audit report on the Group's Annual Report and Accounts 2012 was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The Group's Annual Report and Accounts 2012 are prepared in accordance with IFRS as adopted by the European Union.

Going concern

The Group has a stable financing platform and its key debt ratios are within the Board's target range and well within the Group's banking covenant (see Cash management section). The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less that 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Changes in accounting policies

In the current financial year, the Group has adopted the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income", IAS 19 (revised 2011) "Employee benefits" and IFRS 13 "Fair Value Measurement". Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that may be reclassified subsequently to profit or loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. The effect of these changes is evident from the condensed consolidated statement of comprehensive income.

IAS 19 (revised) and the related consequential amendments have impacted the accounting for the Group's defined benefit schemes, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability. For the current period, the profit is £2.2m lower and other comprehensive income £2.2m higher than it would have been prior to the adoption of IAS 19 (revised 2011). The impact on the 2012 reported result is not considered material.

IFRS 13 has impacted the measurement of fair value for certain assets and liabilities as well as introducing new disclosures, as set out in note 11.

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 (ie 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 Coach and European Bus & 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. On a Group basis, the results are not materially seasonal in nature.

2. Exchange rates

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

	Six months to 30 June 2013		**Six months to 30 June 2012**		Year to 31 December 2012	
	Closing rate	Average rate	**Closing rate**	**Average rate**	Closing rate	Average rate
US dollar	1.52	1.55	**1.57**	**1.58**	1.63	1.59
Canadian dollar	1.60	1.58	**1.60**	**1.59**	1.61	1.59
Euro	1.17	1.18	**1.24**	**1.22**	1.23	1.23

If the results for the six months to 30 June 2012 had been retranslated at the average exchange rates for the six months to 30 June 2013, North American Bus would have achieved normalised operating profit of £37.5m on revenue of £304.8m, compared to reported normalised operating profit of £36.9m on revenue of £299.5m and European Coach & Bus would have achieved normalised operating profit of £36.5m on revenue of £264.6m compared to reported normalised operating profit of £35.4m on revenue of £256.9m.

3. Risks and uncertainties

The principal risks and uncertainties are described in the Financial Review. Additional information on risks and uncertainties is contained on pages 43-45 in the Group Annual Report and Accounts 2012.

4. Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide and the geographical market they operate in. Commentary on the segments is included in the Divisional Reviews.

	Six months to 30 June				Year to 31 December	
Analysis by class and geography of business	**Revenue 2013 £m**	**Operating result 2013 £m**	Revenue 2012 £m	Operating result 2012 £m	Revenue 2012 £m	Operating result 2012 £m
UK Bus	**134.8**	**15.0**	133.5	17.2	269.0	34.1
UK Coach	**121.7**	**7.8**	120.0	6.3	255.1	20.6
Rail	**69.9**	**4.8**	125.2	15.5	195.1	26.7
North America	**358.0**	**41.6**	299.5	36.9	578.3	59.1
Spain	**272.1**	**34.6**	256.9	35.4	535.0	83.8
Intercompany elimination	**(0.1)**	**–**	(1.0)	–	(1.3)	–
Central functions	**0.3**	**(6.6)**	–	(5.8)	–	(12.4)
Result from continuing operations	**956.7**	**97.2**	934.1	105.5	1,831.2	211.9
Intangible asset amortisation		**(26.1)**		(25.9)		(51.7)
Exceptional items		**(11.4)**		(16.3)		(42.6)
Group operating profit		**59.7**		63.3		117.6
Share of post tax results from associates and joint ventures		**0.4**		0.5		1.4
Net finance costs		**(25.8)**		(24.0)		(49.2)
Profit before tax		**34.3**		39.8		69.8
Tax charge		**(5.6)**		(7.7)		(8.5)
Profit for the period		**28.7**		32.1		61.3

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

5. Intangible asset amortisation

Intangible assets representing customer contracts have been subject to an amortisation charge in Spain of £19.0m (2012 interim: £21.2m; 2012 full year: £40.4m), and in North America of £2.4m (2012 interim: £1.3m; 2012 full year: £3.6m). Software intangible assets have been subject to an amortisation charge in North America of £2.6m (2012 interim: £1.5m; 2012 full year: £3.9m), and in the United Kingdom of £0.1m (2012 interim: £nil; 2012 full year: £nil). Customer relationship intangible assets in North America have been subject to a depreciation charge of £1.7m (2012 interim: £1.7m; 2012 full year: £3.3m). Brand intangible assets in North America have been subject to a depreciation charge of £0.2m (2012 interim: £nil; 2012 full year: £0.3m). Intangible assets representing Goodwill have been subject to charge in the United Kingdom Coach of £0.1m (2012 interim: £nil; 2012 full year: £nil). Rail has had no amortisation charged in 2013 (2012 interim: £0.2m; 2012 full year: £0.2m).

6. Exceptional items

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

Exceptional operating items can be analysed by type as follows:

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
UK rail bids	**0.9**	8.4	16.3
Other rail bids	**0.7**	0.4	1.3
Other business development	**4.2**	–	3.0
	5.8	8.8	20.6
North America acquisition and integration	**3.1**	7.5	13.4
Restructuring and rationalisation	**2.5**	–	8.6
	11.4	16.3	42.6

Exceptional operating items can be analysed by operating segment as follows:

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
UK Bus	**0.8**	–	3.7
UK Coach	**0.9**	–	2.5
Rail	**1.6**	8.8	17.6
North America	**3.1**	7.5	14.8
Spain	**0.8**	–	1.4
Central functions	**4.2**	–	2.6
	11.4	16.3	42.6

The tax credit on intangible asset amortisation and exceptional items is analysed as follows:

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
Tax credit on intangible asset amortisation	**7.9**	7.8	15.1
Tax credit on exceptional items	**2.7**	2.1	9.1
	10.6	9.9	24.2

7. Net finance costs

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 Dec 2012 £m
Bank and bond interest payable	**(25.3)**	(22.8)	(47.4)
Finance lease interest payable	**(2.3)**	(2.4)	(4.7)
Other interest payable	**(0.2)**	(0.1)	(0.2)
Unwind of provision discounting	**(0.7)**	(0.7)	(1.3)
Interest cost on defined benefit pension obligations	**(0.3)**	–	–
Finance costs	**(28.8)**	(26.0)	(53.6)
Finance income: Bank interest receivable	**3.0**	2.0	4.4
Net finance costs	**(25.8)**	(24.0)	(49.2)

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2013 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2013. The normalised tax charge of £16.2m (2012 interim: £17.6m; 2012 full year: £32.7m) represents an effective tax rate on normalised profit before tax, for continuing operations, of 22.5% (2012 interim: 21.5%; 2012 full year: 19.9%). The total tax charge of £5.6m (2012 interim: £7.7m; 2012 full year: £8.5m) includes a deferred taxation credit of £4.0m (2012 interim credit: £3.1m; 2012 full year charge: £0.4m).

On 21 March 2012, the UK Chancellor of the Exchequer announced a further 1% reduction in the UK Corporation tax rate to 24% effective from 1 April 2012, along with subsequent reductions to 23% from 1 April 2013 and 21% from 1 April 2014.

On 20 March 2013, the UK Chancellor of the Exchequer announced a further 1% reduction in the UK Corporation tax rate to 20% effective from 1 April 2015.

At the balance sheet date a rate of 23% (2012 interim: 24%; 2012 full year: 23%) was substantively enacted.

9. Dividends paid and proposed

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
Declared and paid during the period:			
Ordinary final dividend for 2011 paid of 6.5p per share	**–**	33.2	33.2
Ordinary interim dividend for 2012 of 3.15p per share	**–**	–	16.1
Ordinary final dividend for 2012 paid of 6.6p per share	**33.7**	–	–

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
Proposed for approval and not recognised as a liability as at period end:			
Ordinary interim dividend for 2012 of 3.15p per share	**–**	16.1	–
Ordinary final dividend for 2012 paid of 6.6p per share	**–**	–	33.7
Ordinary interim dividend for 2013 of 3.25p per share	**16.6**	–	–

10. Earnings per share

	Six months to 30 June 2013	Six months to 30 June 2012	Year to 31 December 2012
Basic earnings per share	**5.5p**	6.2p	11.8p
Normalised basic earnings per share	**10.8p**	12.6p	25.5p
Diluted earnings per share	**5.5p**	6.2p	11.7p
Normalised diluted earnings per share	**10.7p**	12.5p	25.4p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £28.1m (2012 interim: £31.8m; 2012 full year: £60.0m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

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

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

	Six months to 30 June 2013	Six months to 30 June 2012	Year to 31 December 2012
Basic weighted average shares	**510,983,082**	510,121,945	510,552,927
Adjustment for dilutive potential ordinary shares	**1,340,183**	1,292,588	1,626,921
Diluted weighted average shares	**512,323,265**	511,414,533	512,179,848

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings/loss per share since, in the opinion of the Directors, they reflect the underlying performance of the business's operations more appropriately.

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

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
Profit attributable to equity shareholders	**28.1**	31.8	60.0
Intangible asset amortisation	**26.1**	25.9	51.7
Exceptional operating items	**11.4**	16.3	42.6
Tax relief on amortisation and exceptional items (including exceptional tax)	**(10.6)**	(9.9)	(24.2)
Normalised profit attributable to equity shareholders	**55.0**	64.1	130.1

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 2013 the Group's portfolio of hedging instruments included fuel price derivatives, 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 foreign exchange derivatives are in place to hedge the foreign exchange risk on translation of net assets and earnings denominated in foreign currency. In addition, the Group holds four £50.0 million denominated interest rate derivatives to swap fixed interest on £200m of the Group's Sterling bonds to a floating rate and two €39.25m denominated interest rate derivatives equal in value to the Euro Private Placement.

These derivative financial instruments are held in the balance sheet at fair value, as determined by the third party financial institutions with which the Group holds the instruments and internal valuations using market data (level 2). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs ie those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

The Group applies relevant hedge accounting to all derivatives outstanding as at 30 June 2013. All hedge relationships were effective under the rules of IAS 39.

Derivative financial assets and liabilities in the balance sheet:	**At 30 June 2013 £m**	At 30 June 2012 £m	At 31 December 2012 £m
Non-current			
Interest rate derivatives	**15.8**	16.0	31.0
Fuel derivatives	**0.1**	1.2	0.1
Derivative financial assets	**15.9**	17.2	31.1
Current			
Interest rate derivatives	**–**	4.2	–
Fuel derivatives	**1.5**	5.0	4.6
Foreign exchange derivatives	**3.1**	0.3	0.1
Derivative financial assets	**4.6**	9.5	4.7
Non-current			
Fuel derivatives	**2.8**	5.2	2.2
Derivative financial liabilities	**2.8**	5.2	2.2
Current			
Foreign exchange derivatives	**0.5**	0.7	0.5
Fuel derivatives	**2.8**	3.3	2.5
Derivative financial liabilities	**3.3**	4.0	3.0

12. Pensions and other post-employment benefits

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

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

The total pension cost for the six months to 30 June 2013 was £4.6m (2012 interim: £3.9m; 2012 full year: £6.9m), of which £3.0m (2012 interim: £2.5m; 2012 full year: £3.4m) relates to the defined benefit schemes and £1.6m (2012 interim: £1.4m; 2012 full year: £3.5m) relates to the defined contribution schemes.

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

	At 30 June 2013 £m	At 30 June 2012 £m	At 31 December 2012 £m
UK Bus	**(29.0)**	(49.5)	(32.9)
UK Coach	**17.1**	18.6	16.6
Rail	**–**	(1.5)	(1.8)
Other	**(1.4)**	(1.4)	(1.2)
Total	**(13.3)**	(33.8)	(19.3)

The Rail defined benefit pension liability is net of a franchise adjustment of £17.5m (2012 interim: £9.8m; 2012 full year: £18.1m). Details of the franchise adjustment are included in note 34 to the Annual Report and Accounts 2012.

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

	Six months ended 30 June 2013			Year ended 31 December 2012		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**2.8%**	**2.8%**	**3.3%**	2.5%	2.5%	3.0%
Rate of increase in pensions	**2.3%**	**3.3%**	**2.3%**	2.0%	2.8%	2.0%
Discount rate	**4.7%**	**4.7%**	**4.7%**	4.4%	4.4%	4.4%
Inflation rate (RPI)	**3.3%**	**3.3%**	**3.3%**	2.8%	2.8%	2.8%
Inflation rate (CPI)	**2.3%**	**2.3%**	**2.3%**	2.0%	2.0%	2.0%

13. Business Combinations

In 2012 the Group made a number of acquisitions, including Petermann Partners Inc, the Joint Venture of Thompson Transit Inc and YCN Transportation LLC, and a number of small controlling interests in the Group's Spanish division. Full details of these acquisitions are disclosed in the Group's 2012 Annual Report and Accounts.

14. Net debt

	At 1 January 2013 £m	**Cash flow £m**	**Foreign Exchange £m**	**Other movements £m**	**At 30 June 2013 £m**
Cash and cash equivalents	**72.8**	**88.4**	**1.8**	**–**	**163.0**
Other debt receivable	**1.0**	**–**	**–**	**–**	**1.0**
Borrowings:					
Bank loans	**(114.6)**	**(60.9)**	**(4.5)**	**(0.4)**	**(180.4)**
Bonds	**(590.0)**	**–**	**–**	**6.0**	**(584.0)**
Fair value of hedging derivatives	**23.4**	**–**	**–**	**(9.0)**	**14.4**
Finance lease obligations	**(154.7)**	**9.8**	**(9.2)**	**(1.8)**	**(155.9)**
Other debt payable	**(66.1)**	**(0.1)**	**(3.4)**	**2.1**	**(67.5)**
Total borrowings	**(902.0)**	**(51.2)**	**(17.1)**	**(3.1)**	**(973.4)**
Net debt*	**(828.2)**	**37.2**	**(15.3)**	**(3.1)**	**(809.4)**

* excludes accrued interest on bonds

	At 1 January 2012 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2012 £m
Cash and cash equivalents	92.5	(14.1)	8.0	(0.6)	–	85.8
Other debt receivable	0.7	0.4	–	–	–	1.1
Borrowings:						
Bank loans	(7.9)	(204.2)	(0.8)	3.8	2.3	(206.8)
Bonds	(583.4)	–	–	–	(3.8)	(587.2)
Fair value of hedging derivatives	16.4	–	–	–	3.1	19.5
Finance lease obligations	(151.3)	10.8	(0.4)	1.7	(1.8)	(141.0)
Other debt payable	(0.7)	(0.4)	–	–	–	(1.1)
Total borrowings	(726.9)	(193.8)	(1.2)	5.5	(0.2)	(916.6)
Net debt*	(633.7)	(207.5)	6.8	4.9	(0.2)	(829.7)

* excludes accrued interest on bonds

Borrowings include non-current interest bearing loans and borrowings of £783.2m (2012 interim: £729.0m; 2012 full year: £786.8m).

Other non-cash movements represent finance lease additions of £1.8m (2012 interim: £1.8m) and a £1.3m increase to net debt (2012 interim: £1.6m decrease) relating to loan and bond arrangement fees.

15. Cash flow statement

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

	Six months to 30 June 2013 £m	Six months to 30 June 2012 £m	Year to 31 December 2012 £m
Net cash inflow from operating activities			
Profit before tax from continuing operations	**34.3**	39.8	69.8
Net finance costs	**25.8**	24.0	49.2
Share of post-tax results from associates and joint ventures under the equity method	**(0.4)**	(0.5)	(1.4)
Depreciation of property, plant and equipment	**57.3**	53.5	109.8
Intangible asset amortisation	**26.1**	25.9	51.7
Amortisation of property, plant and equipment grants	**(0.6)**	(0.6)	(1.2)
Profit on disposal non-current assets	**(0.8)**	(3.5)	(4.5)
Share-based payments	**0.5**	2.5	5.2
Decrease in inventories	**0.2**	2.5	0.4
Decrease in receivables	**24.4**	66.5	68.4
Increase/(decrease) in payables	**4.8**	(137.8)	(145.5)
Decrease in provisions	**(9.5)**	(20.1)	(32.3)
Cash generated from operations	**162.1**	52.2	169.6

16. Changes in commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2013 were £12.4m (2012 full year: £46.3m).

Contingent liabilities

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2013, the Group has issued UK Rail performance bonds of £6.0m (2012 full year: £4.0m) and UK Rail season ticket bonds of £14.8m (2012 full year: £21.1m). The Group has other performance bonds which include a performance bond with Birmingham City Council relating to the building of the new coach station of £0.2m (2012 full year: £0.2m), performance bonds in respect of businesses in the US of £111.2m (2012 full year: £104.7m) and the rest of Europe of £84.6m (2012 full year: £23.5m). Letters of credit have been issued to support insurance retentions of £60.2m (2012 full year: £36.1m).

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group Annual Report and Accounts 2012 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 2013.

18. Post balance sheet events

On 8 July 2013, the Group renewed its revolving credit facility, replacing the previous £500m facility, which had been due to mature in 2014, with a £410m facility, maturing in 2018.

Independent Review Report to National Express Group PLC

Introduction

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 2013 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, Group Statement of Cash Flows and the related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

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

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor

Birmingham, UK
24 July 2013