Press release

29 July 2015

National Express Group PLC
Half Year Results for the six months ended 30 June 2015
National Express Group PLC ("National Express" or the "Group"), a leading international public transport group, operates bus and coach services in the UK, continental Europe, North Africa, North America and the Middle East, together with rail services in the UK.

Overview
The Group has made strong progress in the first half of the year with results in line with expectations and both revenue and profit up year-on-year. We have achieved further significant new contract wins and we remain on target to generate £100 million of free cash for the full year. Our strong operational and financial position means we are both able to invest in growth and increase our interim dividend payment by 10%.

Financial highlights include:
- Revenue growth in every division in constant currency; Group revenue up 2.2% year-on-year to £960.2 million (2014: £939.5m).
- A 6% increase in like-for-like Group operating profit, after excluding rail and Middle East bid costs and at constant currency; Group normalised operating profit rose by 19%; statutory profit after tax increased by 117%.
- Return on capital employed increased to 11.9% (31 Dec 2014: 10.7%); excluding rail and Middle East bid costs return on capital employed has improved to 12.8% (31 Dec 2014: 12.4%).
- On target to generate £100m of free cash for the year.
- A proposed interim dividend of 3.685 pence, up 10% year-on-year (2014: 3.35 pence).

Consistent delivery against our strategy of operational excellence, driving strong returns and developing new business opportunities:
- Excellent start to the new c2c franchise with revenue growth of 10%, ahead of bid plan.
- Successful bid season in North America School Bus with an average price increase of 2.8% across the entire portfolio of contracts. Two small acquisitions were made at the end of the period and a new transit contract won.
- Further success in German rail with the awarding of two contracts for Rhine Ruhr Express services; contracted revenues secured now worth €2.6 billion.
- Successful mobilisation of our bus service operations in Bahrain, our first entry into the Middle East and opening further opportunities in the region including a joint bid already submitted to run bus operations in Makkah, Saudi Arabia.
- Continued progress in Spain of our revenue management programme on intercity routes competing with rail, with passengers up 7% and revenue increasing 4% on these flows. We have also won a fourth Moroccan bus contract.
- Shortlisted for the East Anglia rail franchise, which is due to be awarded in mid-2016, and commence in autumn 2016.
- We welcome the West Midlands ITA's decision to establish a new 'Bus Alliance' to build on our award-winning partnership.

Financial summary

	H1 2015 £m	H1 2014 £m Restated*
Revenue	960.2	939.5
Normalised operating profit (before rail and Middle East bid costs)	93.5	89.5
Rail and Middle East bid costs	3.9	14.2
Normalised operating profit	89.6	75.3
Normalised profit before tax	66.7	51.3
Statutory profit after tax for the period	44.8	20.6
Normalised basic EPS	10.2p	7.8p
Dividend	3.685p	3.35p
Net debt	714.3	729.0

**Normalised results restated to adjust for impact of rail and Middle East bid costs previously treated as exceptional costs*

Dean Finch, National Express Group Chief Executive, said:

"We have made a strong start to 2015 and are on track to deliver the Board's expectations for the year. We are focused on driving best value for our customers, employees and shareholders and are passionately committed to the communities we serve. We have been particularly delighted with the continued strong performance of c2c in its new franchise. The success in winning additional German rail contracts and the launch of bus services in Bahrain demonstrates further progress in opening new growth markets.

"These results demonstrate the benefit of our recent focus on both improving our services to customers and securing sustainable cash flows from our businesses. This enables us now to invest further in growth and at the same time, increase our dividend. We will continue to strive constantly to improve the value of the services we provide to our customers and deliver growth across the whole business. This, coupled with our contract wins, will continue to drive shareholder value."

Enquiries

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Maitland
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There will be a presentation and webcast for investors and analysts at 0900 on 29 July 2015. Details are available from Rebecca Mitchell at Maitland.

Definitions

Unless otherwise stated, all operating profit, operating 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: IFRS result found in the third column, excluding intangible asset amortisation, loss on disposal of businesses, exceptional items (nil in 2015) and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

Underlying revenue compares the current year with prior year on a consistent basis, after adjusting for the impact of currency, acquisitions and disposals.

In UK Bus, commercial revenue is that from fare-paying passengers and excludes concessions and contracted services. In UK Coach, core express revenue is that from the scheduled National Express network.

Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rates.

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

Like-for-like operating profit growth reflects the Group's normalised operating profit at constant currency, after adjusting for the impact of year-on-year movements in bid costs. Further details are provided in the Financial Review.

'Return on capital employed' (ROCE) is normalised operating profit divided by tangible and intangible assets.

Operating cash flow is the cash flow equivalent of normalised operating profit. Free cash flow is the cash flow equivalent of normalised profit after tax. A reconciliation is set out in the table within the Financial Review.

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.

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 annual punctuality measure for c2c is the moving annual average (MAA) public performance measure.

Safety Incidents measure those for which the Group is responsible and is based on the Fatalities and Weighted Injuries Index used in the UK rail industry.

Earnings per share (EPS) is the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust which are treated as cancelled.

BUSINESS REVIEW

Overview

National Express has made strong progress in the first half of 2015 with Group revenue up 2.2%. Underlying revenue (on a constant currency basis) increased by 2.5%. We have delivered revenue growth across all our businesses on a constant currency basis, with particularly strong growth in Rail, UK Bus and Morocco. Group operating profit increased by 6% on a like-for-like basis after excluding rail and Middle East bid costs and at constant currency. Normalised profit before tax rose by 30% to £66.7 million even after absorbing £11.8 million additional premium charges in our new c2c franchise. We have also made significant progress in new markets, with our first operations in Bahrain successfully launched earlier in the year and we secured a further two rail contracts in Germany.

Free cash flow remains strong, with the business on-target to deliver £100 million at the year end, even after the planned £50 million increase in maintenance capital expenditure in the first six months. The strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations, led us to say in our previous management statement that we would review our policy of excluding rail earnings from our dividend cover. Since then we have won another two German rail contracts, with our success in the Rhine Ruhr Express (RRX) competition, securing earnings until 2033. Our new policy is to include rail profits, so that our dividend is covered by two times Group earnings. This new policy enables us to propose a 10% increase in the interim dividend to 3.685 pence.

We have been clear for a number of years that the ability to deliver such strong cash flows and shareholder returns is based upon a focus on operational excellence. This continues to be the case, and we are pleased to remain the leader in many of the markets we serve, with strong customer satisfaction and contract retention. ALSA is the latest division to go through the European Foundation for Quality Management (EFQM) process and we are pleased with its four star initial assessment. We have extended our revenue management programme in Spain to 200 flows on the nine main rail-competed corridors, and continue to see a positive response with passenger numbers up 7% and revenue increasing by 4% year-on-year. In Morocco, passenger volumes have grown by nearly 12%, and we have also won a fourth Moroccan bus contract, which while small was a fixed price award made purely on an assessment of the quality of operations, demonstrating the strength of our reputation.

UK Bus continues to benefit from its multi-award winning partnership and record investment, including, for example, the recently introduced state of the art buses on routes where the local authorities have improved bus priority to help deliver better and faster services for passengers. This has helped drive commercial revenue up 3% in the first six months. We have also recently introduced a Pay As You Go smartcard in Coventry, the first in an Integrated Transport Authority (ITA) area. We welcome the West Midlands ITA's decision to establish a new 'Bus Alliance' to build on our award-winning partnership and look forward to supporting the delivery of the West Midlands bus policy through developing and implementing this new initiative over the coming months. UK Coach is seeing further benefits from its innovative marketing and additional retailing partnerships and has again broken its record for the number of festival-goers it took to Glastonbury.

In North America our contract retention in the current bid season, excluding those contracts that we have chosen to exit, is again industry-leading at 99%. We have seen an average price increase across the entire portfolio of 2.8%. Where the customer has run a competition on a contract we operate and we have retained it, the average price has gone up by over 5%. We have also made two small acquisitions at the end of the period and won a new transit contract. Overall revenue growth on a constant currency basis is up over 1%. The rate increases and performance of new contracts – including Philadelphia and Memphis –

have more than offset the impact of lost contracts (both regretted and through our 'up or out' strategy) and fewer operating days in the first half of 2015. The largest loss of revenue has come through the contracts exited under our 'up or out' strategy and this has helped the margin improve to 10.8% (2014: 10.5%).

We have also been delighted with the performance of c2c since the launch of the new franchise. It has maintained its industry-leading punctuality performance,[1] but also used cutting-edge, targeted marketing techniques similar to those pioneered in UK Coach, and new off-peak tickets, to deliver significant increases in passenger numbers and revenue. During the first six months of 2015, off-peak leisure growth has been nearly 12%, double the London and South East average of 6.2%. A new timetable and industry-leading package of customer service improvements – including automatic delay compensation – will be implemented from later this year, with the aims of consolidating c2c's reputation for excellence and delivering further growth. We were pleased with the Secretary of State's announcement in March that he was looking to extend c2c's pioneering automatic delay compensation across the rail network.

Alongside operational excellence and strong cash and returns, the third leg of our strategy has been creating new business opportunities. We have seen significant progress in this area during 2015. We successfully began our first operations in Bahrain in February. A second phase launches in August taking the operation up to 140 buses and including the introduction of an 'Oyster-style' smartcard. We believe there is scope for further growth in Bahrain. Additionally, the Bahrain contract provides the opportunity for further expansion in the Middle East, and we have submitted a joint bid for a 400 bus contract in Makkah, Saudi Arabia, for example.

In addition to our success in winning the two RRX services mentioned above, our two Rhine-Munsterland Express (RME) contracts begin operating in December. Our naming as the preferred bidder for a further two contracts to operate the Nuremberg S-Bahn is currently the subject of an appeal, which we anticipate concluding later this summer. We remain very positive about the opportunities the German rail market provides. We have secured €2.6 billion of long-term revenue in this market, providing a new earnings stream and an opportunity for further growth in the coming years.

Given this performance and new business success the Group remains on track to deliver its earnings expectations for the year.

Performance highlights

Group revenue in the first half was £960.2 million (2014: £939.5m), with growth of 2.5% on a constant currency basis. All UK divisions have generated good growth with UK Rail delivering a particularly strong performance with revenue increasing 10% and passenger volumes up 6%. Specifically, off-peak revenue increased 12%, peak sales grew 11% and season ticket receipts were up 5%. In Spain, we have extended our revenue management to 200 flows on the nine main rail-competed corridors, and continue to see a positive response with passenger numbers up 7% and revenue increasing by 4% year-on-year. ALSA's revenue overall was up over 3%, with Morocco again delivering strong growth of 13% in the first half, driven by a successful start to our Tangier contract. North America has increased its margin by 30 basis points (bps) to 10.8%. This is as a result of the 'up or out' strategy and a successful school bus bid season.

[1] c2c continues to hold the annual and rail period records for punctuality. Its current, industry-leading, MAA is 97.1%, compared to the national average of 89.6%.

Revenue by division was as follows:

Revenue in constant currency	First half 2015	First half 2014
Spain and Morocco (€m)	330.2	319.3
North America (US$m)	553.2	547.7
Revenue in £m		
Spain and Morocco	241.8	262.3
North America	363.0	333.4
UK Bus	141.4	137.7
UK Coach	132.2	130.5
German Coach	-	1.7
Rail	82.0	74.5
Intercompany	(0.2)	(0.6)
Group	960.2	939.5

Group like-for-like operating profit has increased by 6% to £89.6 million, after allowing for rail and Middle East bid costs of £3.9 million and a £0.9 million adverse foreign exchange variance (further details of this analysis are provided in the Financial Review). Group normalised operating profit rose by 19% to £89.6 million (2014: £75.3m).

Normalised operating profit in constant currency	First Half 2015	First Half *2014	Full Year *2014
Spain and Morocco (€m)	40.5	38.4	93.1
North America (US$m)	59.8	57.5	96.7
Normalised operating profit £m			
Spain and Morocco	29.7	31.5	75.0
North America	39.2	35.2	59.5
UK Bus	17.1	15.3	34.0
UK Coach	10.0	9.3	28.0
Rail	0.6	(6.5)	(10.1)
German Coach	-	(1.4)	(1.7)
Corporate	(7.0)	(8.1)	(17.1)
Normalised operating profit	89.6	75.3	167.6
Interest and associates	(22.9)	(24.0)	(47.7)
Normalised profit before tax	66.7	51.3	119.9

**Results restated to adjust for impact of rail and Middle East bid costs previously treated as exceptional costs*

We have made good progress on key strategic issues in the period:

- The introduction of significantly enhanced marketing techniques in c2c have helped drive revenue and passenger growth, so that the franchise is out-performing the bid plan
    - Overall revenue is up 10%, with off-peak growth of nearly 12% (around twice the London and South East average) and weekend growth of 27%.

- North American School Bus has had another successful bidding season with average price increases across the entire portfolio of 2.8%. Where the customer has run a competition on a contract we operate and we have retained it, the average price has gone up by over 5%. Our contract retention rate, excluding those contracts that we have chosen to exit, is again industry-leading at 99%
    - Two small acquisitions were also made at the end of the period, including a transit business that includes employee shuttle operations, strengthening our credentials in this market.

- Further success in German rail, with two new contracts for RRX services won. We begin our RME services later this year and are awaiting the outcome of an appeal – due later in the summer – relating to the Nuremberg S-Bahn

- We have now secured €2.6 billion of long-term German rail revenues, until 2033.

- We successfully launched services in Bahrain earlier this year with the second phase due to start in August. This will take the operation up to 140 buses and will include an 'Oyster-style' smartcard
    - We believe there is further opportunity for growth in Bahrain and other countries in the Middle East and have submitted a joint bid for a 400 bus contract in Makkah, Saudi Arabia.

Other highlights include:

- UK Coach has seen further benefits from its innovative digital marketing programme and extension of retail partnerships. A 10% increase in revenue during the important Easter and spring campaigns and a record Glastonbury performance have helped drive up revenue and profit.
- Our record investment programme in UK Bus and strong partnership with the local transport authority is delivering real customer benefits including new state of the art buses and the first Pay As You Go smartcard in an ITA area. Such innovation has helped drive the revenue and profit increases in UK Bus, with commercial revenue up 3%.

Dividend

The Board has proposed an increase in the interim dividend of 10% to 3.685 pence per share (2014: 3.35p), reflecting its confidence in the performance and future prospects of the business. The strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations, led us to say in our previous management statement that we would review our policy of excluding rail earnings from our dividend cover. Since then we have won another two German rail contracts, with our success in the Rhine Ruhr Express competition, securing earnings until 2033. Our new policy is to include rail profits, so that our dividend is covered by two times Group earnings. This new policy enables us to propose a 10% increase in the interim dividend to 3.685 pence.

First half year normalised basic earnings per share were 10.2 pence (2014: 7.8p). The dividend will be payable on 25 September 2015 to shareholders on the register at close of business on 4 September 2015.

Delivering our strategy

Our portfolio of businesses comprises well established operations in stable markets with good management teams and access to growth opportunities. Our three-part strategy aims to build shareholder value by delivering consistent progress in our core divisions, generating superior cash and returns, and creating profits from new, generally capital-light markets.

1. Delivering operational excellence

Our vision is to provide safe, punctual and frequent public transport services at excellent prices. Operational excellence focuses on delivering consistent service performance, leading to revenue growth, and continuous cost efficiency improvement, generating better margins and returns. As a key programme to embed excellence, the roll out of the EFQM framework across the Group is continuing to progress and we are delighted that ALSA has been awarded a four-star rating for the EFQM on its first assessment, the first transport company in Spain to achieve this rating.

UK

All our UK businesses have performed well over the first half of the year, reflecting the on-going focus on delivering quality services combined with compelling value offers for our customers.

UK Bus has grown commercial revenue by 3%, with concessionary revenues bringing the overall growth figure down to 2.6%. We have combined this commercial revenue performance with tight cost control and efficiencies with operating margin improving by 100 bps.

We continue to introduce new initiatives designed to enhance bus services in the West Midlands and we have successfully launched all 83 of our pioneering 'Transforming Bus Travel 3' (TBT) partnership commitments. As part of those commitments, we have made a record level of investment of £34 million in new fleet. During the period we have introduced our new Crimson and state of the art Platinum buses, featuring a number of passenger benefits together with reduced emissions and more efficient fuel consumption. The Platinum buses have been introduced alongside local authority investment in bus priority lanes, delivering faster journey times and helping to drive growth in passengers. We are already seeing 8% passenger growth on the first Platinum route. We welcome the West Midlands ITA's decision to establish a new 'Bus Alliance' to build on our award-winning partnership and look forward to supporting the delivery of the West Midlands bus policy through developing and implementing this new initiative over the coming months.

In close partnership with Centro, we have also rolled out our smartcards to the Midland Metro tram system, building on our industry-leading multi-operator smartcards on our buses. Again in partnership, we have recently launched our new Pay As You Go smartcard, starting in Coventry, which is the first such product in an ITA. We have also extended our partnership approach to the Midland Metro tram, where recently-launched 'Transforming Tram Travel' contains 50 deliverables to capitalise on our new fleet and soon-to-be-extended line.

Concessionary revenues are flat year-on-year and are expected to decline in the second half of the year. This reflects new concession agreements as a result of local government austerity meaning cuts in Centro funding. As a result, we anticipate a reduction of £3 million in income from concessions on an annualised basis, with a £1 million impact in the current year.

UK Coach grew by 1% as core revenue growth of 2.4% helped offset the impact of lower contract revenues in the first half of the year. Contract revenues will, however, grow in the second half of the year as the benefit of recent wins is realised. We continue to leverage our enhanced CRM capabilities, with strong price initiatives and targeted marketing campaigns, launched through our digital and retail sales channels, helping to drive incremental revenue growth, higher coach occupancy (up 3.7%) and higher returns. Operating profit rose 8% and operating margin increased by 50 bps.

We also had another record year at Glastonbury, with over 33,000 festival-goers making return journeys on our coaches. Our highly successful Easter and spring marketing campaigns also saw revenue growth of 10% year-on-year, helping to offset strong rail disruption last year. Building on this success we will look to launch further targeted campaigns over the course of the summer.

Our strategy of extending our reach through partnerships and new retail channels continues. We have: signed a new four year partnership deal with Royal Bank of Scotland, which launched in July with the RBS Young Person's Coachcard; enhanced our retail presence overseas by securing new airport outlets; and, have expanded our online presence through strategic partnerships such as thetrainline app.

UK Coach also continues to win new contracts which will deliver incremental revenue in the second half. For example, we have: secured our position at Stansted Airport following a five year contract award; won a new three year contract with British Airways to provide Heathrow staff bussing and inter-airport transfer services for both passengers and crew; and, recently commenced a 10 year contract to provide inter-campus bus services for the University of West London.

In Rail we have seen revenue increase by 10%, supported by strong passenger volume growth of 6% on c2c. The c2c franchise is out-performing the bid plan. Drawing on many of the insights of our sophisticated coach digital marketing, c2c have combined new off-peak fares promotions with a significantly improved marketing programme. This much more sophisticated approach, that provides more tailored communications to both existing and potential new customers, has generated a significant increase in journeys and a year-on-year reduction in marketing spend. Examples of the fares promotions are discounted advanced purchase tickets and a ‘go anywhere’ Rover ticket for senior citizens. Together, these new products and enhanced marketing have helped drive an increase in off-peak revenue of 11.9% (itself nearly twice the London and South East average of 6.2%) and weekend growth of 27%.

We are also seeing significant take-up of smartcards for season ticket holders. A programme to encourage take-up has led to nearly 17% of season ticket holders moving on to a smart card, the highest figure of any train company. We are confident this figure will continue to grow in the coming months, ahead of the introduction of our ground-breaking automatic compensation for delays over two minutes and other customer service improvements. We will also introduce a new timetable later this year to improve capacity and connections on the line.

As previously stated, we have seen a significant increase in the premium charges associated with our new c2c franchise. We have also changed our policy to account for rail bidding costs within the business itself. After adjusting to include bidding costs in the prior period, operating profit for Rail has improved £7.1 million year-on-year.

We have been short-listed to bid for the East Anglia franchise and we look forward to responding to the Invitation to Tender (ITT) in due course. We will draw on our knowledge of the region and expertise at pioneering new approaches to customer services to produce a bid that delivers the improvements passengers rightly expect alongside returns to taxpayers and shareholders.

German Rail

In June, we were awarded two further contracts in Germany. These two contracts for RRX services in the Nord Rhine Westphalia region will generate revenues of €1 billion over their lifetimes, with the first contract commencing in December 2018 and the second one starting in December 2020. Both will run until 2033. Meanwhile, we remain on plan with the mobilisation of our other two contracts, for RME, which commence operations in December this year. Between these four contracts we have secured €2.6 billion of revenue, until 2033. In addition, we await the outcome of an appeal on the procurement process for the Nuremberg S-Bahn which we were named the preferred bidder for in February. Overall, we remain very positive about the contribution the existing contracts will make to Group earnings and the opportunity for further success in Germany. We have pre-qualified for a further two franchises and are currently targeting contracts with revenue of around €4billion.

North America

During the period we have significantly improved the quality of earnings in North America. While overall revenue growth on a constant currency basis is up over 1%, our operating profit has increased by 4% and operating margin has risen to 10.8% (2014: 10.5%) as we continue to benefit from our ‘up or out’ strategy and new business wins.

Rate increases and the performance of new contracts – including Philadelphia and Memphis – have more than offset the impact of lost contracts (both regretted and through our ‘up or out’ strategy) and fewer operating days in the first half of 2015. The largest loss of revenue has come through the contracts exited under our ‘up or out’ strategy, where returns have not met our required criteria; this has led to a reduction of 880 buses from contracts we have chosen to exit. We continue to focus on winning new business on attractive margins and have added 450 buses over the period through conversions and share shift. Overall, the net decline in school buses operated stands at 160, but we expect this figure to be lower by school start-up as additional routes are added; our entire fleet remains 21,500.

We have seen a successful bidding season, with average price increases across the entire portfolio of 2.8%. Where the customer has run a competition on a contract we operate and we have retained it, the average price has gone up by over 5%. Our current retention rate, excluding those contracts that we have chosen to exit, remains very high at 99% and reflects the excellent levels of customer service delivered by our North American School Bus operations.

Towards the end of the first half we made two small acquisitions, in line with our strategy to increase investment in attractive new growth opportunities in North America. Given the timing of the acquisitions, they made a minimal contribution to the first half results. The larger of the two acquisitions is a transit business which includes employee shuttle operations, helping strengthen our credentials in this market. We continue to view the large and fragmented North American School Bus market as providing an attractive opportunity for growth, including through further targeted acquisitions, especially given the improving pricing environment and more rational competitor behaviour. We will continue to evaluate opportunities that meet our strict financial and strategic criteria as they arise.

Change in school bus numbers – 2015 bid season	Number of buses
Regretted losses	(120)
Exited per ‘up or out’ strategy	(880)
Acquisition	160
Conversions and share shift	450
Organic growth	230
Change in buses operated for 2015/16 school year	(160)

In our Transit business we have continued our 100% contract retention rate since its inception in 2012. The benefit of our focus on operational excellence is further demonstrated by our customer satisfaction result of 100% and the Annual Customer Survey resulted in a 100% referral rate from our clients. In the first six months of the year we have won a contract for the operation and maintenance of fixed route and paratransit services in Merced County, California. We also expanded our paratransit contract in Westmoreland County, Pennsylvania. As already mentioned above, the two small acquisitions highlighted above includes a transit business which runs employee shuttle operations, strengthening our credentials in this market.

Spain and Morocco

ALSA’s revenue grew more than 3%. In Spain revenues rose nearly 3%, whilst in Morocco we continued to see strong revenue growth, up 13%, supported by the scaling-up of operations in Tangier and further growth in Agadir and Marrakech. Operating profit increased by 5%, reflecting this growth in revenue and lower fuel costs together with the one-off impact of the industrial action in Spain in 2014 and additional income from fuel duty rebates. These benefits were partially offset by redundancy costs, industrial action and adverse weather.

In Spain we have seen further encouraging signs from the continued implementation of revenue management on our intercity routes where we continue to see competition from rail. Drawing on expertise within the Group, we have enhanced the sophistication of the system and extended the programme to around 200 flows. In the first half of the year we have seen revenue growth of 4% and passenger growth of 7% on those routes where revenue management is in place. We expect to see further progress as we roll out the revenue management processes across the whole of our Spanish business to include both the commuter and regional routes.

The Spanish long distance coach concession renewal process continues to be delayed by legal issues, and with a general election due in November we do not anticipate any major progress in the short-term. As we previously outlined, we do not see a major impact on revenues before 2017. As a high quality, innovative and efficient operator, we believe ALSA is well positioned to retain and secure concessions as and when contracts do come up for renewal.

In Morocco, we have recently secured a fourth urban bus contract, in Khouribga. This is a fixed price 10 year contract, starting in September this year. While a relatively small contract – it is only for 40 buses – it was awarded purely against quality criteria and demonstrates the strength of our reputation in Morocco, where we believe there continues to be future growth opportunities. We continue to monitor prospects for private sector involvement in the Spanish domestic rail market. We were disappointed to come second in the bidding process for the Lisbon Bus and Metro systems, but will continue to evaluate further opportunities in the Portuguese market as they arise.

Middle East
We have successfully commenced the first phase of our 10 year Bahrain bus contract with around 70 buses currently operating and with a further 70 to be added as we scale-up our operations in August to serve a total of 35 routes. These services have already transported 1.7 million passengers with encouraging month–on-month growth. Phase two will also see the introduction of an 'Oyster-style' smartcard. We are working closely with the transport authority as they seek to develop public transport further across Bahrain. And we believe our services in Bahrain will provide a strong credential for further opportunities in the Middle East. We have submitted a joint bid for a bus contract in Makkah, Saudi Arabia, for example and continue to monitor the opportunities arising across the region, with an active pipeline of nearly £800 million in revenue.

Cost efficiency
Alongside revenue growth, we have an on-going programme to drive cost efficiency across the Group. In 2014 we invested a total of £25.8 million in a restructuring programme to reduce structural costs across the business, with a target to deliver annual savings of over £11 million. With the benefits of, for example, head office consolidations such as: Eurolines moving in to UK Coach's Birmingham office; US Transit moving in to North American School Bus's Warrenville office; and, Spanish intercity and urban businesses combining central functions, we are on-target to deliver the projected £11 million of annual savings.

Additionally, as part of our on-going drive for cost efficiencies, we have delivered £2 million of further savings through: reduced mileage from network optimisation in UK Coach and ALSA; procurement savings in North America; and, an efficient driving style programme in UK Bus.

Safety
The Group continues to focus on improving safety performance. Adopting the UK rail industry standard methodology, which uses a severity weighted index to monitor performance across all businesses, customer and employee injuries are being reduced,

along with vehicle collisions. External consultants Arthur D Little have completed an audit of each division, reporting an overall improvement in safety of 54% since the 'Driving Out Harm' programme started in 2010, with a 16% improvement between 2013 and 2014. To maintain our progress we have placed a renewed focus on driver training in 2015. All drivers will receive practical defensive driver training and assessment as we seek to achieve industry-leading standards across the Group.

2. Superior cash and returns

National Express is focused on cash generation and improving return on capital. In recent years our focus for free cash flow has been to pay dividends to shareholders, fund future growth and reduce debt, with a specific target to reduce our gearing ratio to a level to mitigate certain key risks, principally the possible loss of the c2c franchise and Spanish concession renewals. As we stated in the Full Year Results, these risks have either not materialised (in the case of c2c where we won the new franchise securing revenue and cash flow for 15 years), or have been delayed (Spanish concessions). We have also identified further growth opportunities and have therefore paused our deleveraging, while staying within our published target, to use our continued strong cash flow to invest in specific new growth opportunities that meet our strict financial and strategic criteria.

During the first half of the year, we generated £27.1 million of free cash flow (2014: £66.1m) after significantly increasing our investment in capital expenditure, as previously announced.

The Group remains on target to deliver £100 million of free cash flow in the full year 2015, adding to the £370 million delivered in the last two years. While our increased investment has led to a £50 million increase in net debt since December 2014 to 2.4 times EBITDA, we believe our current level of free cash flow is sustainable and our policy of gearing staying within 2.5 times EBITDA remains. We have continued to deliver improving returns, with Group return on capital employed increasing to 11.9% (31 Dec 2014: 10.7%); excluding rail and Middle East bid costs, Group return on capital employed has improved to 12.8% (31 Dec 2014: 12.4%). Our EPS increased to 10.2p (2014: 7.8p).

The strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations, led us to say in our previous management statement that we would review our policy of excluding rail earnings from our dividend cover. Since then we have won another two German rail contracts, with our success in the Rhine Ruhr Express competition, securing earnings until 2033. Our new policy is to include rail profits, so that our dividend is covered by two times Group earnings. This new policy enables us to propose a 10% increase in the interim dividend to 3.685 pence.

3. Creating new business opportunities

Our unique portfolio of international bus, coach and rail businesses enables us to grow in selected new markets and add significant value to the Group. Over the last two years we have significantly broadened the scope of our business, growing existing businesses with further contract wins and partnership deals, together with entering new geographical markets, namely Germany and the Middle East. In the last six months we have made good progress in these markets and believe they provide the opportunity for capital-light growth in the coming years. In the first half of this year, we have secured a further €1 billion of revenues in German Rail, and now have a total of €2.6 billion of secure long-term revenues through these contracts. We are currently pre-qualified for a further two contracts and believe the German rail market provides an interesting opportunity for further growth.

The majority of our target markets are capital-light in nature and we will continue to deploy capital in a way that enables us to secure high returns on investment.

Our key business development opportunities include:

- **German Rail:** We are currently pre-qualified for a further two bids, worth around €1.5 billion in annualised revenue. We have secured €2.6 billion of revenue through our success in winning the RME and RRX services. We hope to secure an additional two contracts once the appeal against the procurement process for the €1.4 billion Nuremberg S-Bahn – where we were named preferred bidder in February – concludes during the summer. And we have an active pipeline of further bids of around €4 billion.
- **International opportunities:** Building on our success in launching new services in Bahrain, we have submitted a joint venture bid to operate bus services in Makkah, Saudi Arabia. This is an 8.5 year contract to operate 400 buses. We continue to monitor other emerging opportunities in the region and believe the medium-term prospects for growth are positive. We currently have an active pipeline of £800 million in revenue.
- **North America**: We will invest further in acquisitions which meet our strict financial and strategic objectives. We have made two small acquisitions at the end of the period, including a transit business which includes employee shuttle operations, strengthening our credentials in this market. We continue to view the large and fragmented North American School Bus market as providing an attractive opportunity for growth, including through further targeted acquisitions, especially given the improving pricing environment and more rational competitor behaviour. We are currently evaluating a number of opportunities and will provide an update on our progress later in the year.
- **UK Rail:** In June we were shortlisted for the East Anglia franchise. The franchise is expected to commence operations in autumn 2016. The DfT is due to release the ITT over the summer and we will draw on our knowledge of the region and expertise at pioneering new approaches to customer service, to produce a bid that delivers the improvements passengers rightly expect alongside returns to taxpayers and shareholders. With a strong pipeline of franchises likely to be re-let in the next few years, we will look to remain active participants in the UK rail market. We will continue to look for opportunities where the ability to deliver significant improvements in services is matched by the appropriate risk and returns for shareholders.

Outlook

We remain on course to deliver our profit expectations for 2015. We will continue to focus on cash generation, alongside a greater emphasis on investing for the future growth of the business. This will include targeting capital-light opportunities in Germany and the Middle East and investing further in North America. We are well advanced in our plans to mobilise our first German Rail contract which starts operations in December and see the successful mobilisation of our bus operations in Bahrain as the stepping stone for further growth in the Middle East. We continue to develop our pipeline of UK and international bid opportunities and remain excited by the opportunities in both our existing and new markets, which we believe can generate significant future shareholder value.

Dean Finch
Group Chief Executive
29 July 2015

FINANCIAL REVIEW

Revenue

Group revenue for the period was £960.2 million (2014: £939.5m), an overall increase of 2.2%. Underlying revenue (on a constant currency basis) increased by 2.5%. Rail was the strongest performer, up 10%, ahead of the bid plan. This has included significant off-peak growth of nearly 12%, driven by new fares promotions and an improved marketing programme. Commercial revenue in UK Bus grew by 3% as we continue to benefit from our multi-award winning partnership and record investment in new buses this year. UK Coach grew by 1% as core revenue growth of 2.4% helped offset the impact of lower contract revenues which will recover in the second half of the year as the benefit of recent wins is realised.

Revenue in Spain grew by nearly 3%, which continued to see a positive response to the revenue management system put in place on the main rail-competed corridors. Morocco also saw 13% growth, driven by the scaling up of operations in Tangier. Together these drove ALSA's revenue up over 3%. Underlying revenue in North America was up around 1% on a constant currency basis but was down slightly in US Dollars as the depreciation of the Canadian Dollar to the US Dollar affected the translation of our Canadian revenues. The 1% constant currency growth reflects the rate increases and performance of new contracts – including Philadelphia and Memphis – more than offsetting the impact of lost contracts (both regretted and through our 'up or out' strategy) and fewer operating days in the first half of 2015.

Revenue bridge	£m	
2014 first half year revenue	939.5	
Currency translation	(2.7)	% Change
2014 first half year revenue at constant currency	936.8	
Organic growth	25.7	
Fewer operating days	(3.0)	
Weather	0.7	
2015 first half year revenue	960.2	2.5%

Normalised profit

Group normalised operating profit increased by 19% to £89.6 million (2014: £75.3m); Group like-for-like operating profit has increased by 6% to £89.6m, after allowing for rail and Middle East bid costs of £3.9 million (H1 2014: £14.2m) and a £0.9 million adverse foreign exchange variance as set out below. This reflected our focus on driving organic revenue growth and cost efficiency to protect and grow margin.

Profit bridge	£m	
2014 first half year normalised operating profit (as reported)	89.5	
Currency	(0.9)	
Rail and Middle East bid costs in 2014	(14.2)	
Restated operating profit at constant currency	74.4	
Incrementally lower rail and Middle East bid costs in 2015	10.3	% Change
Like-for-like operating profit	84.7	
Growth	12.3	
Fewer operating days	(0.9)	
Cost inflation	(6.2)	
Cost efficiency	8.3	
Net rail charges (premium and access charges)	(11.8)	
Fuel price benefit	2.7	
Weather	0.5	
2015 first half normalised operating profit	89.6	6%

UK Bus grew profit by £1.8 million while UK Coach grew profit by £0.7 million. Profit in Rail was £0.6 million versus a loss of £6.5m in the first half of 2014, reflecting the impact of lower incremental rail bid costs which combined with strong revenue growth more than offset the significantly increased premium charges. Profit in ALSA was up 5% on a constant currency basis, reflecting revenue growth in Morocco together with lower fuel costs and cost efficiencies. The reported result for ALSA has been adversely affected by the strengthening of Sterling versus the Euro over the last 12 months, with the result that operating profit is down 6% on currency translation. North America divisional operating profit increased by $2.3 million on a constant currency basis, with the benefit of price increases and gains from improvement in contract quality being partially offset by cost pressures, including driver wages. The strengthening of the US Dollar versus Canadian Dollar has adversely impacted the net operating profit for North America by $1.3 million in the first half. Central costs have decreased, predominantly reflecting lower Middle East bid and overhead costs.

Net finance costs decreased to £23.1 million (2014: £24.2m), benefitting from lower interest rates secured on our recently renewed Revolving Credit Facility. With associate income of £0.2 million (2014: £0.2m), normalised profit before tax was £66.7 million (2014: £51.3m).

The Group's effective tax rate for 2015 is forecast to be around 20% (2014: 19%), in line with the expected medium-term rate, subject to future legislative changes. Normalised basic earnings per share were 10.2 pence (2014: 7.8p).

Exceptional items

There are no exceptional items in the period; in line with our previously stated policy, business development costs associated with developing our rail and Middle East markets are now no longer treated as exceptional items and are charged to the relevant business division. In the first half of 2014, £13.5 million was invested in the restructuring of existing non-rail operations in order to maintain their market leading positions and to respond to both opportunities and challenges.

Exceptional items	First half		Full year
	2015	*2014	*2014
	£m	£m	£m
Restructuring	-	(7.5)	(25.8)
Strategic rationalisation	-	(6.0)	(18.3)
Exceptional fuel credits	-	-	19.3
Exceptional items	-	(13.5)	(24.8)

**Results restated to adjust for impact of rail and Middle East bid costs previously treated as exceptional costs*

IFRS results

Intangible amortisation decreased to £12.4 million (2014: £14.4m), due to intangible assets on some Spanish concessions becoming fully amortised. Profit for the period was £44.8 million (2014: £20.6m). Basic EPS were 8.5 pence (2014: 3.9p), with the rise of 118% reflecting the non-recurrence of rationalisation and restructuring costs in 2015, together with underlying growth and lower bid costs.

IFRS profit	First half		Full year
	2015	2014	2014
	£m	£m	£m
		*Restated	*Restated
Normalised profit before tax	66.7	51.3	119.9
Exceptional items	-	(13.5)	(24.8)
Intangible amortisation	(12.4)	(14.4)	(28.6)
Profit before tax	54.3	23.4	66.5
Tax charge	(9.5)	(2.8)	(5.9)
Statutory profit for the period	44.8	20.6	60.6

** Results restated to adjust for impact of rail and Middle East bid costs previously treated as exceptional costs*

Cash management
Cash generation is core to our strategy, representing a key driver of shareholder value. The Group's core bus and coach operations are strong cash generators, complemented by rail's capital-light model. Previously the Group targeted increased cash flow generation that was driven by a programme of capital rationalisation to drive better returns. As outlined in February this year, from 2015 onwards, our focus is to place greater emphasis on investing for the future growth of the business, and as previously indicated, capital investment is anticipated to return to more typical levels (around 1.1 to 1.2 times depreciation).

In the first half of the year, operating cash flow was £62.2 million (2014: £104.1m), after a significantly increased level of maintenance capital expenditure, net of disposals, of £75.0 million, over half our target for the full year of around £120 million. The majority of the maintenance capital investment has been in fleet replacement in the UK, Spain and North America.

There was an inflow in working capital of £0.2 million (2014 inflow: £7.5m).

£27.1 million of free cash flow was generated in the period (2014: £66.1m) reflecting the higher level of maintenance capital expenditure, which was around £50 million higher than in the comparative period last year. This free cash flow was after the annual interest coupon payments on the Group's corporate bonds. We are targeting delivery of £100 million in free cash flow in the full year and as previously indicated, we see this level of cash generation as being sustainable going forward.

Free cash flow	First half		Full year
	2015 £m	*2014 £m	*2014 £m
Normalised operating profit	89.6	75.3	167.6
Depreciation and other non-cash items	52.3	50.4	102.1
EBITDA	141.9	125.7	269.7
Net maintenance capital expenditure	(75.0)	(25.3)	(43.2)
Working capital movement	0.2	7.5	4.8
Pension contributions above normal charge	(4.9)	(3.8)	(8.7)
Operating cash flow	62.2	104.1	222.6
Payments to associates and minorities	-	(0.5)	1.3
Net interest paid	(33.8)	(34.7)	(46.1)
Tax paid	(1.3)	(2.8)	(13.0)
Free cash flow	27.1	66.1	164.8
UK rail franchise exit outflow	-	(0.9)	(1.6)
Exceptional cash	(5.8)	(9.2)	(19.2)
Cash flow available for growth & dividends	21.3	56.0	144.0

** Results restated to adjust for impact of rail and Middle East bid costs previously treated as exceptional costs*

From free cash flow, there was an outflow of £5.8 million from the run-off of exceptional items, with a further £21.3 million (2014: £56.0m) available to invest in growth capital projects, bolt-on acquisitions and capital return to shareholders. The majority of the growth capital investment has been for growing our fleet on new services such as in Tangier in Morocco, investment relating to our new c2c franchise and investment in technology which will help to drive revenue growth, including our revenue management systems in Spain and the UK. Having significantly reduced net debt over the last few years, we are now in a strong position to exploit new growth opportunities with a focus on North America where we see excellent opportunities in a large and fragmented market, with a continuing trend in conversions. During the period we acquired two businesses, one in School Bus and one in Transit, for a combined cash consideration of £22 million.

Return on capital employed is a key measure of incremental investment decisions and we are pleased with the progress we have made. Group return on capital employed increased to 11.9% (31 Dec 2014: 10.7%); excluding rail and Middle East bid costs Group return on capital employed has improved to 12.8% (31 Dec 2014: 12.4%). With a final dividend payment of £35.5 million (2014: £34.5m), the net outflow of funds in the period after foreign exchange movements was £50.0 million (2014: £17.1m inflow). Net debt increased to £714.3 million (31 Dec 2014: £664.3m) after investing £22.2 million on acquisitions and £20.7 million in growth capital expenditure during the period; net debt is £15 million lower over the 12 month period.

Net funds flow	First half		Full year
	2015	2014	2014
	£m	£m	£m
Cash flow available for growth & dividends	21.3	56.0	144.0
Net growth capital expenditure	(20.7)	(7.3)	(7.3)
Acquisitions and disposals	(22.2)	(6.0)	(5.9)
Dividends	(35.5)	(34.5)	(51.6)
Other, including foreign exchange	7.1	8.9	2.6
Net funds flow	(50.0)	17.1	81.8

Dividend
The strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations, led us to say in our previous management statement that we would review our policy of excluding rail earnings from our dividend cover. Since then we have won another two German rail contracts, with our success in the Rhine Ruhr Express competition, securing earnings until 2033. Our new policy is to include rail profits, so that our dividend is covered by two times Group earnings. This new policy enables us to propose a 10% increase in the interim dividend to 3.685 pence.

Treasury management
The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy targets a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA at a ratio of 2.0x to 2.5x in the medium-term. Both Moody's and Fitch credit rating agencies have reaffirmed their investment grade credit rating in the second quarter of this year.

The Group's key accounting debt ratios at 30 June 2015 were as follows:

- Gearing ratio: 2.4 times EBITDA (31 Dec 2014: 2.25x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 6.5 times interest (31 Dec 2014: 6.3x; bank covenant not to be less than 3.5x).

The Group has a strong funding platform that underpins delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding. At 30 June 2015, this represented £737 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 £109 million of finance leases. The residual debt balance is funded from the Group's £416 million revolving credit facility (RCF), with a margin of 0.6% over LIBOR and maturing in 2019. At 30 June 2015, the Group had £459 million in cash and undrawn committed facilities available. The Group has begun discussions regarding the refinancing of its £350m bond expiring in 2017.

At 30 June 2015, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in foreign currency profit translation with corresponding movements in the Sterling value of debt. These corresponded to 1.9 times EBITDA earned in the US, held in US Dollars, and 1.9 times EBITDA earned in Spain and Germany, 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 2015, the proportion of Group debt at floating rates was 34%.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 30 June 2015 decreased to £11.7 million (31 Dec 2014: £11.9m). 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. The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan, which remains open to accrual for existing active members only.

Fuel costs

Fuel cost represents approximately 9% of revenue. The Group is fully hedged for 2015 and 2016 at an average price of 44p and 42p per litre respectively, 88% hedged for 2017 at an average price of 41p and 22% hedged for 2018 at an average price of 34p.

Principal risks and uncertainties

The Group's other principal risks and uncertainties remain in line with those detailed in the Annual Report and Accounts 2014 on pages 26 and 27 and are summarised here:

- Concession and contract renewal: although there is little bidding activity remaining in 2015 there will be significant activity recommencing in the first half of 2016 to retain and renew our existing portfolio of contracts and concessions, for example in Spain and North America, which may be underbid by competitors;
- 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;
- Contract management: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Fuel cost: changes in the economy, political decisions (including the upcoming risk to a reduction in BSOG) and conflict in fuel producing nations can drive changes in cost for the Group;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in material charges to profit and cash flow;
- Financial risks: the Group faces risks from deteriorating customer credit and to movements in currencies.

In addition, the Group has seen an increase in competitive pressure, particularly in Spain, where high speed rail competition has impacted intercity coach revenues.

Matthew Ashley
Group Finance Director
29 July 2015

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 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);
- 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.

29 July 2015

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For the six months ended 30 June 2015

	Note	Total before intangible amortisation 2015 £m	Intangible amortisation 2015 £m	Total 2015 £m	Total before intangible amortisation & exceptional items (restated)* 2014 £m	Intangible amortisation & exceptional items (restated)* 2014 £m	Total 2014 £m	Audited Year to 31 December Total (restated)* 2014 £m
		Unaudited six months to 30 June						
Continuing operations								
Revenue	4	**960.2**	**–**	**960.2**	939.5	–	939.5	1,867.4
Operating costs before intangible amortisation & exceptional items		**(870.6)**	**–**	**(870.6)**	(864.2)	–	(864.2)	(1,699.8)
Intangible amortisation	5	**–**	**(12.4)**	**(12.4)**	–	(14.4)	(14.4)	(28.6)
Exceptional items	6	**–**	**–**	**–**	–	(13.5)	(13.5)	(24.8)
Total operating costs		**(870.6)**	**(12.4)**	**(883.0)**	(864.2)	(27.9)	(892.1)	(1,753.2)
Group operating profit	4	**89.6**	**(12.4)**	**77.2**	75.3	(27.9)	47.4	114.2
Share of results of associates		**0.2**	**–**	**0.2**	0.2	–	0.2	0.3
Finance income	7	**2.8**	**–**	**2.8**	2.7	–	2.7	6.5
Finance costs	7	**(25.9)**	**–**	**(25.9)**	(26.9)	–	(26.9)	(54.5)
Profit before tax		**66.7**	**(12.4)**	**54.3**	51.3	(27.9)	23.4	66.5
Tax (charge)/credit	6,8	**(13.3)**	**3.8**	**(9.5)**	(10.7)	7.9	(2.8)	(5.9)
Profit for the period		**53.4**	**(8.6)**	**44.8**	40.6	(20.0)	20.6	60.6
Profit attributable to equity shareholders		**52.1**	**(8.6)**	**43.5**	40.0	(20.0)	20.0	59.1
Profit attributable to non-controlling interests		**1.3**	**–**	**1.3**	0.6	–	0.6	1.5
		53.4	**(8.6)**	**44.8**	40.6	(20.0)	20.6	60.6
Earnings per share:								
– basic earnings per share	10			**8.5p**			3.9p	11.6p
– diluted earnings per share	10			**8.5p**			3.9p	11.5p
Normalised earnings per share (restated)*:								
– basic earnings per share	10	**10.2p**			7.8p			18.9p
– diluted earnings per share	10	**10.2p**			7.8p			18.9p

*restated for the reclassification of business development costs from exceptional items as disclosed in note 1.

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2015

	Unaudited six months to 30 June 2015 £m	Unaudited six months to 30 June 2014 £m	Audited year to 31 December 2014 £m
Profit for the period	**44.8**	20.6	60.6
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension plans	**(4.0)**	4.4	10.1
Deferred tax on actuarial (losses)/gains	**0.8**	(1.2)	(2.3)
	(3.2)	3.2	7.8
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**(79.3)**	(45.3)	(25.0)
Exchange differences on retranslation of non-controlling interests	**(1.1)**	(0.3)	(0.8)
Gains/(losses) on cash flow hedges	**8.1**	(0.1)	(80.3)
Less: reclassification adjustments for gains or losses included in profit	**15.5**	1.6	12.3
Tax on exchange differences	**(2.7)**	1.8	0.1
Deferred tax on cash flow hedges	**(4.7)**	(0.3)	13.6
	(64.2)	(42.6)	(80.1)
Total comprehensive expenditure for the period	**(22.6)**	(18.8)	(11.7)
Total comprehensive expenditure attributable to:			
Equity shareholders	**(22.8)**	(19.1)	(12.4)
Non-controlling interests	**0.2**	0.3	0.7
	(22.6)	(18.8)	(11.7)

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2015

	Note	**Unaudited 30 June 2015 £m**	Unaudited 30 June 2014 £m	Audited 31 December 2014 £m
Non-current assets				
Intangible assets		**1,121.8**	1,177.0	1,177.4
Property, plant and equipment		**736.5**	698.4	729.9
Available for sale investments		**6.3**	7.1	6.8
Derivative financial instruments	**11**	**15.9**	16.5	26.5
Deferred tax assets		**25.7**	19.5	29.9
Investments accounted for using the equity method		**5.1**	5.4	5.4
Trade and other receivables		**1.8**	2.6	1.8
Defined benefit pension assets	**12**	**41.4**	20.7	40.6
		1,954.5	1,947.2	2,018.3
Current assets				
Inventories		**20.9**	20.7	21.8
Trade and other receivables		**189.8**	179.4	199.6
Derivative financial instruments	**11**	**0.3**	2.2	1.5
Current tax assets		**–**	1.0	1.3
Cash and cash equivalents		**43.3**	43.3	83.7
		254.3	246.6	307.9
Total assets		**2,208.8**	2,193.8	2,326.2
Non-current liabilities				
Borrowings		**(734.1)**	(741.2)	(741.8)
Derivative financial instruments	**11**	**(22.4)**	(1.0)	(36.1)
Deferred tax liability		**(57.4)**	(72.8)	(66.0)
Other non-current liabilities		**(10.7)**	(4.8)	(4.1)
Defined benefit pension liabilities	**12**	**(53.1)**	(42.7)	(52.5)
Provisions		**(23.4)**	(19.2)	(23.5)
		(901.1)	(881.7)	(924.0)
Current liabilities				
Trade and other payables		**(400.3)**	(355.0)	(415.7)
Borrowings		**(50.5)**	(55.8)	(55.9)
Derivative financial instruments	**11**	**(22.9)**	(3.7)	(35.8)
Current tax liabilities		**(30.8)**	(23.5)	(23.3)
Provisions		**(26.9)**	(32.1)	(35.3)
		(531.4)	(470.1)	(566.0)
Total liabilities		**(1,432.5)**	(1,351.8)	(1,490.0)
Net assets		**776.3**	842.0	836.2
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		**(1.5)**	(1.7)	(1.5)
Other reserves		**(95.9)**	4.1	(32.8)
Retained earnings		**302.4**	270.6	299.3
Total shareholders' equity		**763.5**	831.5	823.5
Non-controlling interest in equity		**12.8**	10.5	12.7
Total equity		**776.3**	842.0	836.2

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2015

	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 2015	25.6	532.7	0.2	(1.5)	(32.8)	299.3	**823.5**	12.7	**836.2**
Own shares released to satisfy employee share schemes	–	–	–	2.3	–	(2.3)	**–**	–	**–**
Shares purchased	–	–	–	(2.3)	–	–	**(2.3)**	–	**(2.3)**
Total comprehensive income	–	–	–	–	(63.1)	40.3	**(22.8)**	0.2	**(22.6)**
Share-based payments	–	–	–	–	–	0.7	**0.7**	–	**0.7**
Tax on share-based payments	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Dividends	–	–	–	–	–	(35.5)	**(35.5)**	–	**(35.5)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.1)	**(0.1)**
At 30 June 2015 (unaudited)	**25.6**	**532.7**	**0.2**	**(1.5)**	**(95.9)**	**302.4**	**763.5**	**12.8**	**776.3**

	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 2014	25.6	532.7	0.2	(0.8)	46.5	282.4	**886.6**	10.7	**897.3**
Own shares released to satisfy employee share schemes	–	–	–	1.8	–	(1.8)	**–**	–	**–**
Shares purchased	–	–	–	(2.7)	–	–	**(2.7)**	–	**(2.7)**
Total comprehensive income	–	–	–	–	(42.4)	23.3	**(19.1)**	0.3	**(18.8)**
Share-based payments	–	–	–	–	–	1.4	**1.4**	–	**1.4**
Tax on share-based payments	–	–	–	–	–	(0.2)	**(0.2)**	–	**(0.2)**
Dividends	–	–	–	–	–	(34.5)	**(34.5)**	–	**(34.5)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
At 30 June 2014 (unaudited)	**25.6**	**532.7**	**0.2**	**(1.7)**	**4.1**	**270.6**	**831.5**	**10.5**	**842.0**

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2015

	Note	**Unaudited six months to 30 June 2015 £m**	Unaudited six months to 30 June 2014 £m	Audited year to 31 December 2014 £m
Cash generated from operations	**15**	**132.4**	119.3	245.2
Tax paid		**(2.3)**	(2.8)	(13.0)
Net cash from operating activities		**130.1**	116.5	232.2
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	**13**	**(22.0)**	(5.2)	(5.2)
Deferred consideration for businesses acquired and disposed		**(0.1)**	(0.5)	(0.5)
Purchase of property, plant and equipment		**(83.1)**	(37.6)	(55.7)
Proceeds from disposal of property, plant and equipment		**4.4**	7.7	13.9
Payments to acquire intangible assets		**(3.3)**	(2.7)	(7.5)
Payments to acquire associates		**(0.1)**	(0.3)	(0.2)
Interest received		**9.3**	9.4	5.9
Net cash used in investing activities		**(94.9)**	(29.2)	(49.3)
Cash flows from financing activities				
Purchase of own shares		**(2.3)**	(2.7)	(3.2)
Interest paid		**(41.9)**	(42.8)	(49.7)
Finance lease principal payments		**(13.9)**	(11.7)	(28.8)
Net loans drawn down/(repaid)		**20.6**	2.3	(9.7)
(Payment)/receipt on the maturity of foreign currency swaps		**(0.3)**	6.0	2.4
Dividends paid to non-controlling interests		**–**	(0.5)	(0.2)
Contribution from non-controlling interests		**–**	–	1.5
Dividends paid to shareholders of the Company		**(35.5)**	(34.5)	(51.6)
Net cash used in financing activities		**(73.3)**	(83.9)	(139.3)
(Decrease)/increase in cash and cash equivalents		**(38.1)**	3.4	43.6
Opening cash and cash equivalents		**83.7**	40.9	40.9
(Decrease)/increase in cash and cash equivalents		**(38.1)**	3.4	43.6
Foreign exchange		**(2.3)**	(1.0)	(0.8)
Closing cash and cash equivalents		**43.3**	43.3	83.7

NATIONAL EXPRESS GROUP PLC
NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS
For the six months ended 30 June 2015

1. General information

These interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared using the accounting policies set out on pages 98 to 106 of the Group's Annual Report and Accounts 2014 except as described below and in accordance with the Disclosure and Transparency Rules (DTR) 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 2014 have been extracted from the Group's Annual Report and Accounts 2014 which has been filed with the Registrar of Companies. The audit report on the Group's Annual Report and Accounts 2014 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 2014 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. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 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 and restatements

There have been no significant new standards made effective from 1 January 2015, therefore the same accounting policies and methods of computation are followed in these condensed set of financial statements as applied in the Group's latest annual audited financial statements.

Following recent successful bidding in both Rail franchise contracts and public vehicle contracts in the Middle East, the Directors have decided to classify business development costs as part of the recurring operations of the business and hence part of the normalised performance in 2015. For comparability, the similar costs in 2014 (which were treated as exceptional items) have been reclassified to be consistent with the current year presentation, along with the imputed tax credits. The reclassification has no effect on the IFRS reported results.

A reconciliation of prior period operating profit is as follows:

Operating profit before intangible amortisation and exceptional items	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
As previously reported	89.5	193.1
Business development costs in Rail	(11.9)	(19.8)
Business development costs in Spain and Morocco	(0.2)	(0.8)
Business development costs in Central Functions	(2.1)	(4.9)
As restated	75.3	167.6

1. General information (continued)

Changes in accounting policies and restatements (continued)

A reconciliation of prior period taxation is as follows:

Tax credits on intangible asset amortisation and exceptional items	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
As previously reported	11.7	21.8
Tax credits relating to business development costs	(3.8)	(5.9)
As restated	7.9	15.9

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 and Spanish coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. 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 2015		Six months to 30 June 2014		Year to 31 December 2014	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.57**	**1.52**	1.71	1.67	1.56	1.65
Canadian dollar	**1.96**	**1.88**	1.83	1.83	1.81	1.82
Euro	**1.41**	**1.37**	1.25	1.22	1.29	1.24

If the results for the 6 months to 30 June 2014 had been retranslated at the average exchange rates for the year to 30 June 2015, North America would have achieved normalised operating profit of £37.8m on revenue of £359.4m, compared to normalised operating profit of £35.2m on revenue of £333.4m as reported, and Spain and Morocco would have achieved a normalised operating profit of £28.1m on revenue of £233.9m, compared to normalised operating profit of £31.5m on revenue of £262.3m as reported.

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 24-27 in the Group's Annual Report and Accounts 2014.

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 Business and Financial Reviews.

	Six months to 30 June				Year to 31 December	
Analysis by class and geography of business	**Revenue 2015 £m**	**Operating result 2015 £m**	Revenue 2014 £m	Operating result (restated)* 2014 £m	Revenue 2014 £m	Operating result (restated)* 2014 £m
UK Bus	**141.4**	**17.1**	137.7	15.3	281.0	34.0
UK Coach	**132.2**	**10.0**	130.5	9.3	275.2	28.0
Rail	**82.0**	**0.6**	74.5	(6.5)	151.6	(10.1)
North America	**363.0**	**39.2**	333.4	35.2	620.2	59.5
Spain and Morocco	**241.8**	**29.7**	262.3	31.5	538.1	75.0
German Coach	**–**	**–**	1.7	(1.4)	2.1	(1.7)
Central functions	**–**	**(7.0)**	–	(8.1)	–	(17.1)
Intercompany elimination	**(0.2)**	**–**	(0.6)	–	(0.8)	–
Result from continuing operations	**960.2**	**89.6**	939.5	75.3	1,867.4	167.6
Intangible asset amortisation		**(12.4)**		(14.4)		(28.6)
Exceptional items		**–**		(13.5)		(24.8)
Group operating profit		**77.2**		47.4		114.2
Share of results of associates		**0.2**		0.2		0.3
Net finance costs		**(23.1)**		(24.2)		(48.0)
Profit before tax		**54.3**		23.4		66.5
Tax charge		**(9.5)**		(2.8)		(5.9)
Profit for the period		**44.8**		20.6		60.6

*restated for the reclassification of business development costs from exceptional items as reconciled below.

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

In the six months to 30 June 2015 the Group incurred business development costs of £3.9m (2014 interim: £14.2m; 2014 full year: £25.5m).

A reconciliation of segmental results to amounts previously reported is as follows:

Six months to 30 June 2014	Rail £m	Spain and Morocco £m	Central Functions £m	Group operating profit £m
As previously reported	5.4	31.7	(6.0)	89.5
Business development costs	(11.9)	(0.2)	(2.1)	(14.2)
As restated	(6.5)	31.5	(8.1)	75.3

Year to 31 December 2014	Rail £m	Spain and Morocco £m	Central Functions £m	Group operating profit £m
As previously reported	9.7	75.8	(12.2)	193.1
Business development costs	(19.8)	(0.8)	(4.9)	(25.5)
As restated	(10.1)	75.0	(17.1)	167.6

5. Intangible asset amortisation

Intangible asset amortisation is analysed by reportable segment as follows:

	Six months to 30 June 2015 £m	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
UK Coach	**0.2**	0.2	0.5
North America	**7.0**	6.5	11.3
Spain and Morocco	**5.1**	7.5	16.3
German Coach	**–**	0.1	0.4
Central functions	**0.1**	0.1	0.1
	12.4	14.4	28.6

6. Exceptional items

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require 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.

Exceptional items are analysed by reportable segment as follows:

	Six months to 30 June 2015 £m	Six months to 30 June 2014 (restated)* £m	Year to 31 December 2014 (restated)* £m
UK Bus	**–**	3.4	7.0
UK Coach	**–**	0.1	3.0
Rail	**–**	–	0.6
North America	**–**	7.6	16.2
Spain and Morocco	**–**	1.6	(9.9)
Central functions	**–**	0.8	6.2
German Coach	**–**	–	1.7
	–	13.5	24.8

*restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

Exceptional items are further analysed by type as follows:

	Six months to 30 June 2015 £m	Six months to 30 June 2014 (restated)* £m	Year to 31 December 2014 (restated)* £m
Restructuring	**–**	7.5	25.8
Strategic rationalisation	**–**	6.0	18.3
Exceptional fuel credits	**–**	–	(19.3)
	–	13.5	24.8

*restated for the reclassification of business development costs from exceptional items as disclosed in note 1.

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

	Six months to 30 June 2015 £m	Six months to 30 June 2014 (restated)* £m	Year to 31 December 2014 (restated)* £m
Tax credit on intangible asset amortisation	**3.8**	4.4	10.9
Tax credit on exceptional items	**–**	3.5	5.0
	3.8	7.9	15.9

*restated for the reclassification of business development costs from exceptional items as disclosed in note 1.

7. Net finance costs

	Six months to 30 June 2015 £m	Six months to 30 June 2014 £m	Year to 31 Dec 2014 £m
Bank and bond interest payable	**(22.5)**	(23.8)	(47.5)
Finance lease interest payable	**(1.6)**	(1.8)	(4.2)
Other interest payable	**(0.9)**	(0.3)	(0.5)
Unwind of provision discounting	**(0.8)**	(0.5)	(1.2)
Interest cost on defined benefit pension obligations	**(0.1)**	(0.5)	(1.1)
Finance costs	**(25.9)**	(26.9)	(54.5)
Other financial income	**2.8**	2.7	6.5
Net finance costs	**(23.1)**	(24.2)	(48.0)

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2015 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2015. The normalised tax charge of £13.3m (2014 interim restated: £10.7m; 2014 full year restated: £21.8m) represents an effective tax rate on normalised profit before tax, for continuing operations, of 20% (2014 interim restated: 21%; 2014 full year restated: 18%). The total tax charge of £9.5m (2014 interim: £2.8m; 2014 full year: £5.9m) includes a deferred taxation credit of £3.9m (2014 interim: £4.0m; 2014 full year: £8.7m).

In the July 2015 Budget Statement, it was announced that the main rate of UK corporation tax would reduce from 20% to 19% on 1 April 2017 and 18% on 1 April 2020. As the legislation is not enacted by the period end the impact is not included in these results.

9. Dividends paid and proposed

	Six months to 30 June 2015 £m	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
Declared and paid during the period:			
Ordinary final dividend for 2013 paid of 6.75p per share	**–**	34.5	34.5
Ordinary interim dividend for 2014 of 3.35p per share	**–**	–	17.1
Ordinary final dividend for 2014 paid of 6.95p per share	**35.5**	–	–

	Six months to 30 June 2015 £m	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
Proposed for approval and not recognised at period end:			
Ordinary interim dividend for 2014 of 3.35p per share	**–**	17.1	–
Ordinary final dividend for 2014 paid of 6.95p per share	**–**	–	35.5
Ordinary interim dividend for 2015 of 3.685p per share	**18.8**	–	–

10. Earnings per share

	Six months to 30 June 2015	Six months to 30 June 2014	Year to 31 December 2014
Basic earnings per share	**8.5p**	3.9p	11.6p
Normalised basic earnings per share (restated)*	**10.2p**	7.8p	18.9p
Diluted earnings per share	**8.5p**	3.9p	11.5p
Normalised diluted earnings per share (restated)*	**10.2p**	7.8p	18.9p

*restated for the reclassification of business development costs from exceptional items as disclosed in note 1.

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £43.5m (2014 interim: £20.0m; 2014 full year: £59.1m) 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 2015	Six months to 30 June 2014	Year to 31 December 2014
Basic weighted average shares	**511,174,909**	511,089,240	511,125,312
Adjustment for dilutive potential ordinary shares	**275,107**	1,012,998	970,374
Diluted weighted average shares	**511,450,016**	512,102,238	512,095,686

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

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

	Six months to 30 June 2015 £m	Six months to 30 June 2014 (restated)* £m	Year to 31 December 2014 (restated)* £m
Profit attributable to equity shareholders	**43.5**	20.0	59.1
Intangible asset amortisation	**12.4**	14.4	28.6
Exceptional operating items	**–**	13.5	24.8
Tax relief on amortisation and exceptional items	**(3.8)**	(7.9)	(15.9)
Normalised profit attributable to equity shareholders	**52.1**	40.0	96.6

*restated for the reclassification of business development costs from exceptional items as disclosed in note 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 2015 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 i.e. 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 2015. All hedge relationships were effective under the rules of IAS 39.

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

	At 30 June 2015 £m	At 30 June 2014 £m	At 31 December 2014 £m
Non-current			
Fuel derivatives	**–**	3.0	–
Interest rate derivatives	**15.9**	13.5	26.5
Derivative financial assets	**15.9**	16.5	26.5
Current			
Fuel derivatives	**–**	1.4	–
Foreign exchange derivatives	**0.3**	0.8	1.5
Derivative financial assets	**0.3**	2.2	1.5
Non-current			
Fuel derivatives	**22.4**	1.0	36.1
Interest rate derivatives	**–**	–	–
Derivative financial liabilities	**22.4**	1.0	36.1
Current			
Fuel derivatives	**22.4**	2.8	35.2
Foreign exchange derivatives	**0.5**	0.9	0.6
Derivative financial liabilities	**22.9**	3.7	35.8

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

The total pension cost for the six months to 30 June 2015 was £5.4m (2014 interim: £5.0m; 2014 full year: £9.9m), of which £3.5m (2014 interim: £3.1m; 2014 full year: £6.2m) relates to the defined benefit schemes and £1.9m (2014 interim: £1.9m; 2014 full year: £3.7m) relates to the defined contribution schemes.

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

	At 30 June 2015 £m	At 30 June 2014 £m	At 31 December 2014 £m
UK Bus	**(51.1)**	(41.1)	(50.6)
UK Coach	**30.5**	15.7	30.6
Rail	**10.9**	5.0	10.0
Other	**(2.0)**	(1.6)	(1.9)
Total	**(11.7)**	(22.0)	(11.9)

The Rail defined benefit pension asset is net of a franchise adjustment of £33.0m (2014 interim: £22.8m; 2014 full year: £30.8m). An explanation of the franchise adjustment is included in note 33 to the Group's Annual Report and Accounts 2014.

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

	Six months ended 30 June 2015			Year ended 31 December 2014		
	UK Bus	**UK Coach**	**Rail**	UK Bus	UK Coach	Rail
Rate of increase in salaries	**2.5%**	**2.5%**	**2.7%**	2.5%	2.5%	2.4%
Rate of increase in pensions	**2.2%**	**3.2%**	**2.2%**	1.9%	2.9%	1.9%
Discount rate	**3.8%**	**3.8%**	**3.8%**	3.6%	3.6%	3.6%
Inflation rate (RPI)	**3.2%**	**3.2%**	**3.2%**	2.9%	2.9%	2.9%
Inflation rate (CPI)	**2.2%**	**2.2%**	**2.2%**	1.9%	1.9%	1.9%

13. Business Combinations

On 19 June 2015, in the United States, the Group acquired the entire share capital of Trans Express Inc., On Top Tours NYC Inc. and Rainbow Management Service Inc. These businesses operate scheduled transportation services, shuttle transportation services and charter bus services in New York. The provisional fair value of net assets acquired was £22.0m. The provisional fair value of the consideration was £29.4m, resulting in goodwill of £7.4m. There was £1.6m of cash acquired in the business and £9.2m of deferred consideration, therefore the net cash outflow was £18.6m.

On 17 April 2015, in the United States, the Group acquired the entire share capital of Folmsbee's Transportation Inc. which operates school bus transportation services and charter bus services in upstate New York. The fair value of net assets acquired was £2.6m. Consideration was £3.8m, resulting in goodwill of £1.2m. There was £0.2m of cash acquired in the business and £0.2m of deferred consideration, therefore the net cash outflow was £3.4m.

There were no other acquisitions or disposals in the period.

14. Net debt

	At 1 January 2015 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2015 £m
Cash and cash equivalents	**83.7**	**(39.9)**	**1.8**	**(2.3)**	**–**	**43.3**
Other debt receivable	**0.8**	**(0.1)**	**–**	**–**	**–**	**0.7**
Borrowings:						
Bank loans	**(5.2)**	**(20.6)**	**–**	**5.0**	**(0.4)**	**(21.2)**
Bonds	**(585.3)**	**–**	**–**	**–**	**2.0**	**(583.3)**
Fair value of hedging derivatives	**18.6**	**–**	**–**	**–**	**(4.1)**	**14.5**
Finance lease obligations	**(110.5)**	**13.9**	**–**	**1.5**	**(13.6)**	**(108.7)**
Other debt payable	**(66.4)**	**0.1**	**–**	**5.3**	**1.4**	**(59.6)**
Total borrowings	**(748.8)**	**(6.6)**	**–**	**11.8**	**(14.7)**	**(758.3)**
Net debt*	**(664.3)**	**(46.6)**	**1.8**	**9.5**	**(14.7)**	**(714.3)**

* excludes accrued interest on bonds

	At 1 January 2014 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	At 30 June 2014 £m
Cash and cash equivalents	40.9	3.4	(1.0)	–	43.3
Other debt receivable	1.0	(0.1)	–	–	0.9
Borrowings:					
Bank loans	(19.8)	(2.3)	0.7	(0.5)	(21.9)
Bonds	(579.5)	–	–	(0.2)	(579.7)
Fair value of hedging derivatives	9.2	–	–	2.8	12.0
Finance lease obligations	(132.9)	11.7	3.6	–	(117.6)
Other debt payable	(65.0)	0.1	2.3	(3.4)	(66.0)
Total borrowings	(788.0)	9.5	6.6	(1.3)	(773.2)
Net debt*	(746.1)	12.8	5.6	(1.3)	(729.0)

* excludes accrued interest on bonds

Borrowings include non-current interest bearing loans and borrowings of £734.1m (2014 interim: £741.2m; 2014 full year: £741.8m).

Other non-cash movements represent finance lease additions of £13.6m (2014 interim: £nil) and a £1.1m increase to net debt (2014 interim: £1.3m) 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 2015 £m	Six months to 30 June 2014 £m	Year to 31 December 2014 £m
Net cash inflow from operating activities			
Profit before tax	**54.3**	23.4	66.5
Net finance costs	**23.1**	24.2	48.0
Share of post-tax results under the equity method	**(0.2)**	(0.2)	(0.3)
Depreciation of property, plant and equipment	**52.1**	50.4	104.9
Intangible asset amortisation	**12.4**	14.4	28.6
Amortisation of fixed asset grants	**(0.3)**	(0.4)	(0.8)
Profit on disposal property, plant and equipment	**(0.1)**	(0.9)	(1.7)
Share-based payments	**0.7**	1.4	3.1
Increase in inventories	**–**	–	(0.6)
Decrease/(increase) in receivables	**2.1**	(11.1)	(26.9)
Increase in payables	**7.2**	21.3	26.8
Decrease in provisions	**(18.9)**	(3.2)	(2.4)
Cash generated from operations	**132.4**	119.3	245.2

16. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2015 were £34.1m (2014 full year: £77.0m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £30.8m (2014 full year: £2.9m) relating to certain joint ventures.

Bonds and letters of credit

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2015, the Group has issued Rail performance bonds of £61.0m (2014 full year: £61.3m) and Rail season ticket bonds of £16.3m (2014 full year: £21.6m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £112.3m (2014 full year: £114.5m) and the rest of Europe of £27.2m (2014 full year: £32.1m). Letters of credit have been issued to support insurance retentions of £65.6m (2014 full year: £65.7m).

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2014 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 2015.

18. Post balance sheet events

There have been no significant post balance sheet events.

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 2015 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 Conduct Authority.

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 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 Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
29 July 2015