national express

Press release

28 July 2011

National Express Group PLC

Half Year Results for the six months ended 30 June 2011

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 and North America, together with rail services in the UK.

Highlights
Margin growth across the Group, supported by organic growth in each of the five divisions, new contracts and a bolt-on acquisition, reinstatement of the interim dividend and the appointment of three new Non-Executive Directors to guide the Group through its strategic development.

- Successful strategic delivery:
  - Delivering margin improvement across all businesses – Group operating margin increased to 10.5% (2010: 9.0%)
  - Achieving organic growth – revenue up 6%
  - Securing targeted expansion – nearly £250 million of new contracts won in North America & Spain
- Group operating profit* up 23% to £117.6 million
- Good operating cash generation supporting increased investment
- Statutory profit for the period nearly trebled to £54.7 million
- Interim dividend reinstated at 3 pence per share

Financial summary

Half year ended 30 June	**2011**	**2010**	**Change**
Revenue (£m)	1,118.9	1,059.6	+6%
Group operating profit* (£m)	117.6	95.7	+23%
Share of results from associates (£m)	0.5	0.3	+67%
Net finance costs (£m)	(22.6)	(20.3)	-11%
Profit before taxation* (£m)	95.5	75.7	+26%
Operating margin*	10.5%	9.0%	+1.5 ppts
Net debt (£m)	635.3	610.4†	4%
Basic earnings per share* (pence)	14.1	11.4	+24%
Statutory profit for the period (£m)	54.7	19.4	+182%
Interim dividend (pence per share)	3.0	nil	n/a

† 31 December 2010

Dean Finch, National Express Group Chief Executive, commented:

"We have had a strong first half, and driven margin enhancement and organic growth across our businesses. Operating profit has grown by 23% and we have reinstated the interim dividend.

"We continue to invest in growth and are well placed to deliver further operational improvements. As we complete our margin recovery programme, we are focused on organic growth, new contract wins, and carefully targeted opportunities in attractive markets."

Enquiries

National Express Group PLC

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Definitions

** Normalised result: Statutory result excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.*

BUSINESS REVIEW

Overview of the first half year

National Express has delivered a successful first half of 2011, driving margin enhancement and organic growth in each of its businesses. Group revenue has grown 6%, normalised operating profit has risen by 23% and normalised profit before taxation has increased by almost £20 million. We have completed our rationalisation programmes, eliminating exceptional costs in the first half of the year and nearly trebling statutory profit. We are investing in future growth, whilst further reducing our gearing and have reinstated the interim dividend to shareholders.

The social and environmental benefits of our urban bus operations, the excellent value offered by our coach brands to hard-pressed consumers, and the cost saving opportunity offered to our North American customers through outsourcing are all driving good growth across our divisions and will continue to do so. Despite challenging economic conditions, we have a portfolio of businesses that all offer further operational improvement and have real growth opportunities:

- Our Spanish operations are seeing increasing passenger numbers and future route opportunities;
- We are seeing similar opportunities in our UK coach operations, as we build our value proposition, implement new ticketing initiatives and new services and routes;
- In our UK bus business, we look to increase volumes and offer increasing levels of service to our passengers. Whilst we cannot yet say that modal shift is occurring sustainably, there is evidence that the UK recession is encouraging passengers to seek more cost effective modes of transport;
- Rail remains very much part of our plans. We believe that there will be opportunities for us in the next round of franchises, subject to the terms matching our strict financial criteria;
- In North America, we are continuing to make significant progress, both in improving the operating performance of our existing business and growing the number of contracts we operate. In a stable market and given the strength of our operations in the region, we believe we have scope to grow the business profitably. We are continuing to evaluate opportunities in those markets which offer a logical extension to our existing North American business.

Having seen a rapid improvement in the operating and financial performance of the Group, we are now firmly focused on delivering organic growth and supplementing it with bolt-on acquisitions that meet the strong financial and operating criteria we apply to all our businesses. We are making good progress in developing our plans to mitigate the challenges ahead in 2012 to continue to create shareholder value.

Performance
Group revenue increased by 6% in the first half of 2011 to £1,118.9 million. Normalised operating profit grew £21.9 million to £117.6 million, as the margin recovery programme continued to deliver a substantial improvement in operating margin to 10.5% (2010: 9.0%). Normalised operating profit improved in all divisions, as follows:

Normalised operating profit	First half 2011 £m	First half 2010 £m	Full year 2010 £m
Spain	38.6	33.0	86.2
North America	34.6	31.0	36.9
UK Bus	15.2	10.9	28.3
UK Coach	11.7	10.3	32.0
UK Rail	27.1	16.1	33.8
Corporate costs	(6.9)	(5.6)	(13.0)
Other project-related costs	(2.7)	-	-
Group	117.6	95.7	204.2

Normalised profit before taxation increased by 26% to £95.5 million and normalised basic earnings per share (EPS) improved 24% to 14.1 pence. Following reinstatement of the final dividend for 2010 at 6 pence per share, the Board has approved an interim dividend for 2011 of 3 pence.

The business continues to operate with an emphasis on cash generation. This provides a platform for the Group to increase its capital investment to pursue growth opportunities - to drive ridership by increased expenditure in fleet and facilities, to attract customers by investment in new sales technology and by investment in new contracts and acquisitions to deliver long term sustainable earnings growth. With an increase in working capital and funding of prior year liabilities, net debt at 30 June 2011 was £635.3 million (31 December 2010: £610.4m).

Executing our strategy
The first half year has seen National Express achieve success in each of the first three of the four phases of its strategy, set out at the 2010 full year results:

(1) **Delivering margin improvement** – now in the second year of this programme, the Group remains on course to improve financial performance significantly in 2011, with margin improvement across all businesses;
(2) **Achieving organic growth** – revenue growth continues across all five divisions, with trends progressively improving during the first half of the year;
(3) **Securing targeted expansion** – new contracts have been won in North America and Spain;
(4) **Developing new strategic growth opportunities** – we are investing resource to develop our successful public transport businesses into selected new markets.

Our progress is set out in more detail below.

Delivering margin improvement
This year we have built on our successful margin recovery programme of 2010 and are making good progress towards our goal of achieving industry-leading margins in each business. From historic lows in 2009, particularly in North America and UK Bus, we achieved at least industry average margins in each division by the end of 2010. Each division has improved its margin further in 2011, principally through an unrelenting focus on the cost base, taking out unprofitable mileage and improving productivity in all areas. UK Bus has grown profit by 39% in the half year, with all other divisions showing double digit percentage improvements.

Achieving organic growth
Each of the divisions has also delivered robust revenue improvement in the first half of the year. In Spain, the challenging domestic economic environment and higher fuel costs have enabled Alsa to leverage its competitive value position versus car and rail. A return to growth in the long distance coach business is particularly promising. A similar value proposition is being developed in UK Coach, through improvements in customer service, new technology and smarter marketing. These two businesses are also sharing knowledge, to leverage skills and experience. With its focus on delivering great customer service, North America has grown existing contract and charter business during 2011. Whilst UK Rail has grown volume, benefitting from improved economic conditions in the South East, the UK Bus division has managed pricing and yield effectively to grow revenue, despite difficult local market conditions.

Securing targeted expansion
Building on this successful organic growth platform, we continue to identify and bid for additional contracts and tenders, whilst evaluating bolt-on acquisition opportunities for existing operations. In Spain, Alsa continues to bid for tender and concession opportunities; in the first half of 2011 Alsa won the tender to operate the Madrid Tourist Bus service, commencing in September 2011. In North America, a successful bid season that will add over 1,000 new buses for September 2011 start-up was supported by the Vogel acquisition on 31 December 2010. This is an ideal opportunity, located between two existing Durham bus depots and operating 200 buses. We continue to explore many other such opportunities across the United States and Canada, which would enable the Group to increase revenue and profit in this established contract market.

Developing new strategic growth opportunities
As we look to the future, the Group's commercial development team has established a framework to identify and evaluate strategic growth opportunities. This framework encompasses:

- Operations in the same or similar modes of public transport, which leverage our extensive management skills and experience in bus, coach and rail, whilst generating incremental value for the Group;
- Operations in locations and geographies that overlap or can be managed by existing management capability;
- Markets that present attractive growth opportunities;
- Acquisitions that deliver immediate advantages of scale, from which meaningful synergies can be delivered;
- Clearly defined financial objectives, which target return on capital building to 15% pre-tax, shorter payback periods to allow reinvestment in further opportunities, strong cash generation, protecting our existing capital structure and debt rating, and maximising future shareholder value.

Dividends
At the Annual General Meeting in May, shareholders approved the reinstatement of the final dividend for 2010 at 6 pence per share. At the 2010 Results announcement, the Board set out its future policy that dividends should be covered at least two times by non-Rail earnings and that it should be paid out of cash generated by the Group. The Board has approved an interim dividend for 2011 of 3 pence per share, payable on 23 September 2011 to shareholders on the register at close of business on 9 September 2011.

Board changes
Earlier this year, the Board instigated a search for new non-executive directors with the relevant skills to assist in the Group's expansion plans. As a result of that process, three new non-executive directors, with substantial experience in Continental Europe and North America, were appointed in the first half year; Chris Muntwyler, Elliott (Lee) Sanders and Joaquín Ayuso. This completes our process and has added significant international perspective that will bring value to the Board's strategic thinking.

During the first half of the year, Roger Devlin announced his retirement from the Board. We are extremely grateful for Roger's strategic insight and tactical guidance during his four years on the Board and wish him well in pursuing his ongoing business interests.

Outlook
We are relentlessly focused on driving returns for our shareholders through a combination of pursuing organic growth, strong cost control and selected investment and business development opportunities.

We shall continue to drive margin growth throughout the business in the second half of the year. We also expect to see a continuation of the good organic growth in our passenger numbers in UK Coach, Rail and Spain, as well as starting up nine new conversion contracts in North America, the tourist bus operations in Madrid and new services in Agadir, UK Coach and Rail. In UK Bus we shall not be reviewing fares again until 2012, but we shall be pursuing volume growth from targeted promotions, investment in new vehicles and the introduction of smart cards on certain routes. In addition, we shall be executing further cost saving initiatives.

Through our business development team, we are building a good pipeline of investment opportunities that should see continued growth in our existing and related markets, particularly in North America, which we expect to enhance future shareholder value.

Dean Finch
Group Chief Executive
28 July 2011

FINANCIAL AND PERFORMANCE REVIEW

Key performance indicators

In 2010 we set out the key performance indicators (KPIs) on which we manage our business. For the half year, these are as follows:

Financial KPIs

KPI	First half 2011	First half 2010	Full year 2010
Underlying revenue growth	5.6%	(0.1%)	1.0%
Normalised operating profit	£117.6m	£95.7m	£204.2m
Normalised profit before tax	£95.5m	£75.7m	£160.5m
Normalised basic earnings per share	14.1p	11.4p	23.6p
Operating cash generation	£103.4m	£127.2m	£221.7m
Gearing ratio	1.9x	2.2x	2.1x

These financial KPIs demonstrate strong performance across all targeted metrics and are described in more detail below.

Non-financial KPIs

Passenger numbers (million)	First half 2011	First half 2010	Full year 2010
Spain	103.8	92.2	188.9
UK Bus	137.5	154.9	294.2
UK Coach	10.0	10.2	21.7
UK Rail	74.9	69.5	146.3

Mileage operated (million)	First half 2011	First half 2010	Full year 2010
Spain	83.0	79.7	164.3
UK Bus	34.8	36.0	71.5
UK Coach	39.9	40.3	80.9

Routes operated (thousand)	First half 2011	First half 2010	Full year 2010
North America	14.5	13.6	14.3

These KPIs indicate passenger volume growth in Spain and UK Rail, together with an increase in routes operated in North America school bus.Mileage was successfully reduced in UK Bus to drive efficiency, partly offsetting the reduction in the number of passengers, whilst mileage increased in Spain in response to rising service demand.

Safety KPIs

Signals passed at danger (per million train miles)	**First half 2011**	**2010**	**Full year 2010**
National Express East Anglia	0.67	0.20	0.48
c2c	nil	0.52	0.24

Preventable vehicle accidents (per million vehicle miles)	**First half 2011**	**2010**	**Full year 2010**
Spain	22.0	23.4	17.8
North America	9.9	11.3	11.2
UK Bus	20.4	23.4	23.0
UK Coach	13.7	12.4	7.7

Lost-time employee injuries (per thousand full-time equivalent employees)	**First half 2011**	**2010**	**Full year 2010**
Spain	24.1	33.1	49.8
North America	9.9	15.2	22.9
UK Bus	19.1	20.4	36.5
UK Coach	18.9	11.8	43.0
UK Rail	5.8	8.6	16.7

The Group's *'Driving Out Harm'* safety improvement programme has been rolled out across all the businesses in 2011. It is targeting a material reduction in vehicle accidents and employee injuries.

Revenue

Group revenue grew over the first six months of 2011 by 6% to £1,118.9 million (2010: £1,059.6m). Revenue increased in each of the five divisions, with strong underlying growth in particular in North America, Spain and UK Rail, whilst UK Bus and UK Coach achieved good growth in their core operations. A progressive recovery in most markets demonstrated the Group's broad exposure to a range of markets and economies and highlights the quality of the Group's transport portfolio, with leadership in most chosen markets. Sterling strengthened against the US Dollar compared with prior year, with an adverse impact on North American revenue translation of £10.3 million. The Euro exchange rate remained broadly constant year-on-year.

Normalised profit

Normalised Group operating profit rose by 23% in the first half of 2011 to £117.6 million (2010: £95.7m), further building on growth of 30% in the same period in 2010. The Group is continuing to deliver good results through its cost saving programmes, which added £23 million of benefit in the first half year, through improved wage efficiency, network optimisation and overhead cost savings. The other key profit changes year-on-year were as follows:

- Organic growth added £31 million;
- Depreciation increase of £4 million;
- Rail franchise premia increased by £2 million;
- Foreign exchange translation cost of £1 million;
- General cost inflation impact of £22 million;
- Investment and one-off project-related costs of £6 million.

The Group was successful at passing on the majority of its cost increases through the fare box and contract prices. One-off project related costs of £2.7 million, charged within operating costs, related to external fees in response to the Competition Commission enquiry into the UK bus industry, bid costs, professional fees relating to the strategic and Board debate ahead of the 2011 Annual General Meeting, and legal expenses on a North American claim.

Net finance costs increased to £22.6 million (2010: £20.3m), reflecting the impact of higher fixed interest rates on the Group's bond issues in 2010. Normalised profit before taxation increased by 26% to £95.5 million (2010: £75.7m), as set out below:

	Half year ended 30 June		**Full year**
	2011 £m	**2010 £m**	**2010 £m**
Revenue	1,118.9	1,059.6	2,125.9
Operating costs	(1,001.3)	(963.9)	(1,921.7)
Normalised group operating profit	117.6	95.7	204.2
Share of results from associates	0.5	0.3	0.3
Normalised net finance costs	(22.6)	(20.3)	(44.0)
Normalised profit before taxation	95.5	75.7	160.5

Statutory profit for the period

Following a period of significant exceptional costs, the completion of the Group's major rationalisation programmes resulted in no exceptional charges being incurred in the first half of 2011 (2010 charge: £19.2m).

The intangible asset amortisation charge, primarily relating to long-term contracts in Spain, was £25.4 million (2010: £32.0m) and the Group's effective tax rate on normalised profit was 23.9% (2010: 22.9%). Statutory profit for the period therefore increased to £54.7 million (2010: £19.4m). Statutory basic earnings per share were 10.6 pence (2010: 3.8p) and normalised basic earnings per share were 14.1 pence (2010: 11.4p). Fully diluted earnings per share were 10.6 pence (2010: 3.7p).

Cash management
The Group continues to focus on cash generation as a long-term driver of shareholder value creation. The cash generated is being deployed for reinvestment in the business for future growth and for dividend payments to shareholders, whilst maintaining a strong and flexible balance sheet.

Operating cash flow, which measures cash generated from business operations, was £103.4 million (2010: £127.2m). EBITDA (earnings before interest, tax, depreciation and amortisation) improved by 18% to £171.7 million (2010: £144.9m) and normalised operating profit conversion was 88% (2010: 133%). Cash conversion reduced year-on-year due to increased capital expenditure and higher working capital, reflecting the scheduled repayment of deferred social security contributions in Spain and a small delay in collection of receivables from public bodies, following Spanish regional and city government elections. The latter amounts are guaranteed for payment under Spanish law under normal circumstances but are closely monitored by local and Group management.

	Half year ended 30 June		**Full year**
	2011 £m	**2010 £m**	**2010 £m**
Normalised operating profit	117.6	95.7	204.2
Depreciation	51.6	48.9	99.8
Grant amortisation, profit on disposal and share-based payments	2.5	0.3	0.2
EBITDA	171.7	144.9	304.2
Net maintenance capital expenditure	(28.5)	(17.0)	(87.7)
Working capital movement	(34.4)	2.8	14.3
Pension contribution above normal charge	(5.4)	(3.5)	(9.1)
Operating cash flow	103.4	127.2	221.7

Capital investment in fleet replacement and growth increased in the first half year. We plan to invest around £160 million in the full year (2010: £121.6m), including 150 new buses and coaches in the UK, 240 new vehicles in Spain and 1,300 new school buses for new and existing contracts in North America.

Operating cash flow in the first half year funded residual planned payments for prior year exceptional costs, rail franchise exit and a payment under the now terminated Eurostar associate contract. Higher cash interest reflects the annual coupon payment of the Group's bonds in the first half year. The Group is targeting an improvement in free cash generation as these historical commitments expire over 2011 and 2012. Free cash flow in the first half of the year was £41.5 million (2010: £51.2m).

	Half year ended 30 June		**Full year**
	2011 £m	**2010 £m**	**2010 £m**
Operating cash flow	103.4	127.2	221.7
Discontinued operations and UK rail franchise exit	(5.2)	(9.3)	(25.5)
Exceptional cash flow	(4.7)	(19.4)	(52.6)
Payment to associates	(9.0)	(8.8)	(8.6)
Net interest	(37.8)	(33.6)	(47.1)
Taxation	(5.2)	(4.9)	(8.6)
Free cash flow	41.5	51.2	79.3
Net growth capital expenditure	(12.6)	-	(33.9)
Financial investments and shares	(2.6)	(0.6)	(1.7)
Acquisitions and disposals	(7.0)	(0.3)	(2.6)
Rights issue	-	(3.9)	(3.9)
Dividends	(30.8)	-	-
Net funds flow	(11.5)	46.4	37.2

Net funds flow was an outflow of £11.5 million (2010 inflow: £46.4m) reflecting the resumption of dividend payments in 2011. Net debt at 30 June 2011 increased to £635.3 million (31 December 2010: £610.4m).

The Group's key debt ratios continued to improve, as follows:

- Gearing ratio 1.9 times (2010: 2.2x; Group bank covenant not to exceed 3.5x);
- Interest cover ratio 7.0 times (2010: 6.5x; bank covenant not to be less than 3.5x).

Based on this stable financing platform, the Group is able to deploy considerable operational flexibility. The debt levels are well within the sector norm, allowing for a much wider selection of opportunities for investment. The Board is committed to maintaining the Group's investment grade credit rating, which was reaffirmed during the period by Fitch Ratings.

Pensions, fuel and risk management

The Group's principal defined benefit pension schemes are all in the UK. These schemes had a combined surplus under IAS19 at 30 June 2011 of £10.0 million (2010: deficit of £77.0m). The deficit under the Railways Pension Scheme (£2.3m) is transferred to the incoming operator on franchise termination.

In the last twelve months, the Group has reached agreements with the trustees of both the Group (Coach) and Bus pension plans over deficit recovery programmes to eliminate deficits on a scheme funding basis. For the Coach scheme, this plan envisages Group contributions of £4.2 million per annum from January 2011 for just over six years. This follows closure of the scheme to new accrual in January 2011 and is planned to bring the fund to a 'self sufficiency' level, whereby the trustees would no longer be reliant on the Group for deficit funding. The scheme also completed a successful "Enhanced Transfer Value" exercise which reduced the actuarial liability by £4.3 million. Deficit payments for the Bus scheme will be £5.5 million per annum, with this scheme remaining open to accrual from pre-existing members only. The Group's total annual deficit recovery payments have increased to £10.5 million (2010: £6.5m).

Non-rail fuel cost represents approximately 12% of the Group's non-rail revenue. The Board's policy is to hedge a proportion of its addressable consumption against short to medium term movements in price. The Group is fully hedged for its usage in 2011, at an average price of 40 pence per litre, and is approximately 85% hedged for 2012, at an average price of 44 pence per litre. It is one third hedged for 2013 at an average price of 46 pence per litre. During the first half of 2011, the Group decided to hedge future third party fuel consumption in UK Coach for those contracts where the Group bears the ultimate exposure.

Principal risks and uncertainties

The Group's other principal risks and uncertainties remain in line with those detailed in the Annual Report and Accounts 2010 on pages 34 and 35 and are summarised here:

- Economic conditions: parts of the business may be adversely affected by economic conditions, 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 have significant impact on a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues;
- Fuel costs: fuel prices are subject to significant volatility due to economic, political and climate circumstances and, to the extent that price increases cannot be passed on to customers, increases in fuel costs will significantly affect profitability;
- Contract risk: much of the Group's business is secured through winning contracts and concessions. An inherent risk in contract bidding is that significant bid assumptions prove to be incorrect;
- Cost reduction programmes: the Group continues to target a number of cost saving programmes to offset inflation and improve margins, which would otherwise threaten the competitive position of the business;
- Rail: the Group's East Anglia and c2c rail franchises expire in February 2012 and May 2013 respectively. Notwithstanding the loss of revenue and profits, the substantial cash outflow at the time of expiry, including the return of season ticket balances, can have a material effect on Group results, shareholder returns and investment plans. The Group was not selected to qualify to re-bid for the East Anglia franchise, and will therefore cease this operation in February 2012. The Group plans to bid to continue to operate the c2c franchise upon its expiry in 2013;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in substantial, material charges to profit and cash flow;
- Financial: the Group is dependent on maintaining certain financial ratios in order to comply with its banking covenants.

DIVISIONAL REVIEWS

Spain

- *ALSA is the largest private long distance and regional coach operator in Spain and a significant urban bus and tram operator. It has a growing presence in Morocco and is part of the Eurolines trans-European coach service.*

Half year ended 30 June	**2011 £m**	**2010 £m**
Revenue	267.3	252.4
Operating profit	38.6	33.0
Operating margin	14.4%	13.1%

With robust margins in place, our Spanish division, Alsa, is focused on achieving organic growth and securing targeted expansion. Alsa has continued to benefit from the positive trends that started in 2010, with Intercity and Urban reporting strong revenue growth of 5% and 11% respectively in the first half of the year. Underlying passenger numbers increased in both businesses, with customers taking advantage of our value proposition in a time of economic austerity, particularly attractive compared to higher pricing in other competing modes.

Total revenue in Sterling terms increased to £267.3 million (2010: £252.4m). In local currency, revenue was €306.4 million (2010: €291.2m), an increase of 5%. Overall passenger revenue increased by 7%, whilst the smaller non-transport operations saw weak demand, particularly in service areas and fuel transportation businesses.

Alsa's flexible cost base has allowed it to manage capacity as volumes have recovered with an increase of 4% in kilometres operated. Further efficiency gains and the benefit of operational leverage as growth recovered saw operating margin rise from 13.1% in the first half of 2010 to 14.4%. Normalised operating profit was £38.6 million (2010: £33.0m), an increase of 16.5% in local currency to €44.4 million (2010: €38.1m).

In the Intercity transport business, passenger revenue growth of 5% was delivered through a combination of pricing and journey growth, whilst mileage was unchanged. Increased fares reflected higher than expected cost inflation across the industry. The improvement in volumes was most apparent on the major corridors into and out of Madrid. In addition, there were some promising signs of recovery in the north of Spain and on select Mediterranean routes. Preparation for concession renewals in 2012 and 2013 is underway; the regulatory procedure has been confirmed and Alsa is well placed to secure its existing concessions.

The Urban business continued to achieve robust growth. Revenue increased by 11%, partly reflecting the scale up in Morocco of the Agadir contract, together with growth in suburban Madrid. More generally, demand for transport services in mainland Spanish cities remained resilient, with incremental revenue increases in all major areas. Despite regional tension, Morocco's performance has been resilient, with the planned further contract in Agadir secured, although volumes in the Marrakech tourist bus operation have been impacted by lower activity. The second half year will also see lower tendered revenue in Spain due to cessation of an airport contract. This will be partly offset by the new Madrid Tourist bus contract won earlier this year and which is scheduled to start running services in September 2011.

Overall, progressive volume recovery, pricing benefits and continued growth in Agadir are expected to support the positive first half momentum.

North America

National Express Corporation operates over 14,000 school bus routes across the US and Canada, mostly through 3 to 5 year contracts with local school boards, which provide medium term revenue visibility.

Half year ended 30 June	**2011**	**2010**
	£m	**£m**
Revenue	264.7	253.7
Operating profit	34.6	31.0
Operating margin	13.1%	12.2%

North America has continued to focus on delivering margin improvement whilst achieving organic and new bid growth. The new management team has secured the majority of the US$15 million of cost savings targeted for this second year of margin recovery and is on track to deliver a best-in-class full year double-digit margin. In addition, strong revenue growth has been delivered and profitable new contracts secured for the forthcoming school year start-up. Existing contract retention is close to 98% and nine school boards have successfully been converted to outsourced contracts.

Total revenue increased in the first half of the year to £264.7 million (2010: £253.7m). In local currency, revenue was $427.7 million (2010: $389.1m), an increase in underlying revenue of 10%. Building on the net increase of over 700 buses from the successful 2010 bidding season, the division has achieved organic growth through both pricing and incremental routes added during the school year, as well as by targeting charter services as an opportunity for profitable growth. An additional 200 buses were added at the start of this calendar year through the Vogel acquisition.

Normalised operating profit increased to £34.6 million (2010: £31.0m), an increase in local currency of 18% to US$56.1 million (2010: $47.6m). Operating margin improved to 13.1% (2010: 12.2%). Higher fuel, insurance and depreciation costs have been more than offset by operational efficiency and savings in indirect costs. Following delivery of over $25 million of annualised cost savings in 2010, further cost savings have been made in the first half of 2011, with a reduction in annual staffing and facility costs of approximately $9 million. Procurement savings are driving further benefits, including in fleet purchase, and, together with savings from the roll out of our GPS programme for school start-up, the second half of 2011 will see savings achieve the full $15 million annual target. This will secure the $40 million target of annual cost savings announced last year and provides the division with a robust platform for future development.

We have once again had a successful bid season, combined with lower contract churn than in recent years which reduces the number of surplus buses. Contracts for over 1,000 new buses have been won to date, including 600 across nine conversion contracts. With an improved retention rate of 98% to date, over 650 net new buses will be added in the new school year. With a lower dependence on share shift and improved cascading of 600 existing vehicles to offset replacement capital expenditure, the business has a disciplined approach to securing a superior return on capital, together with effective pricing. The North American school bus business has improved the quality of its contract base and its focus on customer service is a key tool to further business development and selected acquisition in the future.

UK Bus

National Express is the market leader in the UK's largest urban bus market outside London, operating over 1,600 buses in the West Midlands region. We also deliver bus services in Dundee, as well as the Midland Metro tram service.

Half year ended 30 June	**2011**	**2010**
	£m	**£m**
Revenue	131.6	127.1
Operating profit	15.2	10.9
Operating margin	11.6%	8.6%

UK Bus continues to focus on margin improvement, delivered through yield management and changes to the fare basket, which delivered 6% commercial revenue growth in the core West Midlands Bus business in the first half of the year. Overall revenue for UK Bus grew by 4%, despite a 2% reduction in concession funding but with further optimisation of the bus network. Significant efficiencies in the cost base delivered further savings and the margin increased to 11.6% (2010: 8.6%).

UK Bus revenue was £131.6 million (2010: £127.1m). This reflected action taken in the summer of 2010 to rebalance the fare basket, increasing multi-journey travelcard fares to realign pricing with demand, which was supplemented by revised fares in January 2011. As a result, we have been able to streamline marginal routes and focus resources on higher demand corridors, whilst continuing to provide a full network across the West Midlands region. In the first half of 2011, passenger yield increased strongly, offset by a reduction in passenger volume and network mileage 3% lower.

Across both the West Midlands and Dundee, it has become apparent that weak regional economic conditions are reducing demand. However, as Bus offers a greener, affordable alternative at a time of high petrol costs, the UK Bus business is investing to encourage greater travel. Building on our strong relationship with Centro, the West Midlands Integrated Transport Executive, we have committed to the second stage of Transforming Bus Travel, a plan to modernise and improve the quality of bus travel in the West Midlands. As part of that plan, the first 120 buses of our £23 million annual investment will start to operate from September 2011. The business is also rolling out a smart card, similar to the Oyster card used in London, which has been proven elsewhere to deliver an uplift in passenger volumes. Through the second half of the year, a targeted marketing campaign will be directed at key user groups, such as students and central Birmingham commuters.

Normalised operating profit improved in the first half of 2011 by 39% to £15.2 million (2010: £10.9m). In addition to yield improvements, a substantial part of this recovery has been delivered by cost saving plans implemented over the last 12 months, such as the closure of one depot, driver wage efficiencies and the removal of unprofitable network mileage. Further savings are expected through implementation of lean engineering, which reduces both the time for which vehicles are off the road and the overall cost of maintenance, together with procurement initiatives. The division has also secured a two year, 2% annual pay deal that covers the majority of its employees. When matched to improved productivity, the business is targeting cost and margin gains to maintain earnings momentum.

During the period, the Competition Commission published its preliminary findings into its review of the UK bus sector. Whilst the Commission has yet to publish its required remedies, we believe that our business should be mostly unaffected, already complying with identified best practice by operating a multi-operator ticketing scheme, not owning bus stations and supporting the existing statutory framework of Centro-operated tenders and partnerships where commercial operations alone are not viable. We do not believe the issues identified by the Commission, amounting to a claimed extra cost of 2p per passenger, merit any change to the current extensive competition that exists in our core markets.

UK Coach

National Express is the market leading scheduled coach operator in the UK, linking over 1,000 destinations. Its partnership with Eurolines and its Airlinks and Kings Ferry contract businesses provide a comprehensive service to its customers.

Half year ended 30 June	**2011 £m**	**2010 £m**
Revenue	122.3	118.2
Operating profit	11.7	10.3
Operating margin	9.6%	8.7%

With industry-leading margins achieved, the UK Coach business is focused on achieving organic growth across its powerful brand and related long distance coach operations.

During the first half of 2011, UK Coach has seen robust growth in its core National Express branded network, driven by improved yield. Periodic heavily discounted fare campaigns have been replaced by consistently good value prices, which are proving successful in the current summer campaign.

UK Coach revenue increased by 3% to £122.3 million (2010: £118.2m). The core National Express business saw an underlying revenue increase of 7%, mostly driven by yield improvements with passenger volume broadly maintained despite reduced discounting. Each of the brand's segments - Airports, Regional, Long Haul and Short Haul – saw revenue growth. Additional airport routes were popular, although Stansted was weaker on reduced low cost airline traffic. New commuter-orientated shorter haul routes were also introduced and Coach is expected to benefit as its prices fall in real terms relative to rail fares. The international Eurolines business also saw sustained growth and was all but sold out over Easter and, on its Paris and Amsterdam routes, extra capacity in the peak season has seen growth rates of 44% and 24% respectively in June. Eurolines has also secured an exciting contract with Eurotunnel to bring an estimated 18,000 passengers to the London Olympics next year.

By contrast, it was a period of weaker revenue for the division's contract businesses. Completion of the Gatwick Monorail upgrade saw an end to the Airlinks inter-terminal replacement coach contract. Reduced planned engineering work impacted the Rail Replacement business. High value contract work at The Kings Ferry has also been under pressure, although our Events business, such as Glastonbury, continued to grow and we provided 450 coaches for the Champions League final at Wembley in May, including the Barcelona team coach.

UK Coach operating profit in the seasonally quieter first half of the year was £11.7 million (2010: £10.3m), with operating margin increased to 9.6% (2009: 8.7%). Strong cost control included efficiencies from a 1% reduction in network mileage, together with savings from the Group's central procurement programme.

The new management team continues to drive its vision to deliver a step change in customer experience, improve access through technology and drive significant long term passenger volume growth. From July 2011, the Customer Service Centre commenced 24/7 operations, supporting passengers throughout the day and night wherever they are travelling in the UK. We completed the roll out of vehicle monitoring technology, which tracks vehicle location, passenger comfort and fuel consumption. This is driving operational benefits and will increasingly be used to provide real-time information to customers. Targeted marketing continues to yield results; National Express is the exclusive travel partner for O2's 'Priority Moments' campaign. Customer satisfaction has increased over the period; 89% of respondents would recommend National Express to friends and family. Identification of additional organic growth opportunities, from yield management to new routes from the South coast direct to Gatwick airport and increased frequencies from Norwich into London, are examples of successful development work on the core National Express network.

Plans are well developed to mitigate the withdrawal of the £15 million annual government subsidy for half price senior citizen coach travel. These include introduction of a discount for travellers, partly funded by a new travelcard scheme.

UK Rail

National Express operates two franchises in the UK, East Anglia and c2c, delivering industry-leading operational performance and improvement.

Half year ended 30 June	**2011** **£m**	**2010** **£m**
Revenue	335.1	311.5
Operating profit	27.1	16.1
Operating margin	8.1%	5.2%

The UK Rail division is focused on efficient delivery of its two franchises over their remaining terms, whilst maximising the Group's opportunity to continue to operate in the industry thereafter.

Growth in the UK Rail division has been exceptionally strong, accompanied by a significant improvement in profitability. Both franchises have also continued to deliver strong operational performance, with c2c the industry's most punctual operator for much of the first half of the year. Revenue increased by 8% to £335.1 million (2010: £311.5m). Both franchises have a high level of commuter usage and exposure to the relatively stronger regional economies of London and the South East. A growing number of our passengers are using the Oyster pay-as-you-go system, where convenience is driving growth, albeit at a lower fare yield.

Normalised operating profit increased to £27.1 million (2010: £16.1m), improving operating margin to 8.1% (2010: 5.2%) with strong cost control across both franchises. 2011 has seen finalisation of the Group's four month extension of the East Anglia franchise through to February 2012 on existing contract terms, together with the two year extension contract for c2c through to May 2013. The latter is a profit share contract with the UK Government above a base level, which will see reduced benefit to the Group going forward.

Our focus on operational performance and punctuality continues to deliver improvements. c2c has been the country's best performing franchise for punctuality in the last 5 periods (with Moving Annual Average punctuality of 94.8%). East Anglia's annual average punctuality is now above 90%. The Group has continued to deliver the new rolling stock investment programme for the Department for Transport, which has included 28 new class 379s on the Stansted airport route during the first half of 2011, on time and on budget.

Following the disappointing failure to qualify for the final round of bidding on the East Anglia franchise short contract due to start in February 2012, we continue to view the UK Rail industry as an attractive additional value opportunity, alongside the Group's core international bus and coach businesses, with low investment and good cash flows. We are continuing to improve our operations in line with the Department for Transport's best practice model, including embedding the European Foundation for Quality Management (EFQM) management system, and by building on our industry-leading track record of excellence on the c2c franchise.

Basis of preparation
This financial information has been prepared in accordance with IFRS as adopted by the EU.

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

Operating cash flow is intended to be the cash flow equivalent of normalised operating profit. A reconciliation is set out in the table within the Cash management section above.

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.

Gearing ratio is the ratio of adjusted net debt (translated at average exchange rates for the last twelve month period) to EBITDA (earnings before interest, tax, depreciation and amortisation) over the last twelve months.

Net interest expense is finance costs less finance income.

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

Cautionary statement
This 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 facts, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

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

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

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.

Dean Finch
Group Chief Executive

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2011

	Note	Unaudited six months to 30 June						
		Total before intangible amortisation & exceptional items 2011 £m	**Intangible amortisation & exceptional items 2011 £m**	**Total 2011 £m**	Total before intangible amortisation & exceptional items 2010 £m	Intangible amortisation & exceptional items 2010 £m	Total 2010 £m	Audited Year to 31 December Total 2010 £m
Continuing operations								
Revenue	**4**	**1,118.9**	**–**	**1,118.9**	1,059.6	–	1,059.6	2,125.9
Operating costs before intangible amortisation & exceptional items		**(1,001.3)**	**–**	**(1,001.3)**	(963.9)	–	(963.9)	(1,921.7)
Intangible amortisation	**5**	**–**	**(25.4)**	**(25.4)**	–	(32.0)	(32.0)	(57.1)
Exceptional items	**6**	**–**	**–**	**–**	–	(19.2)	(19.2)	(61.2)
Total operating costs		**(1,001.3)**	**(25.4)**	**(1,026.7)**	(963.9)	(51.2)	(1,015.1)	(2,040.0)
Group operating profit	**4**	**117.6**	**(25.4)**	**92.2**	95.7	(51.2)	44.5	85.9
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.5**	**–**	**0.5**	0.3	–	0.3	0.3
Finance income	**7**	**2.9**	**–**	**2.9**	2.5	–	2.5	4.8
Finance costs	**7**	**(25.5)**	**–**	**(25.5)**	(22.8)	–	(22.8)	(50.8)
Profit before tax		**95.5**	**(25.4)**	**70.1**	75.7	(51.2)	24.5	40.2
Tax (charge)/credit	**6,8**	**(22.8)**	**7.4**	**(15.4)**	(17.3)	12.2	(5.1)	22.5
Profit after tax for the period from continuing operations		**72.7**	**(18.0)**	**54.7**	58.4	(39.0)	19.4	62.7
Loss for the period from discontinued operations	**11**	**–**	**–**	**–**	–	–	–	(0.4)
Profit for the period		**72.7**	**(18.0)**	**54.7**	58.4	(39.0)	19.4	62.3
Profit attributable to equity shareholders		**72.1**	**(18.0)**	**54.1**	58.2	(39.0)	19.2	61.4
Profit attributable to non-controlling interests		**0.6**	**–**	**0.6**	0.2	–	0.2	0.9
		72.7	**(18.0)**	**54.7**	58.4	(39.0)	19.4	62.3
Earnings per share:								
– basic earnings per share	**10**			**10.6p**			3.8p	12.0p
– diluted earnings per share	**10**			**10.6p**			3.7p	12.0p
Normalised earnings per share:								
– basic earnings per share	**10**	**14.1p**			11.4p			23.6p
– diluted earnings per share	**10**	**14.1p**			11.3p			23.5p
Earnings per share from continuing operations:								
– basic earnings per share	**10**			**10.6p**			3.8p	12.1p
– diluted earnings per share	**10**			**10.6p**			3.7p	12.1p

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

	Unaudited six months to 30 June 2011 £m	Unaudited six months to 30 June 2010 £m	Audited year to 31 December 2010 £m
Profit for the period	**54.7**	19.4	62.3
Other comprehensive income:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**40.6**	(36.0)	(1.8)
Exchange differences on retranslation of non-controlling interests	**0.4**	(0.5)	(0.2)
Actuarial gains / (losses) on defined benefit pension plans	**10.0**	(27.2)	34.3
Gains on cash flow hedges taken to equity	**24.9**	5.8	21.1
Transfers to the income statement on cash flow hedges	**(13.5)**	2.4	2.3
	62.4	(55.5)	55.7
Income tax relating to components of other comprehensive income	**(5.8)**	5.0	(22.4)
Other comprehensive income for the period	**56.6**	(50.5)	33.3
Total comprehensive income for the period	**111.3**	(31.1)	95.6
Total comprehensive income attributable to:			
Equity shareholders	**110.3**	(30.8)	94.9
Non-controlling interests	**1.0**	(0.3)	0.7
	111.3	(31.1)	95.6

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2011

	Note	Unaudited 30 June 2011 £m	Unaudited 30 June 2010 £m	Audited 31 December 2010 £m
Non-current assets				
Intangible assets		**1,305.6**	1,267.7	1,284.2
Property, plant and equipment		**719.7**	645.9	714.1
Financial assets – Available for sale		**8.2**	7.2	7.8
Financial assets – Derivative financial instruments	**12**	**11.4**	5.4	7.2
Investments accounted for using the equity method		**7.4**	6.5	6.6
Trade and other receivables		**9.8**	3.4	6.0
Deferred tax asset		**–**	50.0	2.8
Defined benefit pension assets	**13**	**13.5**	–	–
		2,075.6	1,986.1	2,028.7
Current assets				
Inventories		**18.1**	16.8	17.6
Trade and other receivables		**231.0**	208.5	226.8
Financial assets – Derivative financial instruments	**12**	**23.2**	10.6	18.3
Current tax assets		**–**	5.2	3.4
Cash and cash equivalents	**14**	**102.8**	137.2	128.8
		375.1	378.3	394.9
Total assets		**2,450.7**	2,364.4	2,423.6
Non-current liabilities				
Financial liabilities – Borrowings	**14**	**(675.5)**	(624.9)	(674.4)
Financial liabilities – Derivative financial instruments	**12**	**(2.7)**	(1.9)	(5.1)
Deferred tax liability		**(96.6)**	(101.1)	(86.9)
Other non-current liabilities		**(5.2)**	(4.1)	(25.2)
Non-current tax liabilities		**(8.2)**	–	(12.3)
Defined benefit pension liabilities	**13**	**(3.5)**	(77.0)	(10.4)
Provisions		**(17.9)**	(28.4)	(35.7)
		(809.6)	(837.4)	(850.0)
Current liabilities				
Trade and other payables		**(482.6)**	(467.2)	(501.0)
Financial liabilities – Borrowings	**14**	**(64.1)**	(114.1)	(64.4)
Financial liabilities – Derivative financial instruments	**12**	**(4.5)**	(20.6)	(12.4)
Current tax liabilities		**(19.8)**	(63.8)	(12.1)
Provisions		**(50.2)**	(49.9)	(43.9)
		(621.2)	(715.6)	(633.8)
Total liabilities		**(1,430.8)**	(1,553.0)	(1,483.8)
Net assets		**1,019.9**	811.4	939.8
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		**(14.9)**	(14.1)	(14.1)
Other reserves		**177.1**	86.0	125.1
Retained earnings		**291.7**	175.3	263.7
Total shareholders' equity		**1,012.4**	805.7	933.2
Non-controlling interest in equity		**7.5**	5.7	6.6
Total equity		**1,019.9**	811.4	939.8

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2011

	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 2011	25.6	532.7	0.2	(14.1)	125.1	263.7	**933.2**	6.6	**939.8**
Own shares released to satisfy employee share schemes	–	–	–	1.9	–	(1.9)	**–**	–	**–**
Shares purchased	–	–	–	(2.7)	–	–	**(2.7)**	–	**(2.7)**
Total comprehensive income	–	–	–	–	52.0	58.3	**110.3**	1.0	**111.3**
Share-based payments	–	–	–	–	–	2.8	**2.8**	–	**2.8**
Tax on share-based payments	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Dividends	–	–	–	–	–	(30.5)	**(30.5)**	–	**(30.5)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.3)	**(0.3)**
Purchase of non-controlling interests	–	–	–	–	–	–	**–**	0.2	**0.2**
At 30 June 2011	**25.6**	**532.7**	**0.2**	**(14.9)**	**177.1**	**291.7**	**1,012.4**	**7.5**	**1,019.9**

	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 2010	25.6	533.2	0.2	(14.6)	116.1	175.8	**836.3**	6.0	**842.3**
Costs of rights issue	–	(0.5)	–	–	–	–	**(0.5)**	–	**(0.5)**
Own shares released to satisfy employee share schemes	–	–	–	1.1	–	(1.1)	**—**	–	**—**
Shares purchased	–	–	–	(0.6)	–	–	**(0.6)**	–	**(0.6)**
Total comprehensive income	–	–	–	–	(30.1)	(0.7)	**(30.8)**	(0.3)	**(31.1)**
Share-based payments	–	–	–	–	–	1.3	**1.3**	–	**1.3**
At 30 June 2010	**25.6**	**532.7**	**0.2**	**(14.1)**	**86.0**	**175.3**	**805.7**	**5.7**	**811.4**

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2011

	Note	**Unaudited six months to 30 June 2011 £m**	Unaudited six months to 30 June 2010 £m	Audited year to 31 December 2010 £m
Cash generated from operations	**15**	**113.0**	107.5	222.1
Tax paid		**(5.2)**	(4.9)	(8.6)
Net cash from operating activities		**107.8**	102.6	213.5
Cash flows from investing activities				
Payments to acquire businesses, net of cash		**(0.4)**	–	0.1
Deferred consideration for businesses acquired, net of those disposed		**(5.6)**	(0.3)	(2.4)
Purchase of property, plant and equipment		**(37.7)**	(17.8)	(49.9)
Proceeds from disposal of property, plant and equipment		**1.6**	2.4	7.4
Payments to acquire available for sale investments		**–**	–	(0.3)
Payments to acquire intangible assets		**(1.4)**	(1.6)	(2.0)
(Payments)/receipts in respect of discontinued operations	**11**	**–**	(0.8)	0.3
Dividends received from associates		**–**	–	0.2
Interest received		**5.5**	2.5	1.1
Net cash used in investing activities		**(38.0)**	(15.6)	(45.5)
Cash flows from financing activities				
Payments incurred on issue of ordinary shares		**–**	(3.9)	(3.8)
Purchase of treasury shares		**(2.7)**	(0.6)	(1.7)
Interest paid		**(42.6)**	(34.8)	(43.8)
Finance lease principal payments		**(11.8)**	(8.6)	(18.7)
Proceeds from issue of sterling bonds		**–**	566.2	–
Net loans drawn down/ (repaid)		**6.9**	(571.6)	(74.0)
Payments for the maturity of foreign currency swaps		**(15.2)**	(0.9)	(2.0)
Dividends paid to non-controlling interests		**(0.3)**	–	–
Dividends paid to shareholders of the Company		**(30.5)**	–	–
Net cash used in financing activities		**(96.2)**	(54.2)	(144.0)
(Decrease)/increase in cash and cash equivalents		**(26.4)**	32.8	24.0
Opening cash and cash equivalents		**128.8**	105.8	105.8
(Decrease)/increase in cash and cash equivalents		**(26.4)**	32.8	24.0
Foreign exchange		**0.4**	(1.4)	(1.0)
Cash and cash equivalents		**102.8**	137.2	128.8

NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2011

1. General information

These interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared using the accounting policies set out on pages 75 to 83 of the Group's Annual Report & Accounts 2010 except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting". Taxes on income in the interim periods are accrued using the tax rate that is expected to apply to total annual earnings.

The interim results are unaudited but have been reviewed by the Group's auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2010 have been extracted from the Group's Annual Report and Accounts 2010 which has been filed with the Registrar of Companies. The audit report on the Group's Annual Report and Accounts 2010 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 2010 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 continue to improve (see Cash management and Outlook sections). The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less that 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Changes in accounting policies
The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

Seasonality
The Group operates a diversified portfolio of bus, coach and rail businesses operating in international markets. The North American Bus business typically earns higher operating profits for the first half of the year (ie the 6 months to 30 June) than for the second half. This is because of the timing of school terms and the summer holiday period. The UK Coach and European Bus & Coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. On a Group basis, the results are not 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 2011		Six months to 30 June 2010		Year to 31 December 2010	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.60**	**1.62**	1.49	1.53	1.56	1.55
Canadian dollar	**1.55**	**1.57**	1.59	1.60	1.56	1.61
Euro	**1.11**	**1.15**	1.22	1.15	1.17	1.17

If the results for the six months to 30 June 2010 had been retranslated at the average exchange rates for the six months to 30 June 2011, North American Bus would have achieved normalised operating profit of £29.8m on revenue of £244.5m, compared to reported normalised operating profit of £31.0m on revenue of £253.7m and European Coach & Bus would have achieved normalised operating profit of £33.2m on revenue of £254.0m compared to reported normalised operating profit of £33.0m on revenue of £252.4m.

3. Risks and uncertainties

The principal risks and uncertainties are described in the Financial and Performance Review. Additional information on risks and uncertainties is contained on pages 34-35 in the Group Annual Report and Accounts 2010.

4. Segmental analysis

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

Analysis by class and geography of business	Six months to 30 June				Year to 31 December	
	Revenue 2011 £m	**Operating result 2011 £m**	Revenue 2010 £m	Operating result 2010 £m	Revenue 2010 £m	Operating result 2010 £m
UK Bus	**131.6**	**15.2**	127.1	10.9	257.8	28.3
UK Coach	**122.3**	**11.7**	118.2	10.3	250.3	32.0
UK Rail	**335.1**	**27.1**	311.5	16.1	637.5	33.8
Intercompany elimination	**(2.1)**	**–**	(3.3)	–	(5.1)	–
UK operations	**586.9**	**54.0**	553.5	37.3	1,140.5	94.1
North American Bus	**264.7**	**34.6**	253.7	31.0	459.8	36.9
European Coach & Bus	**267.3**	**38.6**	252.4	33.0	525.6	86.2
Central functions	**–**	**(6.9)**	–	(5.6)	–	(13.0)
Project costs	**–**	**(2.7)**	–	–	–	–
Result from continuing operations	**1,118.9**	**117.6**	1,059.6	95.7	2,125.9	204.2
Intangible asset amortisation		**(25.4)**		(32.0)		(57.1)
Exceptional items		**–**		(19.2)		(61.2)
Group operating profit		**92.2**		44.5		85.9
Share of post tax results from associates and joint ventures		**0.5**		0.3		0.3
Net finance costs		**(22.6)**		(20.3)		(46.0)
Profit before tax		**70.1**		24.5		40.2
Tax (charge)/credit		**(15.4)**		(5.1)		22.5
Profit after tax for the period from continuing operations		**54.7**		19.4		62.7
Loss for the period from discontinued operations		**–**		–		(0.4)
Profit for the period		**54.7**		19.4		62.3

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

One-off project related costs of £2.7m have been charged within operating costs; these relate to external fees in response to the Competition Commission enquiry into the UK bus industry, bid costs, professional fees relating to the strategic and Board debate ahead of the 2011 Annual General Meeting and legal expenses on a North American claim.

5. Intangible asset amortisation

Intangible assets in UK Rail have been amortised on a straight-line basis to the end of the franchise, by £0.8m (2010 interim: £1.6m; 2010 full year: £2.4m). Intangible assets representing customer contracts have been subject to an amortisation charge in European Coach & Bus of £23.0m (2010 interim: £23.2m; 2010 full year: £45.9m), in North American Bus of £0.5m (2010 interim: £0.5m; 2010 full year: £0.9m), and in UK Coach of £nil (2010 interim: £0.1m, 2010 full year: £0.2m). Software intangible assets have been subject to an amortisation charge in North American Bus of £1.1m (2010 interim: £6.6m, 2010 full year: £7.7m).

6. Exceptional items

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

In the six months to 30 June 2011 there have been no exceptional items. In the six months to 30 June 2010 exceptional costs of £5.9m for UK reorganisations (2010 full year: £15.3m) were incurred in UK Bus, UK Coach and Central Functions. Costs of £nil (2010 full year: £18.3m) were incurred in Rail relating to the National Express East Coast franchise exit. Restructuring costs of £0.9m (2010 full year: £1.9m) were incurred in European Coach & Bus. Restructuring and redundancy costs of £12.4m (2010 full year: £25.7m) were incurred in North American Bus.

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

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 December 2010 £m
UK Bus	**–**	3.4	6.7
UK Coach	**–**	0.1	(0.1)
UK Rail	**–**	–	18.3
North American Bus	**–**	12.4	25.7
European Coach & Bus	**–**	0.9	1.9
Central Functions	**–**	2.4	8.7
Total continuing operations	**–**	19.2	61.2

There have been no exceptional finance costs during the six months to 30 June 2011 (2010 interim: £nil). Finance costs for the year to 31 December 2010 included exceptional finance costs of £2.0m which related to the residual unamortised loan fees as a result of refinancing the Group's syndicated credit facility (see note 9 of the Group's Annual Report & Accounts 2010)

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

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 December 2010 £m
UK tax settlement	**–**	3.9	(32.1)
Tax credit on intangible asset amortisation	**(7.4)**	(9.9)	(17.1)
Tax credit on exceptional items	**–**	(6.2)	(12.5)
	(7.4)	(12.2)	(61.7)

7. Net finance costs

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 Dec 2010 £m
Bank interest payable	**(4.2)**	(9.2)	(15.8)
Bond interest payable	**(18.7)**	(10.9)	(29.9)
Finance lease interest payable	**(1.9)**	(2.1)	(3.8)
Other interest payable	**(0.1)**	(0.1)	(0.2)
Unwind of provision discounting	**(0.6)**	(0.5)	(1.1)
Finance costs	**(25.5)**	(22.8)	(50.8)
Finance income: Bank interest receivable	**2.9**	2.5	4.8
Net finance costs	**(22.6)**	(20.3)	(46.0)

Two Sterling bonds of nominal value £350m and £225m were issued on 13 January 2010 and 17 June 2010 respectively. The bonds have annual interest rates of 6.25% and 6.625%. The issuance of these bonds reduced reliance on the Group's syndicated bank loan facility, resulting in reduced bank interest expense.

Bank interest receivable primarily consisted of interest on four £50m denominated interest rate swaps where National Express pays 6 month LIBOR floating interest and receives fixed interest. These swaps are designated as a fair value hedge of £200m of the Group's fixed rate bonds.

The unwind of provision discounting relates to discounted insurance provisions which are being unwound over the life of the provision.

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2011 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2011. The normalised tax charge of £22.8m (2010 interim: £17.3m; 2010 full year: £39.2m) represents an effective tax rate on normalised profit before tax, for continuing and discontinued operations, of 23.9% (2010 interim: 22.9%; 2010 full year: 24.4%). The total tax charge of £15.4m (2010 interim: £5.1m; 2010 full year credit: £22.5m) includes a deferred taxation credit of £2.3m (2010 interim credit: £6.0m; 2010 full year charge: £5.6m).

On the 22 March 2011, the UK Chancellor of the Exchequer announced a 2% reduction in the UK Corporation tax rate to 26% effective from 1 April 2011, along with subsequent reductions of 1% each year to a final rate of 23%.

At the balance sheet date the rate of 26% was substantively enacted, to come into effect from 1 April 2011. The change in rate from 27% to 26% has resulted in a tax charge of £0.1m to the profit and loss account.

The reduction in rate from 26% to 25% was substantively enacted on 5 July 2011 to come into effect on 1 April 2012. If the entire deferred tax asset/liability were to unwind at 25%, the effect of the changes would be to reduce the deferred tax liability provided at 30 June 2011 by £0.1m.

The rate change will also impact the amount of future UK cash tax payments by the Group.

9. Dividends paid and proposed

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 December 2010 £m
Declared and paid during the period:			
Ordinary final dividend for 2010 paid of 6.00p per share	**30.5**	–	–

At 31 December 2010, an ordinary final dividend of 6.00p per share was proposed for approval. This was not recognised as a liability at 31 December 2010 and was paid on 13 May 2011.
The proposed interim dividend of 3.00p (2010 interim: nil) was approved by the Board on 28 July 2011 and has not been included as a liability as at 30 June 2011.

10. Earnings per share

	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
Basic earnings per share – continuing operations	**10.6p**	3.8p	12.1p
Basic loss per share – discontinued operations	**–**	–	(0.1)p
Basic earnings per share – total	**10.6p**	3.8p	12.0p
Normalised basic earnings per share	**14.1p**	11.4p	23.6p
Diluted earnings per share – continuing operations	**10.6p**	3.7p	12.1p
Diluted loss per share – discontinued operations	**–**	–	(0.1)p
Diluted earnings per share – total	**10.6p**	3.7p	12.0p
Normalised diluted earnings per share	**14.1p**	11.3p	23.5p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £54.1m (2010 interim: £19.2m; 2010 full year: £61.4m) 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 2011	Six months to 30 June 2010	Year to 31 December 2010
Basic weighted average shares	**509,224,268**	509,185,324	509,398,911
Adjustment for dilutive potential ordinary shares	**1,454,804**	1,855,307	2,546,167
Diluted weighted average shares	**510,679,072**	511,040,631	511,945,078

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

10. Earnings per share (continued)

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

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 December 2010 £m
Profit attributable to equity shareholders	**54.1**	19.2	61.4
Profit from discontinued operations	**–**	–	0.4
Profit from continuing operations attributable to equity shareholders	**54.1**	19.2	61.8
Intangible asset amortisation	**25.4**	32.0	57.1
Exceptional operating items	**–**	19.2	61.2
Exceptional finance cost	**–**	–	2.0
Tax relief on goodwill amortisation and exceptional items (including exceptional tax)	**(7.4)**	(12.2)	(61.7)
Normalised profit from continuing operations	**72.1**	58.2	120.4
Normalised profit attributable to equity shareholders	**72.1**	58.2	120.4

11. Discontinued operations

The cash flows from discontinued operations for the six months to 30 June 2011 comprise outflows of £0.5m (2010 interim: £0.8m) in relation to the settlement of legacy Dot2Dot liabilities, and £0.1m (2010 interim: £nil) in relation to the exit from the Australian operations.

The results of the Group's discontinued operations for the six months ended 30 June 2011 are presented below together with the comparative data for the six months ended 30 June 2010.

	Dot2Dot		Australia		Total	
For the six months ended	**30 June 2011 £m**	30 June 2010 £m	**30 June 2011 £m**	30 June 2010 £m	**30 June 2011 £m**	30 June 2010 £m
Profit from discontinued operations	**–**	–	**–**	–	**–**	–
Net cash outflow from:						
Operating activities	**(0.5)**	–	**(0.1)**	–	**(0.6)**	–
Investing activities	**–**	(0.8)	**–**	–	**–**	(0.8)
Earnings per share						
Basic earnings per share from discontinued operations	**–**	–	**–**	–	**–**	–
Diluted earnings per share from discontinued operations	**–**	–	**–**	–	**–**	–

12. 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 2011 the Group's portfolio of hedging instruments included fuel price swaps, foreign exchange forward contracts and interest rate swaps. The fuel price swaps are in place to hedge the changes in price of the different types of fuel used in each division. The foreign exchange forward contracts are in place to hedge the foreign exchange risk on translation of net assets and earnings denominated in foreign currency. In addition, the Group holds four £50.0 million denominated interest rate swaps to swap fixed interest on £200m of the Group's Sterling bonds to a floating rate.

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.

The Group applies relevant hedge accounting to all derivatives outstanding as at 30 June 2011. All hedge relationships were effective under the rules of IAS 39.

Derivative financial assets and liabilities in the balance sheet:	**At 30 June 2011 £m**	At 30 June 2010 £m	At 31 December 2010 £m
Non-current			
Fuel price swaps	**11.4**	5.4	7.2
Derivative financial assets	**11.4**	5.4	7.2
Current			
Interest rate swaps	**3.3**	–	3.8
Fuel price swaps	**19.9**	5.6	14.1
Foreign exchange forward contracts	**–**	5.0	0.4
Derivative financial assets	**23.2**	10.6	18.3
Non-current			
Fuel price swaps	**–**	1.9	–
Interest rate swaps	**2.7**	–	5.1
Derivative financial liabilities	**2.7**	1.9	5.1
Current			
Foreign exchange forward contracts	**4.2**	11.8	10.4
Fuel price swaps	**0.3**	7.0	2.0
Interest rate swaps	**–**	1.8	–
Derivative financial liabilities	**4.5**	20.6	12.4

13. Pensions and other post-employment benefits

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

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

The total pension cost for the six months to 30 June 2011 was £5.6m (2010 interim: £8.6m; 2010 full year: £15.3m), of which £4.0m (2010 interim: £7.3m; 2010 full year: £12.1m) relates to the defined benefit schemes and £1.6m (2010 interim: £1.3m; 2010 full year: £3.2m) relates to the defined contribution schemes.

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

	At 30 June 2011 £m	At 30 June 2010 £m	At 31 December 2010 £m
UK Bus	**8.9**	(68.8)	(5.3)
UK Coach	**4.6**	(5.0)	–
UK Rail	**(2.3)**	(1.7)	(3.7)
Other	**(1.2)**	(1.5)	(1.4)
Total	**10.0**	(77.0)	(10.4)

The UK Rail defined benefit pension liability is net of the franchise adjustment of £69.3m (2010 interim: £88.0m; 2010 full year: £72.4m). Details of the franchise adjustment are included in note 34 to the Annual Report and Accounts 2010.

The Group has previously disclosed that its accounting policy relating to the Railways Pension Scheme ("RPS") represents a departure from the requirements of IAS 19. This was principally based on an assessment performed at the time of adoption of IFRS in 2005. During the current period, the directors have reviewed the accounting standards and current industry practice, and have concluded that the Group's accounting policy complies with IAS 19.

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

	Six months ended 30 June 2011			Year ended 31 December 2010		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**4.0%**	**4.0%**	**4.0%**	3.9%	3.9%	3.9%
Rate of increase in pensions	**3.0%**	**3.6%**	**3.0%**	2.9%	3.5%	2.9%
Discount rate	**5.6%**	**5.6%**	**5.6%**	5.4%	5.4%	5.4%
Inflation rate (RPI)	**3.6%**	**3.6%**	**3.6%**	3.5%	3.5%	3.5%
Inflation rate (CPI)	**3.0%**	**3.0%**	**3.0%**	2.9%	2.9%	2.9%

14. Net debt

	At 1 January 2011 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2011 £m
Cash and cash equivalents	**128.8**	**(26.4)**	**–**	**0.4**	**–**	**102.8**
Other debt receivable	**0.7**	**0.2**	**–**	**–**	**–**	**0.9**
Borrowings:						
Bank loans	**(39.8)**	**8.3**	**(1.0)**	**(15.6)**	**–**	**(48.1)**
Bonds	**(565.6)**	**–**	**–**	**–**	**(2.3)**	**(567.9)**
Finance lease obligations	**(131.6)**	**11.8**	**–**	**1.8**	**(3.6)**	**(121.6)**
Other debt payable	**(1.8)**	**(0.2)**	**–**	**–**	**–**	**(2.0)**
	(738.8)	**19.9**	**(1.0)**	**(13.8)**	**(5.9)**	**(739.6)**
Fair value of bond hedging derivatives	**(1.1)**	**–**	**–**	**–**	**1.7**	**0.6**
Net debt	**(610.4)**	**(6.3)**	**(1.0)**	**(13.4)**	**(4.2)**	**(635.3)**

	At 1 January 2010 £m	Cash flow £m	Foreign Exchange £m	Other movements £m	At 30 June 2010 £m
Cash and cash equivalents	105.8	32.8	(1.4)	–	137.2
Other debt receivable	0.8	–	(0.1)	–	0.7
Borrowings:					
Bank loans	(687.7)	572.5	13.1	(1.0)	(103.1)
Bonds	–	(566.2)	–	(0.3)	(566.5)
Finance lease obligations	(75.6)	8.6	(1.3)	–	(68.3)
Other debt payable	(1.2)	–	0.1	–	(1.1)
	(764.5)	14.9	11.9	(1.3)	(739.0)
Net debt	(657.9)	47.7	10.4	(1.3)	(601.1)

The £8.3m cash outflow (2010 interim: £6.3m) within bank loans, bonds, other debt payable and other debt receivable includes £15.2m of payments for the maturity of foreign currency swaps (2010 interim: £0.9m) and a £6.9m net cash inflow of net loans drawn down (2010 interim: £5.4m cash outflow of net loans repaid).

Borrowings comprise non-current interest bearing loans and borrowings of £675.5m (2010 interim: £624.9m; 2010 full year: £674.4m) and current interest bearing loans and borrowings of £64.1m (30 June 2010: £114.1m; 2010 full year: £64.4m).

Other non-cash movements in net debt represent finance lease additions of £3.6m (2010 interim: £nil) and £0.6m (2010 interim: £1.3m) amortisation of loan and bond arrangement fees.

Included in cash and cash equivalents are restricted balances of £15.0m (2010 interim: £27.7m; 2010 full year: £21.7m) held by the Train Operating Companies.

15. Cash flow statement

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

	Six months to 30 June 2011 £m	Six months to 30 June 2010 £m	Year to 31 December 2010 £m
Net cash inflow from operating activities			
Profit before tax from continuing operations	**70.1**	24.5	40.2
Profit before tax from discontinued operations	**–**	–	(0.5)
Net finance costs	**22.6**	20.3	46.0
Share of post tax results from associates and joint ventures under the equity method	**(0.5)**	(0.3)	(0.3)
Depreciation of property, plant and equipment	**51.6**	48.9	99.8
Intangible asset amortisation	**25.4**	32.0	57.1
Amortisation of property, plant and equipment grants	**(0.7)**	(0.9)	(1.7)
Loss/(profit) on disposal non-current assets	**0.4**	(0.1)	6.6
Share-based payments	**2.8**	1.3	3.9
Increase in inventories	**(0.2)**	(0.6)	(1.2)
(Increase)/decrease in receivables	**(11.4)**	12.0	(33.0)
(Decrease)/increase in payables	**(28.6)**	(18.5)	20.9
Decrease in payables – discontinued operations	**(0.1)**	–	–
Decrease in provisions	**(17.9)**	(11.1)	(12.4)
Decrease in provisions – discontinued operations	**(0.5)**	–	(3.3)
Cash generated from operations	**113.0**	107.5	222.1

16. Changes in commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2011 were £30.3m (2010 full year: £31.1m).

Contingent liabilities

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2011, the Group has issued UK Rail performance bonds of £25.8m (2010 full year: £25.8m) and UK Rail season ticket bonds of £62.9m (2010 full year: £85.0m). The Group has other performance bonds which include the £9.0m (2010 full year: £17.9m) performance bond in respect of Inter-Capital and Regional Rail Limited, a performance bond with Birmingham City Council relating to the building of the new coach station of £0.2m (2010 full year: £0.2m), performance bonds in respect of businesses in the US of £90.9m (2010 full year: £100.2m) and the rest of Europe of £24.9m (2010 full year: £25.6m). Letters of credit have been issued to support insurance retentions of £33.2m (2010 full year: £39.4m).

In the ordinary course of business the Group receives a small number of legal claims against us which we believe are without merit and defend vigorously, particularly in North America. Due to the nature of litigation, these cases can take years to close. It is possible that eventually these cases may result in a liability to be recognised by the Group. There are no cases sufficiently advanced against the Group where there is a liability to recognise or even reliably estimate.

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group Annual Report and Accounts 2010 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 2011.

18. Post balance sheet events

There were no significant post balance sheet events.

19. New Standards and Interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2011:

- IAS 24 (revised) Related party disclosures
- IFRIC 14 “Pre-payments of a minimum funding requirement”
- Annual improvements (2010)

Adoption of the new standards and interpretations did not have a material impact on the financial position or performance of the Group.

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 2011 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 19. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
28 July 2011