national express

Press release

27 July 2017

National Express Group PLC

Half Year results for the six month period ended 30 June 2017

Continued strong growth from a diverse international portfolio of businesses
The Group has made good progress in the first half of the year with both revenue and profit up strongly year-on-year on a constant currency basis, in line with the Board's expectations. Our North American and Spanish & Moroccan (ALSA) divisions both delivered record half year operating profit. This has more than offset softer trading in the UK. Recent acquisitions continue to deliver strong returns and we have a good pipeline of further opportunities. Our diversified portfolio of cash generative businesses continues to provide a stable source of growing revenue and profits; around 80% of our earnings are generated outside the UK and our largest contract only contributes 4% of our Group operating profit. Our strong operational and financial position continues to enable us both to invest in growth and to deliver attractive returns to our shareholders, with a 10% increase in the interim dividend. The Group remains positive about its future and on track to deliver its profit, cash flow and leverage targets for the year.

Financial highlights

	HY 2017	HY 2016	Change	Change at constant currency
Continuing operations				
Group revenue	£1.17bn	£1.01bn	+16.2%	+6.5%
Group normalised operating profit	£111.6m	£93.7m	+19.1%	+8.3%
Group normalised PBT	£88.9m	£70.7m	+25.7%	+11.0%
Normalised EPS	13.0p	10.9p	+19.3%	
Statutory				
Group statutory operating profit	£87.3m	£77.4m	+12.8%	
Group statutory PBT	£64.6m	£54.4m	+18.8%	
Group PAT from continuing operations	£50.8m	£46.0m	+10.4%	
Statutory EPS	10.9p	9.2p	+18.5%	
Free cash flow	£81.8m	£66.1m	+£15.7m	
Net debt	£873.3m	£802.7m	£70.6m	
Interim dividend	4.26p	3.87p	+10.1%	

Our focus on operational excellence continues to deliver results

- North American and ALSA divisions both delivered record half year normalised profits:
  - 8.2% increase in profit on a constant currency basis in North America;
  - 9.2% increase in profit on a constant currency basis in ALSA.

- The North American School Bus bid season saw an average of a 3.7% price increase secured on those contracts up for bid and renewal; with another very strong retention rate of 95%.
- ALSA again carried a record number of passengers, with Spanish long haul routes performing particularly strongly.
- Management action has driven recent commercial growth in UK Bus, and mitigated the challenges faced by UK Coach.

We continue to deploy technology to drive efficiency and growth and raise standards
- Our active real-time revenue management system is driving revenue, passenger and yield growth in Spain.
- DriveCam roll out across the Group continues to improve safety performance and cost efficiency.
- Our UK Coach, UK Bus and Spanish operations have all: increased the proportion of sales made through digital channels; expanded their CRM databases; and, significantly grown customer usage of our apps.

Growing through new business opportunities including bolt-on acquisitions
- Our acquisitions continue to make very strong investment returns of 15-20%, generating significant value.
- We have made three acquisitions so far this year, with benefits due in the second half:
    - Two in ALSA, including further expansion in Geneva, complementing our recent – and very successful – AlpyBus acquisition;
    - A significant acquisition in North America of a Chicago para-transit operator that also strengthens our credentials in a growing market.
- We will remain disciplined and have rejected 18 potential acquisitions in North America alone in the first half. However, our strong and sustainable cash flow provides the opportunity to pursue further acquisitions this year.

Dean Finch, National Express Group Chief Executive, said:

"We have delivered a strong set of results, again benefiting from our internationally diverse portfolio of cash-generative businesses. Record half year performances in our North American and Spanish & Moroccan divisions have more than offset more challenging trading in the UK. I am particularly pleased with the strength of our free cash flow, which provides us with opportunity for further investment and improving returns.

"We continue to see the benefit of our recent acquisitions in driving good growth and creating shareholder value. These acquisitions are also helping us to expand in new growth markets, but we will remain disciplined in the opportunities we pursue. We also of course retain our focus on operational excellence and customer service to drive growth and efficiency in our existing businesses, and the initial success of our low fare zones in UK Bus are particularly encouraging. Our confidence in the strength of our approach to deliver growing shareholder value is demonstrated by a further 10% increase in the interim dividend."

Enquiries

National Express Group PLC

Chris Davies, Group Finance Director	0121 460 8655
Anthony Vigor, Director of Policy and External Affairs	07767 425822
Louise Richardson, Head of Investor Relations	07827 807766

Maitland

Rebecca Mitchell	07951 057351

There will be a presentation and webcast for investors and analysts at 0900 on 27 July 2017. Details are available from Rebecca Mitchell at Maitland.

Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results of the continuing Group, which can be found on the face of the Condensed Group Income Statement in the first column. Normalised profit is defined as being the IFRS result excluding intangible asset amortisation and UK rail and restructuring, along with tax relief thereon.

Due to the one-off nature of UK rail and restructuring, the Board believes that its removal gives a more comparable year-on-year indication of the underlying performance of the Group. For intangible amortisation, the Board believes that adding back this non-cash item also gives a more comparable year-on-year indication of the underlying performance of the Group and allows better comparison of divisional performance which have different levels of amortisation.

The continuing Group is stated, and the prior year restated, before discontinued operations, details of which can be found in note 7 to the condensed interim financial statements.

Constant currency basis compares current period's results with the prior period's results translated at the current period's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group.

Further details of these measures are provided in note 17 to the condensed interim financial statements.

BUSINESS REVIEW

Overview and outlook

In the first half of the year we have delivered strong growth, driven by record performances in our North America and ALSA divisions. The benefit and strength of our diverse portfolio of international businesses has again been demonstrated with the strength of our North American and ALSA performances more than offsetting the challenging UK market conditions. With around 80% of our earnings now generated outside of the UK, we are confident that we will deliver our growth targets this year, underpinned by a sustainable and strong free cash flow.

We are also seeing the benefit of management action to drive growth and address the challenges we face. Despite challenges in some businesses, we are carrying the same number of passengers year-on-year across the Group and importantly with an improved mix: we have seen a reduction in Moroccan passengers paying on average four Dirham per ticket more than offset by the increase in Spanish passengers paying an average fare of four Euros. Further, in UK Bus while we have seen a near four percent reduction in non-fare paying concessionary passengers, our first two low fare zones introduced this year have already delivered commercial revenue growth, with a third recently introduced and demonstrating positive early results.

Our active real-time revenue management systems are helping to drive strong growth in passengers, revenue and yield in Spain, as well as mitigate the market challenges in UK Coach. Our acquisitions are delivering both strong returns and some strategic entries into growing markets; and our ability to pursue additional opportunities has increased with the sale earlier this year of our c2c UK rail franchise to Trenitalia which not only released us from significant capital and premium requirements, it also complemented our strong cash flow to provide additional opportunities for further investment. Our disciplined approach to capital allocation is evidenced by another increase in ROCE in the first half to 12.0% (2016: 11.9%).

We retain a strong focus on operational excellence, with Group-wide programmes to embed ever-improving performance across our operations. We have complemented our attention to on-going safety improvement with our ‘Delivering Excellence’ and ‘World Class Maintenance’ programmes. While they require an upfront investment these will not only deliver the operational excellence so crucial to retaining existing and winning new customers, they will drive future efficiency so we can add further to nearly £80 million of cost-based savings already made in the last three and a half years.

With our strong free cash flow growing to £81.8 million (2016: £66.1m), coupled with the strong growth of 19.3% in EPS, we are able to increase our interim dividend by 10% to 4.26p. Our net debt gearing has also decreased to 2.3 times EBITDA.

Performance highlights

National Express has made strong progress in the first half of 2017, with Group revenue up 6.5% on a constant currency basis (16.2% on a reported basis). This has been driven in particular by the growth in North America and ALSA. Our German Rail division, has also delivered a 22.7% increase in revenue, in part because of the recognition of prior years’ revenues that was not able to be included in the 2016 full year accounts.

Revenue by division was as follows:

Revenue in local currency	First half 2017	First half 2016*	Full Year 2016*
ALSA (€m)	369.9	344.4	731.2
North America (US$m)	683.9	630.6	1,189.0
German Rail (€m)	44.3	36.1	75.0
Revenue in £m			
ALSA	318.1	268.2	597.3
North America	543.0	439.9	877.2
UK Bus	135.9	137.9	276.8
UK Coach	136.1	133.8	282.8
German Rail	38.1	28.2	61.3
Intercompany	(0.7)	(0.8)	(1.7)
Group	1,170.5	1,007.2	2,093.7

* Restated

Group operating profit has increased by 8.3% on a constant currency basis to £111.6 million (up 19.1% on a reported basis). The weakening of Sterling against both the US Dollar and the Euro contributed £9.3 million of operating profit growth. Profit before tax rose by 25.7% to £88.9m, up 11.0% on a constant currency basis. After intangible amortisation and restructuring costs of £24.3 million, statutory profit before tax was £64.6 million (2016: £54.4m).

Operating profit in constant currency	First Half 2017	First Half 2016*	Full Year 2016*
ALSA (€m)	45.2	41.4	103.7
North America (US$m)	70.1	64.8	113.9
German Rail (€m)	2.0	(2.9)	(1.8)
Operating profit £m			
ALSA	38.8	32.3	84.7
North America	55.7	45.2	84.0
UK Bus	16.6	16.8	34.0
UK Coach	9.4	10.4	33.3
German Rail	1.7	(2.3)	(1.5)
Corporate	(10.6)	(8.7)	(17.0)
Operating profit	111.6	93.7	217.5
Interest and associates	(22.7)	(23.0)	(48.9)
Profit before tax	88.9	70.7	168.6

* Restated

Free cash flow remains strong, with the business on-target to deliver £120 million at the year end.

Dividend

The Board has declared an increase in the interim dividend of 10% to 4.26 pence per share (2016: 3.87p), reflecting its confidence in the performance and future prospects of the business. The interim dividend has grown by over 40% since its re-introduction six years ago. Our dividend policy is to pay a dividend covered two times by Group earnings.

First half year basic earnings per share were 13.0 pence (2016: 10.9p). The dividend will be paid on 22 September 2017 to shareholders on the register at close of business on 1 September 2017.

Delivering our strategy

I have repeatedly set out the importance of our strategy, grounded in operational excellence, utilising technology to drive service improvement and efficiency and to invest in growth through new business opportunities including bolt-on acquisitions. This consistency is borne of the fact that I believe it is the best route to generating increasing shareholder returns. I believe our results demonstrate its continued importance and I will turn now to set out our progress in more detail.

Our focus on operational excellence continues to deliver results
Our Group Vision is to deliver safe, punctual and frequent public transport services at excellent prices. This requires a focus on operational excellence, with services that customers want and assess as good value consistently delivered.

We are currently engaged in an ambitious phase of development where I am determined we move from leaders individually in the markets we serve, to becoming a globally-acknowledged leader in passenger transport operational excellence. This is why we have invested in new Group-wide programmes, Delivering Excellence and World Class Maintenance, to complement our on-going safety initiatives and to learn from and embed best practice across all our divisions. We have also extended the roll out of our Master Driver initiative which recognises and rewards consistently excellent driving over three years.

The Delivering Excellence team has already completed one round of work, focused on driver training and management, establishing new Group-wide operating procedures. A second round of work on driver utilisation has begun. The World Class Maintenance programme has quickly become established across the Group, with the team identifying the global standards and accreditations we will target. They are also developing a plan to roll out Master Technician accreditation across the Group, to recognise and further develop our engineers' skills and firmly establish the excellence of National Express' maintenance.

This Master Technician programme will draw on the success of our Master Driver initiative which rewards drivers who achieved three years of excellent service with no preventable accidents, no speeding convictions and no proven customer complaints coupled with achieving advanced driving and customer service qualifications. Amongst other benefits, UK Master Drivers become members of the Institute of Advanced Motorists.

Together, this work is crucial in our determination to be an ever-better and ever-more efficient operator, by learning from and leveraging the excellence evident across the Group to improve overall standards. In an increasingly competitive market, this is crucial to us retaining existing and attracting new customers.

The strength of our annual contract retention rates in North America (this year, 95% of all contracts) and another record year for passengers in ALSA are clear demonstrations of the strength and importance of this approach. But equally, I believe it is also apparent in how we have responded to challenging trading conditions. We have complemented local market knowledge within divisions with Group-wide expertise to improve performance. UK Bus is a good example, where drawing on Group-wide commercial knowledge and experience we have responded promptly to declining passenger numbers with a new granular approach to pricing that better reflects local markets, with positive results already clear.

We continue to deploy technology to drive efficiency and growth and raise standards
This approach to leveraging Group expertise is also apparent in our deployment of technologies to drive efficiency, growth and raise standards.

Our investment in industry-leading real-time revenue management systems is a useful example. We installed systems in our UK Coach and Spanish businesses around two years ago and are seeing the benefits in our current results. Spain is enjoying record passenger numbers, and driving revenue, yield and utilisation on the routes with revenue management in place. Similarly, UK Coach saw the benefits of its revenue management system: across the half year it has delivered underlying two percent revenue growth despite the challenging trading conditions. Crucially, however, these systems have not been developed in isolation: they have learnt – and continue to learn – from each other as we make them increasingly sophisticated and effective.

We have also invested to make our services more accessible to customers. This includes improving our apps, providing customers with relevant, real time information. Our three divisional apps now average a score of four out of five in the App Store and we are constantly targeting further improvement. This is making a difference: in a recent survey 33% of our UK Bus customers who use its app said it was making them travel more often. UK Coach's on-board entertainment system – VUER – continues to prove popular with customers, with satisfaction scores nearly nine percent higher amongst users. And German Rail have recently introduced a WhatsApp Group to provide prompt customer information and it has already secured thousands of members.

Our focus here has also included making it easier for customers to pay. In UK Bus for example, we now have over 10,000 m-ticket journeys per day. We will be rolling contactless ticketing out this year, making us the largest contactless public transport network outside of London.

Our Spanish services are also seeing real progress, with revenue obtained through digital sales now standing at 39.2% compared to 36.0% in the first half of 2016. Indeed, on our long haul services, 46% of all revenue is now obtained through digital channels.

We continue to invest in the industry-leading Lytx DriveCam technology to help improve safety performance and drive down cost. The smart camera technology was fully installed on our UK Coach fleet last year, and we will shortly complete the roll-out to Clarkes. We continue to roll-out the technology in North America to meet our commitment to fully install our fleet by the end of 2019 and all UK buses will have DriveCam installed this year. Our Spanish installation programme starts on 1 November this year.

Growing through new business opportunities including bolt-on acquisitions
In the last few years we have developed a real expertise in identifying, acquiring and integrating new businesses. Our cash generative businesses, augmented by the recent sale of c2c, have provided the opportunity to acquire quality new businesses that meet our strict returns and strategic criteria.

The acquisitions made in 2015 and 2016 continue to deliver very strong investment returns, of between 15-20%. They are principally two types of acquisition. First, 'bolt-on' acquisitions near existing operations, therefore providing opportunities for synergy and service efficiency benefits. Second, new strategic entry into growing markets. We have made three acquisitions so far in 2017 in keeping with this approach: in the growing para-transit market through the purchase of an operation in Chicago; a bolt-on acquisition of a bus company in Madrid; and, the acquisition of a school bus provider in Geneva, building on our recent AlpyBus purchase. The benefit of these acquisitions will be realised in the second half of the year.

We will remain disciplined and have already turned down 18 potential acquisition opportunities in North America in 2017. Nonetheless, we believe there are further opportunities and have a strong pipeline to explore, drawing on our strong cash flow. We have, in addition, made two appointments to grow our expertise in international transport opportunities as we look at other potential markets for expansion. Alongside the investment in our Group-wide excellence programmes, this has entailed upfront investment reflected in our central costs, but I am confident both will provide strong returns in the coming years.

Divisional performance review

North America

Our North American business has delivered a strong performance in the period, with revenue growth of 8.4% and a record profit of $70.1m up 8.2%, both on a constant currency basis.

This performance has been driven in particular by the success of our recent acquisitions, but is supported by organic growth in the business as well. We enjoyed a successful bid season, retaining 95% of all contracts, with an average increase of 3.7% on those contracts up for bid, which translates to around 2.5% increase across the whole portfolio. These increases help us manage the on-going wage pressures within the strong North American labour market. We have also grown our lower margin transit revenue, so that now – five years since we started operating in the market – it delivers $275 million of annualised revenue. With on-going wage pressure and the increase in transit revenue, we are therefore pleased to have maintained our operating margin flat at 10.3%.

We continue to pursue an 'up or out' strategy - exiting contracts which do not meet acceptable returns - although there are fewer such contracts this year than in recent bid seasons. With the majority of the bid season completed, we currently have a net decline of 390 buses overall. We expect this figure to improve in the coming months as both some additional business wins and extra routes added to existing contracts are secured. The fact we have maintained our 100% retention rate since the inception of our Transit business in 2012, this demonstrates our growing credentials in this market.

Change in school bus numbers – 2016/17 bid season	Number of buses
Regretted losses	(860)
Exited per 'up or out' strategy	(150)
Acquisition	0
New business wins	600
Organic growth	20
Change in buses operated for 2016/17 school year	(390)

The table above shows that we didn't make any acquisitions in the period. We have, however, made a significant acquisition in early July adding a further 275 vehicles. This acquisition, Cook-DuPage Transportation, secures entry into the Chicago para-transit market, the largest single para-transit market in the US. Para-transit is a fast growing market and this acquisition importantly therefore also strengthens our credentials.

The acquisitions we have made in recent years continue to deliver strong investment returns of 15-20%. We will remain very disciplined and only acquire new businesses that pass our strict criteria. Nonetheless, we continue to pursue other opportunities and have a strong pipeline ahead of us. This pipeline has both new strategic market entry opportunities in it, as well as further 'bolt-on' acquisitions in what remains a highly fragmented school bus market.

ALSA

Our ALSA business has, like North America, also enjoyed a record performance for half year profit: €45.2 million in constant currency, up 9.2%. Revenue was also up significantly, 7.4%, in constant currency terms and our operating margin increased by 20 basis points to 12.2%.

This performance has been driven by a combination of organic growth and the benefit of recent acquisitions. Our Spanish long haul services have performed particularly strongly, benefiting from our active, real-time revenue management system. In the first six months of the year, our long haul services have seen revenue increase by 5.8%, with a 3.1% growth in passengers and 2.7% increase in average fare. These results demonstrate the benefit of our investment in a real-time revenue management system that will also become increasingly sophisticated through time as it gains more and more data to further improve its demand forecasting.

ALSA's recent acquisitions – bus services in Ibiza and Madrid (Herranz) last year, for example – continue to perform very strongly, delivering investment returns of between 15-20%. Further, our recent AlpyBus acquisition grew revenue by 18% year-on-year during its peak season. We have made two further acquisitions so far this year: a small bus operation in Madrid; and, a charter and school bus operator based in Geneva. Both of these acquisitions offer synergy benefits with existing operations, with the Geneva-based company also providing strategic expansion into a new market. We believe there are further opportunities for additional acquisitions in Spain that meet our strict financial and strategic criteria.

In anticipation of a record tourist season in Spain – which is expected to be the most popular destination globally – we have expanded our marketing campaign targeting specific segments (music events, group travel and young people) that are most likely to use our services.

The long-distance concession renewal process has been further delayed and we now expect virtually no impact until 2019. We have been encouraged by the ministry's suggested bidding criteria revision to increase the relative importance of quality against price. This has two important effects. First, it should encourage more sensible pricing. Second, we believe that as the premium operator in the market, we will be well placed to retain existing, and win new, concessions. Our recent success in retaining the Madrid to Guadalajara concession is instructive: although we came third on price, we were successful because we scored over 97% on the quality score. With an industry-leading team in place, alongside sophisticated systems such as revenue management, we believe we are well-placed for the upcoming renewal programme.

Morocco has had a more challenging year, primarily because of the increased competition from local taxis, decreased subsidy and higher fuel costs. We have responded to the competitive challenge with lower fares and are already seeing an improvement. We have also begun negotiations regarding the subsidy reductions with the authorities and have made progress.

The strength of ALSA's performance is further supported by the significant awards in crucial business areas that it has won in the first six months of the year: the BCX 'Best Customer Experience for transport industry' award; the International Road Safety Award from the Mapfre Foundation; and a prestigious HR award from the Spanish magazine 'Capital Humano'.

UK Bus

Our UK Bus business has experienced a half of two quarters with commercial revenue and overall profit broadly flat for the first six months of the year. While concessionary revenue is down 3.7%, we have held overall operating margin flat at 12.2% because of cost efficiency measures.

Responding to challenging market conditions, we began to introduce targeted 'low fare zones' within the West Midlands to reverse revenue and patronage decline. The results so far have been very encouraging and are helping to drive commercial growth in revenue and patronage in the second quarter of the year. The first low fare zone to be introduced – in Dudley – has already boosted passenger growth by over 3.5% and revenue by over one percent, with a positive momentum being maintained. Our second low fare zone, in Walsall, is seeing similar results. We have recently introduced another low fare zone in East

Birmingham, alongside some other targeted price promotions, and the early results are also positive. We will be bringing others in shortly and look to further capitalise on this improving trend.

Alongside these promotions we have been making it easier for customers to access our services and pay for their tickets. We have improved our customer app, including offering unique price promotions for users. We have seen a rapid take-up of m-ticketing, with over 10,000 tickets sold daily already. And Swift – the single largest smartcard outside of London – continues to prove increasingly popular. Later this year we will also roll out contactless payment across the network, making it the single largest public transport contactless payment system outside of London.

We have enjoyed a positive working relationship with the new West Midlands mayor over the last year. We are working constructively on further improvements to bus services including additional prioritisation measures. Following Transport for West Midlands' (TfWM's) decision to take Midland Metro operations in-house given the complexity of specifying the next concession with such significant infrastructure works going on, we have begun positive discussions with the authority to ensure a smooth transfer.

We continue to seek operational efficiencies, including through network reviews. A recent review in East Birmingham & Solihull, improved the average timetabled journey time by 3.3%; initial passenger trends are showing a 1.2% improvement (or an extra 8,000 passengers per week). We have also introduced new express services, in response to customer feedback, which are delivering passenger growth 3% above the network average. We will work closely with TfWM, local councils and customers on future reviews to deliver better and more efficient services.

With the sale of c2c and our exit from the UK rail market, we have already taken the opportunity to restructure some of the common functions within our UK Bus and UK Coach operations. Some of the benefit of this approach is already evident in the more granular pricing techniques more common in UK Coach being deployed in UK Bus.

UK Coach
UK Coach enjoyed a strong start to the year, but has more recently been impacted by a reduction in transport demand after recent terrorist events. Drawing on its sophisticated revenue management system, the core coach business has responded by focusing on retaining market share. This approach has necessitated a significant reduction in average yield, driving profit down by nearly 10%. Revenue was up in the first half of the year by 1.7%, driven by the benefit of our Clarkes acquisition made in December 2016. Our core coach revenues declined slightly due to the impact of the terrorist events. Following increased investment in new technology – such as VUER – and our strategy of protecting market share, UK Coach's operating margin dropped to 6.9% (2016: 7.8%).

We expect the subdued demand to continue in the second half of the year, but have a number of management actions in place to improve the trend. As mentioned, our revenue management system is a crucial tool in generating demand and revenue – it is generating an underlying revenue benefit of around two percent. We are complementing this with marketing activity, especially targeted and personalised digital communications where we have developed an industry-leading capability. Our operational punctuality is up year-on-year as is the percentage of customers who recommend us (at 88%). We remain confident about the underlying performance of the business which further strengthens the importance of maintaining market share in anticipation of improved trading conditions.

We have continued to pursue new growth opportunities and have secured new partnerships such as with Groupon, Wowcher and Qatar Airways. We will be launching a new booking portal on our website to make the process even easier and more efficient. We grew the revenue from our Glastonbury services this year, where we carried a record number of 71,000 passengers. We will also shortly launch a seat booking option as well as further partnership deals and additional services in growth markets. Our Clarkes acquisition has also performed well and is expecting robust in-bound tourism trading during the summer.

As already mentioned in UK Bus, UK Coach is also benefiting from efficiency measures made as we restructure our UK presence. The business is always looking to optimise its network and has removed a net 1.8 million miles from services this year as it looks to reduce uncommercial operations while also boosting those on popular routes.

German Rail

Our German Rail services have delivered a strong result in the period, with revenue growth of 22.7% in constant currency and €2 million of profit (2016: loss €2.9m). These results include the benefit of 'catch up' revenue and profits made last year but that we were not able to recognise in the 2016 full year results. We are pleased to have now clarified our revenue position, including over the latest passenger count data, which has allowed us to recognise all revenue earned.

We continue to outperform the previous operator on the majority of customer service metrics and are investing in further improvements. Our new 'NX Scout' WhatsApp Group which provides up-to-date customer service information has proved very popular with customers and the local transport authority. With a new management team in place, we are also looking to secure further cost and operational efficiencies to further improve our performance.

The mobilisation for our Rhine Ruhr Express (RRX) contracts (the first of which starts in June 2019) is well underway, with the new trains currently being tested. We are targeting up to four bids by the end of next year as we look to build on our presence in Germany and continue to grow our operations.

Bahrain

Bahrain Bus continues to grow robustly its passenger volumes (up 7% year on year) and introduced a sophisticated journey planning app to complement the state of the art smart card technology. The journey planning tool is available as a mobile phone application and uses real time vehicle location tracking to assist our customers in making their travel decisions. A recent customer survey also recorded a very pleasing 98% satisfaction score. Finally, we are also delighted to have been awarded additional routes to serve Bahrain University which is one of the largest in the region, with more than 20,000 students.

Outlook

We remain on course to deliver the Board's expectations for 2017. Our internationally diversified portfolio of cash generative businesses will continue to provide balanced earnings. We are not over-dependent on any single contract: our largest contributes only four percent of our earnings. Further, around 80% of our earnings come from outside the UK.

We continue to benefit from the sale of the c2c rail franchise to Trenitalia earlier this year. The sale removed liabilities and potential risks such as the significantly increasing premium payments, committed capital investment and vehicle leasing costs. The sale also secured additional cash to combine with that generated by our existing businesses, providing greater opportunity to invest in our fastest growing markets as well as enter strategically interesting new markets. Our recent acquisitions continue to perform strongly, delivering investment returns of between 15-20% and we have turned down 18 potential opportunities already this year, demonstrating our discipline. Nonetheless, through acquisitions made this year we have strengthened our position in the growing US para-transit market and complemented our recent entry into ski-transfer services by purchasing another operator in Geneva that also serves the local school bus market. We have a strong pipeline of opportunities in North America and as our results show, have developed real expertise in the identification, purchase and integration of new businesses.

We will see increasing excellence and efficiency benefits from our Group-wide programmes and believe our management action to mitigate, and in some cases already reverse, the market challenges we face will provide further positive momentum in the second half of the year. The initial success of our targeted low fare zones as part of a renewed approach to more granular pricing in the West Midlands will be further extended. We hope this will therefore continue to grow revenue and passenger numbers against market trends. We were quick to identify driver wage pressure in North America and have been managing its impact through improved contract pricing and recruitment practices which we believe will continue to deliver on-going benefits.

In Spain, our revenue management system is driving real improvement in the business' performance, with revenue, passenger numbers and utilisation all strongly up. It also provides a competitive advantage in the concession renewal process, which has nonetheless been further delayed. We now expect virtually no profit impact until 2019 and have been pleased by the authority's intention to increase the importance of quality relative to price in the assessments, as this should both encourage more sensible bidding and plays to our strengths as Spain's pre-eminent operator. Our recent success in the Madrid-Guadalajara concession, where we were third on price, but won due to a quality score of over 97%, demonstrates the strength of our credentials.

The strength of our diversified portfolio of businesses allows us to absorb relative underperformance in a division, while still delivering headline growth. We will therefore continue to seek to maintain market share in UK Coach in the face of subdued demand. Using our revenue management and marketing capability we will seek to drive demand and capture any improvements in market conditions later this year.

It is this combination of excellence in our existing businesses – to retain existing and attract new customers and generate cash – with investment in new opportunities that will continue to drive our growth. Aided by tailwinds, such as the on-going benefits of our recent acquisitions and lower interest costs, coupled with our previously guided reduction in fuel costs of £20 million in 2018, we are confident there is more growth to come and look forward to delivering on our future opportunities.

Dean Finch
Group Chief Executive
27 July 2017

FINANCIAL REVIEW

Presentation of results

To supplement IFRS reporting, we also present normalised results showing the performance of the business before intangible amortisation as the Board believes this gives a more comparable year on year indication of the underlying performance of the Group. Due to the one-off nature of the disposal of our UK rail operations, the profit on disposal and the consequent costs of restructuring the UK business, these amounts are also presented separately and excluded from normalised results.

Revenue

Revenue bridge	£m
2016 first half year revenue	1,007
Currency translation	92
2016 first half year revenue at constant currency	1,099
Organic growth	17
Acquisitions	55
2017 first half year revenue	1,171

Group revenue for the period was £1,170.5 million (2016: £1,007.2m), an overall increase of 6.5% on a constant currency basis (up 16.2% on a reported basis with £91.5m of foreign currency gains on translation). Revenue growth of £17 million from our existing businesses was boosted by a further £55 million from acquisitions.

Performance has been particularly strong in our overseas businesses, with North America delivering 8.4% growth in constant currency, benefitting from a number of bolt-on acquisitions made in the last 12 months, together with a successful bidding season in which we achieved an average price increase of around 2.5% across the entire portfolio and 3.7% on those contracts up for bid and renewal. ALSA also delivered a strong performance, with revenue growth of 7.4% on a constant currency basis. This was driven by strong performance in Spain, notably on our Spanish long distance routes where our revenue management system contributed 5.8% to revenue growth on our long haul services.

Decisive management action has driven resilient performance in our UK businesses in the context of softer market conditions. UK Bus revenue declined by 1.4% reflecting the ongoing decline in concessionary income while we have driven an improving trend in commercial revenue in the second quarter with the introduction of a number of low fare zones, driving an increase in passenger volumes and yielding increased revenue. Commercial revenue was broadly flat for the first half as a whole. After a strong start to the year, UK Coach operations delivered revenue growth of 1.7%, a robust performance given recent events in Manchester and London.

German Rail delivered strong growth in the first half, with revenue growth of 22.7% in constant currency. Overall performance was enhanced by the clarification of our revenue position including latest passenger count data, allowing us to recognise all revenue earned. The first half result has therefore included an element of catch up from 2016 that we were not able to recognise in the 2016 full year results.

Normalised profit

Profit bridge for the continuing operations	£m
2016 first half year operating profit (as reported)	94
Currency	9
Operating profit at constant currency	103
Growth	5
Acquisitions	11
Cost inflation	(17)
Cost efficiency	12
Other	(2)
2017 first half operating profit	112

Group normalised operating profit increased by 8.3% to £111.6 million on a constant currency basis, up 19.1% on a reported basis (2016: £93.7m). We delivered solid organic growth of £5 million from our existing businesses as the drivers of revenue growth noted above flow though. This was supplemented by a strong contribution of £11 million from acquisitions made in the last year, predominantly in the US.

These results include £17m of cost inflation, most notably in the form of driver wage inflation in North America. We have retained our disciplined focus on cost control and a programme of efficiency measures across the Group delivered £12m of savings in the first six months of 2017 and brought net cost inflation down to £5 million.

Central costs have increased by £2 million and reflect strategic investment in a number of group-wide initiatives including our Delivering Excellence and World Class Maintenance programmes, together with a new International Development team to help the Group pursue further international opportunities.

We have benefitted from £9m of currency translation in the first half driven by the weakening of Sterling following the result of the ‘Brexit’ referendum. Given the timing of that decision, we expect the foreign currency tailwind to moderate in the second half of this year.

Net finance costs decreased by £4.9 million to £18.8 million (2016: £23.7m), reflecting the lower interest costs following the successful refinancing, with our new £400 million bond that extends liquidity out to 2023.

We recorded a loss of £3.9 million (2016: profit £0.7m) from associates, reflecting the write down of our investment in a minority stake in Deutsche Touring Group, a German partner in Eurolines, which entered into administration this year.

After accounting for net finance costs and losses from associates, profit before tax of £88.9 million grew 11.0% on a constant currency basis and by 25.7% on a reported basis (2016: £70.7m).

The Group’s effective tax rate for 2017 normalised profit is forecast to be around 24% (2016 full year: 19%), in line with our previous guidance earlier this year.

Normalised basic earnings per share were 13.0 pence (2016: 10.9p), an increase of 19.3%.

Statutory profit

Statutory profit	First half		Full year
	2017 £m	2016* £m	2016* £m
Normalised profit before tax	88.9	70.7	168.6
UK restructuring	(5.6)	-	-
Intangible amortisation	(18.7)	(16.3)	(33.8)
Profit before tax	64.6	54.4	134.8
Tax charge	(13.8)	(8.4)	(19.9)
Profit after tax from continuing operations	50.8	46.0	114.9
Profit from discontinued operations	6.4	2.0	5.1
Profit for the period	57.2	48.0	120.0

*Restated

Intangible amortisation increased to £18.7 million (2016: £16.3m) predominantly due to foreign exchange movements.

In February 2017, the Group disposed of its final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK rail. Consequent on this exit, the Group has also reorganised its UK management structure given the simplified UK footprint to reduce costs and facilitate better, clearer decision-making. The aggregate impact of the UK rail exit including c2c disposal and consequent UK restructuring has been a small profit after tax of £1.9 million, which has been excluded from normalised results. To comply with accounting regulations, the gross profit on the sale of the c2c franchise and the discontinuation of other direct UK rail costs (£6.4m) is separated on the income statement from the associated costs of restructuring the UK business (£5.6m). Further detail can be found in note 7 to the condensed interim financial statements.

Profit after tax was £50.8 million (2016: £46.0m). Basic EPS was 10.9 pence (2016: 9.2p), an increase of 18.5%.

Cash management

Free cash flow	First half		Full year
	2017 £m	2016* £m	2016* £m
Continuing normalised operating profit	111.6	93.7	217.5
Trading (loss)/profit from discontinued operations	(0.9)	2.5	6.4
	110.7	96.2	223.9
Depreciation and other non-cash items	69.2	57.7	120.7
EBITDA	179.9	153.9	344.6
Net maintenance capital expenditure	(77.4)	(57.4)	(134.7)
Working capital movement	18.0	9.6	(3.1)
Pension contributions above normal charge	(1.4)	(2.8)	(5.5)
Operating cash flow	119.1	103.3	201.3
Payments to associates and minorities	(0.6)	(0.1)	(1.5)
Net interest paid	(32.9)	(33.9)	(47.6)
Tax paid	(3.8)	(3.2)	(13.6)
Free cash flow	81.8	66.1	138.6
Exceptional cash flow	-	(2.8)	(4.9)
Cash flow available for growth & dividends	81.8	63.3	133.7

*Restated

Our strong and sustainable cash flows support a capital investment programme that maintains fleet age at acceptable levels. Our current target is to invest around 1.1 to 1.2 times depreciation.

Operating cash flow improved by £15.8 million to £119.1 million (2016: £103.3m) driven by the growth in EBITDA partially offset by net maintenance capital expenditure £20 million higher than in the first half of 2016. This is primarily phasing and our expectation for net maintenance capital expenditure for the full year remains at around £160 million to £170 million. The majority of the maintenance capital investment has been in fleet replacement predominantly in Spain and North America. We delivered operating cash flow conversion of 108% partially benefitting from working capital phasing.

Cash generated from operations for the period was £181.2 million (2016: £156.8m) as shown in the Condensed Group Statement of Cash Flows. Operating cash flow of £119.1 million (2016: £103.3m) presented in the table above is different, predominantly due to the inclusion of net maintenance capital expenditure of £77.4 million (2016: £57.4m) and the separate disclosure of discontinued operations.

£81.8 million of free cash flow was generated in the period (2016: £66.1m) reflecting the flow-through of the increase in operating cash flow. This constitutes a strong 74% free cash flow conversion creating a solid platform for investing in growth and paying dividends. In line with our previous guidance, we remain on target to deliver £120 million of free cash flow for the full year.

Net funds flow	First half		Full year
	2017 £m	2016 £m	2016 £m
Cash flow available for growth & dividends	81.8	63.3	133.7
Net growth capital expenditure	(3.0)	(15.5)	(27.0)
Net inflow from discontinued operations	29.9	-	-
Acquisitions	(52.9)	(37.6)	(88.8)
Dividends	(42.9)	(39.1)	(58.9)
Other, including foreign exchange	(8.2)	(28.3)	(91.5)
Net funds flow	4.7	(57.2)	(132.5)
Net debt	(873.3)	(802.7)	(878.0)

Growth capital expenditure during the period of £3.0 million included investment in new ticket machines enabling contactless pay in our UK Bus operations, infrastructure to support the mobilisation of the RRX contract in our German rail operations and further investment in new technology and digital platforms in our UK Coach operations.

Cash inflow from discontinued operations of £29.9m is the result of the exit of the UK rail business and is broken out below.

Net inflow from discontinued operations	£m
Proceeds from disposal	71.8
Cash in the business	(14.9)
Outflow relating to costs of disposal	(13.0)
Net cash inflow from c2c disposal	43.9
Outflow relating to discontinued operations	(14.0)
Net cash inflow	29.9

We have continued our strategy of making selective bolt-on acquisitions where the returns and strategic fit justify the investment, and in the period we completed two such investments in our Spanish division, for total cash consideration of £5.7 million. Deferred consideration for acquisitions made in 2016 was £45.8 million. We continue to deliver strong performances from our acquisitions, delivering returns on invested capital within our 15-20% target range.

Post the period end we completed the acquisition of Cook-DuPage Transportation, a paratransit operator in the Midwest in the US, for a net cash consideration of £45.3 million. There is no impact in these interim results from this acquisition.

Our disciplined approach to investment and the underlying strength of the business is demonstrated in ROCE growing to 12.0% (2016: 11.9%).

Net funds flow for the period was an inflow of £4.7 million (2016: outflow £57.2m), resulting in period-end net debt of £873.3 million.

The Group maintains gearing discipline by matching the currency denomination of its debt to the currency in which EBITDA is earned. Gearing at the end of the period was 2.3 times EBITDA, within the Group's target range of 2-2.5 times.

Dividend
Our dividend policy is to pay a dividend covered at least two times by Group normalised earnings. In line with our dividend policy we have declared a 10% increase in the interim dividend to 4.26 pence reflecting these strong results.

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 (Baa3/stable) and Fitch (BBB-/stable) 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 2017 were as follows:
- Gearing ratio: 2.3 times EBITDA (31 Dec 2016: 2.5x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 8.4 times interest (31 Dec 2016: 6.6x; 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 2017, the Group had £1.3 billion of debt capital and committed facilities, comprised of a £225 million bond maturing in 2020; a £400 million bond maturing in 2023; a private placement of €78 million maturing in 2021; £512 million revolving credit facilities ('RCF') maturing in 2021; and £154 million of finance leases. At 30 June 2017, the Group had £97 million drawn under its RCF, and £494 million in cash and undrawn committed facilities available.

At 30 June 2017, 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 1.8x EBITDA earned in the US, held in US Dollars, and 2.1x EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 30 June 2017, the proportion of Group debt at floating rates was 25%.

Pensions
The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 30 June 2017 was £89.3 million (Dec 2016: £88.2m). 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. We have completed the triennial valuation of both schemes and expect that the overall level of contribution will be around £10 million per annum until 2020.

The IAS19 valuations for the principal schemes at 30 June 2017 were as follows:

- UK Bus: £124.9 million deficit (Dec 2016: £128.5m deficit);
- UK Group scheme: £39.8 million surplus (Dec 2016: £44.5m surplus)

The net pension surplus for c2c's participation in the Railways Pension Scheme has been transferred following the disposal of the rail franchise to Trenitalia.

Fuel costs

Fuel cost represents approximately 8% of revenue. The Group is fully hedged for 2017 at an average price of 44.4p per litre, 98% hedged for 2018 at an average price of 34.0p, 77% hedged for 2019 at an average price of 34.6p and 30% hedged for 2020 at an average price of 33.6p. As previously guided, we anticipate fuel savings of around £6m for the full year, and £20m for 2018.

Summary

The Group has delivered a strong financial performance in the first half of the year and we remain confident about the prospects for the full year.

Chris Davies
Group Finance Director
27 July 2017

Group wide risks

Principal risks and uncertainties

The Group's principal risks and uncertainties summarised here are in line with those that are detailed in the 2016 Annual Report and Accounts:

- 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. The terms on which Brexit is negotiated may affect the Group's ability to bid competitively within the EU.
- 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.
- Increased competition from other modes of transport and/or in terms of increased price competition.
- Terrorism: the longer term impact of terrorism attacks potentially softening demand for travel.
- Safety: a major safety-related incident could impact the Group both financially and reputationally.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs.
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.
- Cyber security: loss of confidential data causing damage to brand reputation; major IT failure causing severe or sustained disruption to the business.
- Credit risk: the impact of customer payment default in the North America and Spanish divisions.
- Treasury risk: the impact of foreign exchange or interest rate movements on profits and cash and counterparty risk.
- Hazard risk: asset loss due to natural disaster which may also impact Group revenue and profits.
- Pension costs: scheme funding could rise should market conditions materially worsen.
- Fuel cost: changes in economic and political climate could drive changes in cost for the Group.

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.

Chris Davies
Group Finance Director
27 July 2017

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For six months ended 30 June 2017

		Unaudited six months to 30 June						
	Note	**Total before intangible amortisation and UK rail & restructuring 2017 £m**	**Intangible amortisation and UK rail & restructuring 2017 £m**	**Total 2017 £m**	Total before intangible amortisation and UK rail (restated) 2016 £m	Intangible amortisation and UK rail (restated) 2016 £m	Total (restated) 2016 £m	Audited Year to 31 December Total (restated) 2016 £m
Continuing operations								
Revenue	4	**1,170.5**	**–**	**1,170.5**	1,007.2	–	1,007.2	2,093.7
Operating costs before intangible amortisation	4	**(1,058.9)**	**(5.6)**	**(1,064.5)**	(913.5)	–	(913.5)	(1,876.2)
Intangible amortisation	4	**–**	**(18.7)**	**(18.7)**	–	(16.3)	(16.3)	(33.8)
Total operating costs		**(1,058.9)**	**(24.3)**	**(1,083.2)**	(913.5)	(16.3)	(929.8)	(1,910.0)
Group operating profit	4	**111.6**	**(24.3)**	**87.3**	93.7	(16.3)	77.4	183.7
Share of results of associates and joint ventures		**(3.9)**	**–**	**(3.9)**	0.7	–	0.7	1.1
Finance income	5	**4.4**	**–**	**4.4**	3.3	–	3.3	7.5
Finance costs	5	**(23.2)**	**–**	**(23.2)**	(27.0)	–	(27.0)	(57.5)
Profit before tax		**88.9**	**(24.3)**	**64.6**	70.7	(16.3)	54.4	134.8
Tax charge	6	**(21.4)**	**7.6**	**(13.8)**	(14.1)	5.7	(8.4)	(19.9)
Profit after tax for the period from continuing operations		**67.5**	**(16.7)**	**50.8**	56.6	(10.6)	46.0	114.9
Profit for the period from discontinued operations	7	**–**	**6.4**	**6.4**	–	2.0	2.0	5.1
Profit for the period		**67.5**	**(10.3)**	**57.2**	56.6	(8.6)	48.0	120.0
Profit attributable to equity shareholders		**66.1**	**(10.3)**	**55.8**	55.6	(8.6)	47.0	117.2
Profit attributable to non-controlling interests		**1.4**	**–**	**1.4**	1.0	–	1.0	2.8
		67.5	**(10.3)**	**57.2**	56.6	(8.6)	48.0	120.0
Earnings per share:	9							
– basic earnings per share				**10.9p**			9.2p	23.0p
– diluted earnings per share				**10.9p**			9.2p	22.8p
Normalised earnings per share:								
– basic earnings per share		**13.0p**			10.9p			26.3p
– diluted earnings per share		**13.0p**			10.9p			26.2p
Earnings per share from continuing operations:								
– basic earnings per share				**9.7p**			8.8p	22.0p
– diluted earnings per share				**9.7p**			8.8p	21.8p

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Unaudited six months to 30 June 2017 £m	Unaudited six months to 30 June 2016 £m	Audited year to 31 December 2016 £m
Profit for the period	**57.2**	48.0	120.0
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension plans	**(11.0)**	2.4	(45.6)
Deferred tax on actuarial (losses)/gains	**2.0**	0.1	8.0
	(9.0)	2.5	(37.6)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**(12.7)**	137.5	189.6
Exchange differences on retranslation of non-controlling interests	**0.5**	2.0	2.5
(Losses)/gains on cash flow hedges	**(31.6)**	18.6	38.8
Less: reclassification adjustments for gains or losses included in profit	**13.3**	25.0	43.7
Tax on exchange differences	**(0.3)**	13.5	14.3
Deferred tax on cash flow hedges	**3.0**	(6.5)	(12.2)
	(27.8)	190.1	276.7
Total comprehensive income for the period	**20.4**	240.6	359.1
Total comprehensive income attributable to:			
Equity shareholders	**18.6**	237.6	353.8
Non-controlling interests	**1.8**	3.0	5.3
	20.4	240.6	359.1

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2017

	Note	**Unaudited 30 June 2017 £m**	Unaudited 30 June 2016 £m	Audited 31 December 2016 £m
Non-current assets				
Intangible assets		**1,532.5**	1,405.4	1,548.6
Property, plant and equipment		**974.8**	894.7	983.6
Available for sale investments		**8.0**	7.5	7.8
Derivative financial instruments	10	**15.5**	20.1	31.1
Deferred tax assets		**52.3**	36.2	48.3
Investments accounted for using the equity method		**10.8**	11.6	13.7
Trade and other receivables		**16.7**	3.0	18.2
Defined benefit pension assets	11	**39.8**	74.9	44.5
		2,650.4	2,453.4	2,695.8
Current assets				
Inventories		**25.9**	24.2	25.0
Trade and other receivables		**319.1**	265.5	302.7
Derivative financial instruments	10	**10.7**	9.7	13.0
Current tax assets		**–**	0.6	2.3
Cash and cash equivalents		**78.0**	129.4	318.1
Assets classified as held for sale		**–**	–	78.0
		433.7	429.4	739.1
Total assets		**3,084.1**	2,882.8	3,434.9
Non-current liabilities				
Borrowings		**(817.1)**	(426.3)	(816.7)
Derivative financial instruments	10	**(13.0)**	(17.9)	(4.2)
Deferred tax liability		**(79.0)**	(53.7)	(82.9)
Other non-current liabilities		**(11.4)**	(16.0)	(21.2)
Defined benefit pension liabilities	11	**(129.1)**	(83.3)	(132.7)
Provisions		**(57.0)**	(35.7)	(57.2)
		(1,106.6)	(632.9)	(1,114.9)
Current liabilities				
Trade and other payables		**(623.0)**	(554.0)	(600.7)
Borrowings		**(158.7)**	(536.9)	(443.8)
Derivative financial instruments	10	**(25.8)**	(67.1)	(26.0)
Current tax liabilities		**(13.0)**	(21.8)	(6.7)
Provisions		**(58.1)**	(38.2)	(57.2)
Liabilities directly associated with assets classified as held for sale		**–**	–	(60.1)
		(878.6)	(1,218.0)	(1,194.5)
Total liabilities		**(1,985.2)**	(1,850.9)	(2,309.4)
Net assets		**1,098.9**	1,031.9	1,125.5
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		**(3.0)**	(2.0)	(7.8)
Other reserves		**165.9**	108.0	194.1
Retained earnings		**358.2**	350.1	362.0
Total shareholders' equity		**1,079.6**	1,014.6	1,106.8
Non-controlling interest in equity		**19.3**	17.3	18.7
Total equity		**1,098.9**	1,031.9	1,125.5

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

	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 2017	25.6	532.7	0.2	(7.8)	194.1	362.0	**1,106.8**	18.7	**1,125.5**
Own shares released to satisfy employee share schemes	–	–	–	9.2	–	(9.2)	**–**	–	**–**
Shares purchased	–	–	–	(4.4)	–	–	**(4.4)**	–	**(4.4)**
Total comprehensive income	–	–	–	–	(28.2)	46.8	**18.6**	1.8	**20.4**
Share-based payments	–	–	–	–	–	2.2	**2.2**	–	**2.2**
Tax on share-based payments	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends	–	–	–	–	–	(42.9)	**(42.9)**	–	**(42.9)**
Dividends payable to non-controlling interests	–	–	–	–	–	–	**–**	(1.1)	**(1.1)**
Other movements with non-controlling interests	–	–	–	–	–	(0.3)	**(0.3)**	(0.1)	**(0.4)**
At 30 June 2017 (unaudited)	**25.6**	**532.7**	**0.2**	**(3.0)**	**165.9**	**358.2**	**1,079.6**	**19.3**	**1,098.9**

	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 2016	25.6	532.7	0.2	(7.8)	(80.1)	345.6	**816.2**	14.9	**831.1**
Own shares released to satisfy employee share schemes	–	–	–	7.3	–	(7.3)	**–**	–	**–**
Shares purchased	–	–	–	(1.5)	–	–	**(1.5)**	–	**(1.5)**
Total comprehensive income	–	–	–	–	188.1	49.5	**237.6**	3.0	**240.6**
Share-based payments	–	–	–	–	–	1.7	**1.7**	–	**1.7**
Tax on share-based payments	–	–	–	–	–	(0.3)	**(0.3)**	–	**(0.3)**
Dividends	–	–	–	–	–	(39.1)	**(39.1)**	–	**(39.1)**
Dividends payable to non-controlling interests	–	–	–	–	–	–	**–**	(0.6)	**(0.6)**
At 30 June 2016 (unaudited)	**25.6**	**532.7**	**0.2**	**(2.0)**	**108.0**	**350.1**	**1,014.6**	**17.3**	**1,031.9**

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2017

	Note	**Unaudited six months to 30 June 2017 £m**	Unaudited six months to 30 June 2016 £m	Audited year to 31 December 2016 £m
Cash generated from operations	14	**181.2**	156.8	330.2
Tax paid		**(3.8)**	(3.2)	(13.6)
Interest paid		**(43.2)**	(42.5)	(62.9)
Interest received		**10.8**	9.8	7.1
Net cash flow from operating activities		**145.0**	120.9	260.8
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	12	**(5.7)**	(21.5)	(58.9)
Deferred consideration for businesses acquired	12	**(45.8)**	(16.3)	(24.4)
Proceeds from disposal of business, net of cash disposed		**43.9**	0.9	0.9
Purchase of property, plant and equipment		**(63.8)**	(51.5)	(130.3)
Proceeds from disposal of property, plant and equipment		**4.5**	4.0	14.4
Payments to acquire intangible assets		**(1.3)**	(4.1)	(6.3)
Payments to acquire associates and investments		**(0.9)**	–	(0.2)
Net cash flow from investing activities		**(69.1)**	(88.5)	(204.8)
Cash flows from financing activities				
Finance lease principal payments		**(19.0)**	(15.5)	(37.9)
Increase in borrowings		**95.3**	85.2	404.4
Repayment of borrowings		**(351.8)**	(6.7)	(50.3)
Receipts/(payments) for the maturity of foreign currency swaps		**1.1**	8.8	(46.3)
Purchase of own shares		**(4.2)**	(1.5)	(7.7)
Dividends paid to non-controlling interests		**(0.2)**	(0.1)	(0.9)
Payments for equity in non-controlling interests		**(0.4)**	–	(0.6)
Dividends paid to shareholders of the Company		**(42.9)**	(39.1)	(58.9)
Net cash flow from financing activities		**(322.1)**	31.1	201.8
(Decrease)/increase in cash and cash equivalents		**(246.2)**	63.5	257.8
Opening cash and cash equivalents		**324.4**	60.4	60.4
(Decrease)/increase in cash and cash equivalents		**(246.2)**	63.5	257.8
Foreign exchange		**(0.2)**	5.5	6.2
Closing cash and cash equivalents		**78.0**	129.4	324.4

NATIONAL EXPRESS GROUP PLC
NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS
For the six months ended 30 June 2017

1. General information

These condensed interim financial statements for the six months ended 30 June 2017 do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 were approved by the board of directors on 23 February 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The Group's Annual Report and Accounts for the year ended 2016 was prepared in accordance with IFRS as adopted by the European Union. The condensed interim 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.

Figures for the year ended 31 December 2016 have been extracted from the Group's Annual Report and Accounts for the year ended 2016. The interim results are unaudited but have been reviewed by the Group's auditor.

Prior period figures in the Condensed Group Income Statement and related notes have been restated to present separately the amounts relating to operations classified as discontinued in the current year. For details see note 7.

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.

Accounting policies

The accounting policies adopted in these condensed interim financial statements are consistent with those of the previous financial year.

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

Three amendments to IFRSs became effective for the financial year beginning on 1 January 2017, although as at 30 June 2017 these had not been endorsed by the European Union. The changes comprise amendments to IAS 7 'Cash flow statements' and IAS 12 'Income taxes', and the annual improvements project 2014-2016 relating to IFRS 12 'Disclosure of interests in other entities'.

The amendment to IAS 7 'Cash flow statements' requires a disclosure of changes in liabilities arising from financing activities. This amendment is not required for interim financial statements and has not yet been endorsed by the European Union. The Directors expect to provide these additional disclosures in the Annual Report and Accounts for the year ended 31 December 2017.

The changes to IAS 12 'Income taxes' and IFRS 12 'Disclosure of interests in other entities' do not have an impact on the Group's financial statements.

In addition, the following principal standards are in issue but not yet effective, and have not been applied to these condensed interim financial statements:

IFRS 9 ‘Financial Instruments’ – effective for periods beginning on or after 1 January 2018. The standard deals with the classification, recognition and measurement of financial assets and liabilities.

IFRS 15 ‘Revenue from Contracts with Customers’ – effective for periods beginning on or after 1 January 2018. The standard establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 16 ‘Leases’ – effective for periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.

A review of the above three standards is in progress and is due to be finalised by the end of the financial year. Further details will be provided in the Annual Report and Accounts for the year ended 2017. Based on the work performed to date, the Directors do not expect IFRS 9 and IFRS 15 to have a significant impact on future financial statements. IFRS 16 is expected to result in a material increase to both the assets and liabilities of the Group and expected to reduce operating costs and increase finance costs.

Seasonality

The Group operates a diversified portfolio of bus, coach and rail businesses operating in international markets. The North American bus business typically earns higher operating profits for the first half of the year (i.e. the 6 months to 30 June) than for the second half. This is because of the timing of school terms and the summer holiday period. The UK and Spanish coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. 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 2017		Six months to 30 June 2016		Year to 31 December 2016	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.30**	**1.26**	**1.33**	**1.43**	1.23	1.36
Canadian dollar	**1.69**	**1.68**	**1.72**	**1.91**	1.66	1.80
Euro	**1.14**	**1.16**	**1.20**	**1.28**	1.17	1.22

If the results for the 6 months to 30 June 2016 had been retranslated at the average exchange rates for the period to 30 June 2017, North America would have achieved normalised operating profit of £51.4m on revenue of £500.4m, compared to normalised operating profit of £45.2m on revenue of £439.9m as reported, and Spain and Morocco would have achieved a normalised operating profit of £35.6m on revenue of £296.2m, compared to normalised operating profit of £32.3m on revenue of £268.2m 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 34-37 in the Group’s Annual Report and Accounts for the year ended 2016.

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 2017 £m**	**Operating result 2017 £m**	Revenue (restated) 2016 £m	Operating result (restated) 2016 £m	Revenue (restated) 2016 £m	Operating result (restated) 2016 £m
UK Bus	**135.9**	**16.6**	137.9	16.8	276.8	34.0
UK Coach	**136.1**	**9.4**	133.8	10.4	282.8	33.3
German Rail	**38.1**	**1.7**	28.2	(2.3)	61.3	(1.5)
Spain and Morocco	**318.1**	**38.8**	268.2	32.3	597.3	84.7
North America	**543.0**	**55.7**	439.9	45.2	877.2	84.0
Central functions	**–**	**(10.6)**	–	(8.7)	–	(17.0)
Intercompany elimination	**(0.7)**	**–**	(0.8)	–	(1.7)	–
Normalised result from continuing operations	**1,170.5**	**111.6**	1,007.2	93.7	2,093.7	217.5
Intangible asset amortisation		**(18.7)**		(16.3)		(33.8)
UK restructuring costs		**(5.6)**		–		–
Group operating profit		**87.3**		77.4		183.7
Share of results of associates		**(3.9)**		0.7		1.1
Net finance costs		**(18.8)**		(23.7)		(50.0)
Profit before tax		**64.6**		54.4		134.8
Tax charge		**(13.8)**		(8.4)		(19.9)
Profit after tax for the period from continuing operations		**50.8**		46.0		114.9
Profit for the period from discontinued operations		**6.4**		2.0		5.1
		57.2		48.0		120.0

Intercompany sales are made by UK Bus to UK Coach for the provision of coach services on a small number of routes and by UK Coach to UK Rail for rail replacement services. Inter-segment trading is undertaken on standard arm's length commercial terms.

As disclosed in note 7, in February 2017 the Group disposed of its final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK Rail. Consequent on this exit and given the simplified UK footprint, the Group has also reorganised its UK management structure to reduce costs and facilitate better, clearer decision-making. The cost in the period relating to this restructuring was £5.6m.

Intangible asset amortisation for continuing operations is analysed by reportable segment as follows:

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
UK Coach	**0.4**	0.2	0.4
German Rail	**0.5**	0.4	0.8
Spain and Morocco	**4.3**	4.8	9.5
North America	**13.5**	10.9	23.0
Central functions	**–**	–	0.1
	18.7	16.3	33.8

5. Net finance costs

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 Dec 2016 £m
Bank and bond interest payable	**(19.3)**	(23.6)	(50.3)
Finance lease interest payable	**(2.0)**	(1.7)	(3.5)
Other interest payable	**(0.4)**	(0.9)	(1.5)
Unwind of provision discounting	**(0.5)**	(0.6)	(1.2)
Interest cost on defined benefit pension obligations	**(1.0)**	(0.2)	(1.0)
Finance costs	**(23.2)**	(27.0)	(57.5)
Other financial income	**4.4**	3.3	7.5
Net finance costs	**(18.8)**	(23.7)	(50.0)

6. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2017 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2017. The normalised tax charge of £21.4m (2016 interim: £14.1m) represents an effective tax rate on normalised profit before tax, for continuing operations, of 24% (2016 interim: 20%). The total tax charge of £13.8m (2016 interim: £8.4m) includes a deferred taxation charge of £0.7m (2016 interim: £1.2m).

7. Discontinued operations

As previously announced in the 2016 Annual Report and Accounts, on 10 February 2017 the Group disposed of its only UK rail franchise, National Express Essex Thameside 'c2c', to Trenitalia and as a result has recognised all UK rail operating activity as discontinued.

On 22 March 2017, Transport for West Midlands announced its intention to take over the running of the Midland Metro tram operations at the end of the current franchise. We have therefore also shown this as discontinued.

Prior period figures have been restated to present separately the above operations as discontinued.

Details of the discontinued operations are as follows:

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Revenue	**25.3**	91.7	185.5
Operating costs	**(26.2)**	(89.2)	(179.1)
Trading (loss)/profit before tax	**(0.9)**	2.5	6.4
One-off costs relating to discontinued operations	**(7.0)**	–	–
Gross profit on disposal of discontinued operations	**12.9**	–	–
Net profit from discontinued operations before tax	**5.0**	2.5	6.4
Attributable income tax credit/(expense)	**1.4**	(0.5)	(1.3)
Net profit from discontinued operations attributable to equity shareholders	**6.4**	2.0	5.1

7. Discontinued operations (continued)

The net cash flows incurred by the discontinued operations during the period are as follows. These cash flows are included within the Group Statement of Cash Flows:

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Cash outflow from operating activities	**(13.5)**	(17.7)	(1.2)
Cash (outflow)/inflow from investing activities	**(0.5)**	0.1	(6.7)
Cash inflow from financing activities	**–**	–	0.8
Net cash outflow	**(14.0)**	(17.6)	(7.1)

8. Dividends paid and proposed

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Declared and paid during the period:			
Ordinary final dividend for 2015 of 7.645p per share	**–**	39.1	39.1
Ordinary interim dividend for 2016 of 3.87p per share	**–**	–	19.8
Ordinary final dividend for 2016 of 8.41p per share	**43.0**	–	–

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Proposed for approval and not recognised at period end:			
Ordinary interim dividend for 2016 of 3.87p per share	**–**	19.8	–
Ordinary final dividend for 2016 of 8.41p per share	**–**	–	43.0
Ordinary interim dividend for 2017 of 4.26p per share	**21.8**	–	–

9. Earnings per share

	Six months to 30 June 2017	Six months to 30 June 2016 (restated)	Year to 31 December 2016 (restated)
Basic earnings per share	**10.9p**	9.2p	23.0p
Normalised basic earnings per share	**13.0p**	10.9p	26.3p
Basic earnings per share from continuing operations	**9.7p**	8.8p	22.0p
Diluted earnings per share	**10.9p**	9.2p	22.8p
Normalised diluted earnings per share	**13.0p**	10.9p	26.2p
Diluted earnings per share from continuing operations	**9.7p**	8.8p	21.8p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £55.8m (2016 interim: £47.0m; 2016 full year: £117.2m) 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 2017	Six months to 30 June 2016	Year to 31 December 2016
Basic weighted average shares	**509,862,298**	510,026,180	510,255,410
Adjustment for dilutive potential ordinary shares	**504,834**	180,345	2,859,856
Diluted weighted average shares	**510,367,132**	510,206,525	513,115,266

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 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Profit attributable to equity shareholders	**55.8**	47.0	117.2
Intangible asset amortisation	**18.7**	16.3	33.8
UK restructuring costs	**5.6**	–	–
Tax relief on amortisation and UK restructuring costs	**(7.6)**	(5.7)	(11.5)
Profit for the period from discontinued operations	**(6.4)**	(2.0)	(5.1)
Normalised profit attributable to equity shareholders	**66.1**	55.6	134.4

10. 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 2017 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 two £50.0 million denominated interest rate derivatives to swap fixed interest on £100m of the Group's Sterling bonds to a floating rate and two €39.25m denominated interest rate derivatives equal in value to a Euro Private Placement.

These derivative financial instruments are held in the balance sheet at fair value and are measured using level 2 inputs. These are valued using discounted cash flow methods that incorporate interest rates, fuel prices and yield curves observable at commonly quoted intervals and observable credit spreads. 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 2017. 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 2017 £m	At 30 June 2016 £m	At 31 December 2016 £m
Non-current			
Fuel derivatives	**0.4**	2.9	8.6
Interest rate derivatives	**10.7**	17.2	14.3
Cross currency swaps	**4.4**	–	8.2
Derivative financial assets	**15.5**	20.1	31.1
Current			
Fuel derivatives	**2.2**	0.2	3.6
Interest rate derivatives	**1.9**	2.7	8.4
Foreign exchange derivatives	**6.6**	6.8	1.0
Derivative financial assets	**10.7**	9.7	13.0
Non-current			
Fuel derivatives	**13.0**	17.9	4.2
Derivative financial liabilities	**13.0**	17.9	4.2
Current			
Fuel derivatives	**21.1**	31.2	21.1
Foreign exchange derivatives	**4.7**	35.9	4.9
Derivative financial liabilities	**25.8**	67.1	26.0

11. Pensions and other post-employment benefits

The UK Bus division and National Express Group PLC (the ‘Company’) operate defined benefit pension schemes. The Company defined benefit scheme also includes certain employees of the UK Coach division. In addition, a defined contribution scheme operates for staff in the UK Bus and UK Coach divisions and the Company.

The Group also maintains a small defined benefit pension scheme for a number of ex-employees previously employed by the UK Rail division. The principal UK Rail defined benefit scheme was transferred to Trenitalia as part of the disposal of NXET Trains Limited on 10 February 2017.

With effect from 30 June 2017, the assets and liabilities of the Tayside Transport Fund (a defined benefit pension scheme for certain past and present employees of Tayside Public Transport Company Limited, a subsidiary of the UK Bus division) were transferred into the Tayside Pension Fund (a fund administered by Dundee City Council). The Group will continue to make contributions into the Tayside Pension Fund in respect of current service costs on the basis of a fixed percentage of pensionable pay and will account for this on a defined contribution basis. Prior to transfer, the Tayside Transport Fund was in a net surplus position and had been derecognised in full.

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

Subsidiaries in North America contribute to a number of defined contribution plans. The Group also provides certain additional unfunded post-employment benefits to employees in North America and Spain. These are categorised as ‘Other’ below.

The total pension operating cost for the six months to 30 June 2017 was £3.9m (2016 interim: £3.7m; 2016 full year: £7.4m), of which £1.9m (2016 interim: £1.9m; 2016 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 2017 £m	At 30 June 2016 £m	At 31 December 2016 £m
UK Bus	**(124.9)**	(80.9)	(128.5)
UK Rail*	**(1.5)**	26.3	(1.5)
Company	**39.8**	48.6	44.5
Other	**(2.7)**	(2.4)	(2.7)
Total	**(89.3)**	(8.4)	(88.2)

* 30 June 2016 includes a defined benefit asset of NXET Trains Limited, subsequently recognised within assets held for sale at 31 December 2016 and transferred on disposal in February 2017.

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

	Six months ended 30 June 2017			Year ended 31 December 2016		
	UK Bus	**Rail**	**Company**	UK Bus	Rail	Company
Rate of increase in salaries	**2.5%**	**2.8%**	**2.5%**	2.5%	2.9%	2.5%
Rate of increase in pensions	**2.3%**	**2.3%**	**3.3%**	2.4%	2.4%	3.3%
Discount rate	**2.6%**	**2.6%**	**2.6%**	2.7%	2.7%	2.7%
Inflation rate (RPI)	**3.3%**	**3.3%**	**3.3%**	3.4%	3.4%	3.4%
Inflation rate (CPI)	**2.3%**	**2.3%**	**2.3%**	2.4%	2.4%	2.4%

12. Business Combinations

(a) Acquisitions

During the period the Group acquired two businesses, Odier Excursions SA, a business providing tourist charter and other transportation services based in Switzerland, and Transportes Santo Domingo S.L., a business providing bus transportation services in Madrid, Spain. The total provisional fair value of net assets acquired in the two businesses was £4.1m. Total consideration was £5.7m, resulting in provisional goodwill of £1.6m.

In addition to the above, deferred consideration of £45.8m was paid in the period relating to North America and UK Coach acquisitions from earlier years.

In the period to 30 June 2016 there were a number of small acquisitions in the North America and Spain and Morocco divisions. Further details are disclosed in the interim condensed consolidated financial statements for that period and in the Group's 2016 Annual Report and Accounts. No material changes were made to the fair values during 2017.

On 1 July 2017, the Group acquired Cook-DuPage Transportation Co. Inc, a paratransit business located in Chicago, USA. Total consideration, net of cash in the business of £4.0m, was £45.3m. This includes deferred contingent consideration of £25.8m. Due to the proximity of the acquisition to the date of issuance of the interim results, the accounting for the business combination is incomplete and no further disclosures required by IFRS 3 can be provided at this time. Further details will be provided in the Annual Report and Accounts for the year ended 2017.

(b) Disposals

On 10 February 2017, the Group disposed of the National Express Essex Thameside 'c2c' franchise to Trenitalia. The consideration received was £71.8m and a further £35.0m was received to settle intercompany loans.

Further details of the disposal are disclosed in note 7.

13. Net debt

	At 1 January 2017 £m	Cash flow £m	Acquisitions & disposals £m	Foreign Exchange £m	Other movements £m	At 30 June 2017 £m
Cash and cash equivalents	**324.4**	**(231.3)**	**(14.9)**	**(0.2)**	**–**	**78.0**
Other debt receivable	**0.5**	**–**	**–**	**–**	**–**	**0.5**
Borrowings:						
Bank loans	**(13.1)**	**(93.5)**	**(0.3)**	**(2.0)**	**(0.2)**	**(109.1)**
Bonds	**(983.2)**	**350.0**	**–**	**–**	**2.7**	**(630.5)**
Cross currency swap	**11.1**	**–**	**–**	**(6.1)**	**–**	**5.0**
Fair value of hedging derivatives	**14.4**	**–**	**–**	**–**	**(3.7)**	**10.7**
Finance lease obligations	**(159.7)**	**19.0**	**(1.1)**	**7.3**	**(19.8)**	**(154.3)**
Other debt payable	**(72.4)**	**–**	**–**	**(1.9)**	**0.7**	**(73.6)**
Total borrowings	**(1,202.9)**	**275.5**	**(1.4)**	**(2.7)**	**(20.3)**	**(951.8)**
Net debt	**(878.0)**	**44.2**	**(16.3)**	**(2.9)**	**(20.3)**	**(873.3)**

	At 1 January 2016 £m	Cash flow £m	Acquisitions & disposals £m	Foreign Exchange £m	Other movements £m	At 30 June 2016 £m
Cash and cash equivalents	60.4	59.8	3.7	5.5	–	129.4
Other debt receivable	0.8	(0.2)	–	–	–	0.6
Borrowings:						
Bank loans	(45.3)	(80.1)	–	(18.2)	(0.4)	(144.0)
Bonds	(583.5)	–	–	–	(3.1)	(586.6)
Fair value of hedging derivatives	14.3	–	–	–	4.1	18.4
Finance lease obligations	(127.6)	15.5	(0.7)	(14.0)	(21.2)	(148.0)
Other debt payable	(64.6)	1.8	–	(7.9)	(1.8)	(72.5)
Total borrowings	(806.7)	(62.8)	(0.7)	(40.1)	(22.4)	(932.7)
Net debt	(745.5)	(3.2)	3.0	(34.6)	(22.4)	(802.7)

Borrowings include non-current interest bearing loans and borrowings of £817.1m (2016 interim: £426.3m; 2016 full year: £816.7m).

Other non-cash movements represent finance lease additions of £19.8m (2016 interim: £21.2m) and a £0.5m reduction from the amortisation of loan and bond arrangement fees (2016 interim: £1.2m). A £3.7m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £3.0m fair value increase in bonds and a £0.7m fair value increase in other debt payable.

14. Cash flow statement

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

	Six months to 30 June 2017 £m	Six months to 30 June 2016 £m	Year to 31 December 2016 £m
Net cash inflow from operating activities			
Profit before tax from continuing operations	**64.6**	54.4	134.8
Profit before tax from discontinued operations (note 7)	**5.0**	2.5	6.4
Total profit before tax	**69.6**	56.9	141.2
Net finance costs	**18.8**	23.7	50.0
Share of post-tax results under the equity method	**3.9**	(0.7)	(1.1)
Depreciation of property, plant and equipment	**71.2**	58.8	123.0
Intangible asset amortisation	**18.7**	16.3	33.8
Amortisation of fixed asset grants	**(0.3)**	(0.2)	(0.5)
Profit on disposal property, plant and equipment	**(1.0)**	(2.5)	(5.9)
Profit on the sale of discontinued operations (note 7)	**(5.9)**	–	–
Share-based payments	**2.0**	1.7	4.1
(Increase)/decrease in inventories	**(1.2)**	0.7	1.1
Increase in receivables	**(28.8)**	(2.9)	(42.5)
Increase in payables	**46.3**	12.2	23.6
(Decrease)/increase in provisions	**(12.1)**	(7.2)	3.4
Cash generated from operations	**181.2**	156.8	330.2

15. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2017 were £61.6m (2016 full year: £55.0m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £29.6m (2016 full year: £36.1m) 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 2017, there were performance bonds in respect of businesses in the US of £147.3m (2016 full year: £159.5m) and in Spain of £39.3m (2016 full year: £41.4m), and £12.5m of performance bonds in the other regions (2016 full year, including UK Rail: £70.6m). Letters of credit have been issued to support insurance retentions of £85.8m (2016 full year: £91.5m).

16. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2016 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 2017.

17. Definitions

Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results of the continuing Group, which can be found on the face of the Condensed Group Income Statement in the first column. Normalised profit is defined as being the IFRS result excluding intangible asset amortisation and UK rail and restructuring, along with tax relief thereon.

Due to the one-off nature of UK rail and restructuring, the Board believes that its removal gives a more comparable year-on-year indication of the underlying performance of the Group. For intangible amortisation, the Board believes that adding back this non-cash item also gives a more comparable year-on-year indication of the underlying performance of the Group and allows better comparison of divisional performance which have different levels of amortisation.

The continuing Group is stated, and the prior year restated, before discontinued operations, details of which can be found in note 7.

Underlying revenue compares current period with the prior period on a consistent basis, after adjusting for the impact of currency.

Constant currency basis compares the current period's results with the prior period's results translated at the current period's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group.

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

'Return on capital employed' ('ROCE') is normalised operating profit divided by net assets excluding net debt and derivative financial instruments. For the purposes of this calculation, net assets are translated using average exchange rates.

Return on invested capital (ROIC) or 'investment returns' is normalised operating profit divided by invested capital. For acquisitions, invested capital is total consideration for the acquired business.

Operating cash flow is the cash flow equivalent of normalised operating profit. A reconciliation is set out in the table within the Finance Director's review. Operating cash flow conversion is operating cash flow as a percentage of the Group's normalised operating profit plus trading (loss)/profit from discontinued operations.

Free cash flow is the cash flow equivalent of normalised profit after tax. Free cash flow conversion is free cash flow as a percentage of the Group's normalised operating profit plus trading (loss)/profit from discontinued operations.

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 12 months, including any pre-acquisition EBITDA generated in that 12 month period by businesses acquired by the Group during the period. For the purposes of this calculation, net assets are translated using average exchange rates.

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

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

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.

Independent Review Report to National Express Group PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the Condensed Group Income Statement, the Condensed Group Statement of Comprehensive Income, the Condensed Group Balance Sheet, the Condensed Group Statement of changes in Equity, Condensed Group Statement of Cash Flows and the related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure 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 2017 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
Statutory Auditor
Birmingham, United Kingdom
27 July 2017