Press release

national express

28 July 2016

National Express Group PLC

Half Year results for the period ended 30 June 2016

Delivering strong growth across our diverse portfolio of businesses
The Group has made strong progress in the first half of the year with results in line with our expectations. Both revenue and profit are up year-on-year on a constant currency basis. The start of our German rail operations and our recent North American and Spanish acquisitions contributed to the 10.4% increase in revenue in constant currency. Our diversified portfolio of cash generative businesses provides a stable source of revenue and profits, with two thirds of earnings generated outside the UK and with no one contract contributing more than 4% of Group operating profit. Our strong operational and financial position enables us both to invest in growth and deliver attractive returns to our shareholders, with a 5% increase in the interim dividend. The Group remains on track to deliver its profit, cash flow and gearing targets for the year.

Financial highlights

	HY 2016	HY 2015	Change	Change at constant currency
Group revenue	£1.10bn	£0.96bn	+14.4%	+10.4%
Group operating profit*	£96.2m	£89.6m	+7.4%	+3.0%
Group PBT*	£73.2m	£66.7m	+9.7%	+3.8%
Group statutory PBT	£56.9m	£54.3m	+4.8%	
Group statutory PAT	£48.0m	£44.8m	+7.1%	
EPS*	11.3p	10.2p	+10.8%	
Free cash flow	£66.1m	£27.1m	£39.0m	
Net debt	£802.7m	£714.3m	£88.4m	
Interim dividend	3.87p	3.685p	+5.0%	

*Unless otherwise stated, all operating profit, operating margin, operating cash flow, asset return and EPS data is stated before the amortisation of intangible assets as defined in note 18 of the interim financial statements.

Our focus on operational excellence continues to deliver results

- North America delivered revenue growth of 15% on a constant currency basis reflecting a successful bid season which produced an average price increase of nearly 4% across the entire portfolio and a 7% price increase on those contracts up for bid and renewal. This strong bid season was augmented by the bolt-on acquisitions made over the last year.
- Record passenger numbers in both Spain and Morocco of over 153 million journeys in the first half, supporting revenue growth of 4% on a constant currency basis.
- Strong growth in Rail with passenger growth of 8% at c2c, benefitting from the introduction of a new timetable in December 2015, together with the first six months of our German rail operations.
- Growth in revenue, profit and margins in both UK Bus and UK Coach.
- Our Bahrain bus operation is now carrying over one million passengers per month in only its second year of operations.

Generating superior cash and returns

- On target to generate £100m of free cash flow for the year.
- Declared an interim dividend of 3.87 pence (2015: 3.685p): an increase of 5%.
- Our North American acquisitions are generating above average margins and return on invested capital, with the two acquisitions purchased in the first half of last year delivering a ROIC of 23%.

Creating new business opportunities

- Completed three acquisitions in North America during the period, adding 420 school buses and 80 transit vehicles. This included the strategic acquisition of a planning and scheduling software provider in the paratransit market, strengthening our service credentials.
- Submitted a bid for the Manchester Metrolink, an up to ten year contract starting in July 2017.
- Completed a small acquisition of a regional bus business in Ibiza, providing our first entry onto the island.
- Further growth opportunities in Morocco, including a recently won sight-seeing contract in Marrakech and new bid for the Casablanca Tramway.
- Actively looking at attractive growth opportunities in a number of new markets, with bid preparations underway in one new market.

Dean Finch, National Express Group Chief Executive, said:

“We have made a good start to 2016 and despite subdued growth in the UK we remain on track to deliver our expectations for the year. The diversity of our cash generative, international portfolio of businesses where two thirds of our earnings are generated outside of the UK, is a key strength that allows us to grow and to declare a 5% increase in the interim dividend.

“Our strong cash generation provides us with options and we will continue to look to deploy capital in those parts of our business where we believe it will generate the best returns for shareholders. We have been particularly pleased with the performance of the North American businesses we acquired last year which are generating strong returns, both in terms of profit and cash, validating our strategic decision to increase our investment in this attractive market. We will continue to seek attractive growth opportunities, including new markets, where we can draw on our international reputation for operational excellence and the successful mobilisation of new operations, to deliver further shareholder value.”

Enquiries

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Maitland

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There will be a presentation and webcast for investors and analysts at 0900 on 28 July 2016. Details are available from Rebecca Mitchell at Maitland.

BUSINESS REVIEW

Overview and outlook

In the first half of this year, we have seen a strong performance across our portfolio, with the diversity of our business emerging as a key strength in an uncertain macro-economic environment. As we look forward to the second half of the year and beyond, we expect to see the slowdown in the UK bus and coach markets we first highlighted in May's management statement to continue. We also expect, however, the impact on our business of this on-going slowdown in the UK to be offset by the strength of our North American and Spanish operations. With around two thirds of our earnings generated outside the UK, we feel we are well placed to weather any challenges the UK economy may face post Brexit and are confident that our current level of free cash flow generation is sustainable.

Our focus on operational excellence has always emphasised the need for growth through both service excellence and cost control. Our cost efficiency agenda has delivered nearly £60 million of cost-based savings over the last two and a half years. We are embarking on a global programme of continuous improvement in critical processes, where we are looking to identify and share best practice across the Group to drive both revenue and cost saving benefits over the coming years.

We will continue to use our £100 million of free cash flow a year to pay our dividend to shareholders and to fund future growth in the business, where we see attractive growth opportunities both within our existing businesses and in new markets. We will direct our investment towards those areas of the business where we believe we can achieve the best return for our shareholders. We continue to view North America as an attractive market and have been particularly pleased with the level of returns and cash generated from the recent bolt-on acquisitions, validating our decision to increase our investment in this large and fragmented market. We believe there are further opportunities in this market.

In short, we have a number of levers we can pull across our global business and overall we feel confident that we are on track to deliver our full year results in line with our expectations as at the start of this year. We are declaring a 5% increase in the interim dividend to 3.87p, demonstrating our confidence in the future growth of the business.

Performance highlights

National Express has made strong progress in the first half of 2016 with Group revenue up 10.4% in constant currency (up 14.4% on a reported basis). We have delivered revenue growth across all our businesses on a constant currency basis, with particularly strong growth in Rail and North America.

Revenue by division was as follows:

	First half	
Revenue in local currency	2016	2015
Spain and Morocco (€m)	344.4	330.2
North America (US$m)	630.6	548.6
Revenue in £m		
Spain and Morocco	268.2	241.8
North America	439.9	363.0
UK Bus	142.5	141.4
UK Coach	133.8	132.2
Rail	115.3	82.0
Intercompany	(0.8)	(0.2)
Group	1,098.9	960.2

Group operating profit has increased by 3.0% on a constant currency basis to £96.2 million (up 7.4% on a reported basis), even after incremental rail bid costs of £2.3 million and a significant increase in the rail premium charge of £4.1 million. The weakening of Sterling against both the US Dollar and the Euro contributed £3 million of operating profit growth. Profit before tax rose by 9.7% to £73.2m.

	First Half		Full Year
Operating profit in constant currency	2016	2015	2015
Spain and Morocco (€m)	41.4	40.5	98.5
North America (US$m)	64.8	59.1	101.9
Operating profit £m			
Spain and Morocco	32.3	29.7	71.5
North America	45.2	39.2	66.8
UK Bus	17.6	17.1	37.5
UK Coach	10.4	10.0	32.3
Rail	(0.6)	0.6	0.6
Corporate	(8.7)	(7.0)	(15.2)
Operating profit	96.2	89.6	193.5
Interest and associates	(23.0)	(22.9)	(43.4)
Profit before tax	73.2	66.7	150.1

Free cash flow remains strong, with the business on-target to deliver £100 million at the year end.

Dividend
The Board has declared an increase in the interim dividend of 5% to 3.87 pence per share (2015: 3.685p), reflecting its confidence in the performance and future prospects of the business.

First half year basic earnings per share were 11.3 pence (2015: 10.2p). The dividend will be payable on 23 September 2016 to shareholders on the register at close of business on 2 September 2016.

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

1. Delivering operational excellence
Our vision is to provide safe, punctual and frequent public transport services at excellent prices. Operational excellence focuses on delivering consistent service performance, leading to revenue growth, and continuous cost efficiency improvement, generating better margins and returns.

We have been clear for a number of years that the ability to deliver strong cash flows and shareholder returns is based upon a focus on operational excellence, and this remains central to our strategy. We have had a particularly strong first half in North America where we continue to enjoy industry-leading retention rates and where customer satisfaction remains over 90%. We have seen a successful start to our German rail operations with improvements in both punctuality and service relative to the previous operator. In Spain and Morocco, we have seen strong growth in passenger volumes, up 6.3% with a record 153 million passenger journeys in the period, and have during the period secured a contract in Marrakech to operate sight-seeing tours in the city.

Our focus on striving for operational excellence with industry-leading safety standards across the Group is demonstrated by our bus operation in Bahrain already achieving similar results as attained elsewhere in the Group. This performance helps us further strengthen our credentials in the region and win new business. We are now carrying over one million passengers per month on the buses in our Bahrain joint venture, with passenger volumes more than doubling on a monthly basis when compared to last year and recently achieving a record 70,000 in one day.

In North America we have seen very strong revenue growth, up 15% on a constant currency basis, driven by a combination of a successful bid season, where we have seen an average price increase of nearly 4% across the entire portfolio, together with the benefit of acquisitions and new business wins. We have achieved price increases of around 7% on those contracts up for bid and renewal, helping to offset wage pressures in certain locations and we have plans in place to ensure a smooth start-up to the new school year in September.

Both our UK Bus and Coach operations have delivered further margin progression with growth of 30 basis point and 20 basis points respectively. We continue to make progress with our industry leading Alliance with TfWM (formerly known as Centro) with the introduction of new initiatives including contactless payments for the Midland Metro tram system, which we will also introduce to our buses in 2017. In our UK and Spanish coach operations we are launching a more sophisticated revenue management system which will significantly enhance our capability to actively manage pricing on a real time basis, helping to deliver incremental revenue and higher returns. UK Coach has been re-confirmed as the most trusted ground transport provider in the latest UKCSI Survey.

Faster journey times deliver patronage growth. In UK Bus, we have worked in partnership with Walsall Council to enforce bus priority and invested in the route with 'Platinum' buses. As a result, patronage year to date has grown by 34% and we have added additional services to accommodate demand. In UK Coach punctuality has improved by 1% despite worsening road congestion. This has been achieved through a focus on understanding the root causes of delay, allowing timetables to be redesigned. We have also invested in continuous monitoring systems at our National Control Centre, enabling us to 'manage in the moment' to minimise delay on our congested road network. During the past 12 months 40% of the network has been reviewed and enhanced. Patronage across the network has increased by 4%.

ALSA's focus on customer service has also been recognised by being awarded the Best Customer Experience seal for passenger transport, ranking ahead of all other ground transport and air operators in Spain. This award is particularly pleasing as it was based on an independent survey of our customers and those of our competitors. ALSA achieved record passenger numbers in Spain in the period.

We have a relentless focus on managing our costs, with an on-going programme to drive cost efficiencies across the Group, targeting a reduction of at least 1% of the addressable cost base in the current year. This programme has already delivered nearly £60 million of savings in our cost base in the past two and a half years. We have also begun new projects to deliver further service improvements alongside cost savings – for example, DriveCam and collision avoidance technology pilots in UK Coach and UK Bus.

2. Superior cash and returns
National Express is focused on cash generation and improving returns through disciplined allocation of capital. We believe our diverse portfolio of cash generative businesses will continue to deliver £100 million of free cash flow each year, which we will use to pay dividends to our shareholders and fund our future growth.

During the first half of the year, we generated £66 million of free cash flow (2015: £27m) and remain on target to deliver £100 million of free cash flow in the full year 2016, adding to the £443 million generated over the last three years. We have deployed £38 million of this free cash flow in acquisitions in North America and Spain, in businesses which have a strong strategic fit and which we believe are capable of generating accretive returns on capital. The rest of the £57 million increase in net debt is effectively explained by an increase of £26 million from foreign currency retranslation.

Group return on capital employed remains at 11.7% (31 Dec 2015:11.7%), as the strong returns from the North American acquisitions were offset by the impact of new buses in the UK coming onto the balance sheet and losses from the early months of the new German rail operations.

EPS grew by 4.5% on a constant currency basis, to 11.3 pence (2015: 10.8p). In line with our dividend policy where the dividend is covered two times by Group earnings, we declare a 5% increase in the interim dividend to 3.87 pence.

In January, the Group entered into new bank facilities totalling £450 million. These comprised a £350 million bridging facility, in anticipation of the refinancing of the Group's existing £350 million bond which matures in January 2017, and a £100 million general corporate purpose facility. These new facilities provide us with flexibility as to the timing of the bond refinancing (until January 2019) allowing us to balance the various considerations including lower effective interest rates (market rates are currently *c*. 200-250 basis points lower than those on our current bond) and the minimisation of costs under both the old and new bonds.

3. Creating new business opportunities

Our unique portfolio of cash generative international bus, coach and rail businesses provides us with a stable and secure source of earnings and cash, which we can utilise to fund further growth, where we see attractive opportunities both within our existing businesses and in new markets.

We set out our detailed divisional performance review below.

Divisional performance review

North America

Our North American division has delivered a strong performance in the period, with revenue growth on a constant currency basis of 15.0%, reflecting a number of bolt-on acquisitions made in the last 12 months, together with a successful school bus bid season and new business wins. Operating profit grew by 9.6% on a constant currency basis delivering a slightly lower operating margin of 10.3% (2015: 10.8%), reflecting a significantly higher proportion of lower margin Transit revenue.

Rate increases and the performance of new contracts and acquisitions have more than offset the impact of lost contracts, including through our 'up or out' strategy. We have added 500 buses through acquisitions made in the period and will continue to seek attractive growth opportunities going forward. New business wins and acquisitions have broadly offset the contracts we have exited and lost with an improved margin. Our overall fleet stands at around 22,000 buses.

Change in school bus numbers – 2016 bid season	Number of buses
Regretted losses	(670)
Exited per 'up or out' strategy	(550)
Acquisition	500
New business wins	470
Organic growth	150
Change in buses operated for 2016/17 school year	(100)

We have seen a successful bidding season, achieving price increases of around 7% on those contracts up for bid and renewal and an average price increase across the entire portfolio of 3.7%, helping to offset wage pressures in some locations. Our current retention rate, excluding those contracts that we have chosen to exit, remains very high at 97%, and reflects the excellent levels of customer service delivered by our North American School Bus operations.

Our strategy to increase investment in new growth opportunities in North America is bearing fruit and we have seen strong performances from the acquisitions made to date which are delivering margins, cash generation and return on capital well ahead of the portfolio average. For example, the two acquisitions made in the first half of 2015, have delivered in their first year a ROIC of 23%.

During the period we made two school bus and transit acquisitions, adding 420 school buses (including 170 for special education contracts) and 80 transit vehicles. In addition, we made a strategic acquisition of a planning and scheduling software business in the paratransit market, which provides us with a market-leading bespoke technology platform for our transit business and strengthens our credentials in this attractive market. The combined purchase price for the three acquisitions is $40 million, and they will deliver annualised revenues of around $44 million and generate attractive margins. Our experience over the last 12 months has only confirmed our belief that the North American market offers attractive growth opportunities and we will make further targeted acquisitions where they meet our strict financial and strategic criteria.

We have seen very strong growth in our Transit business during the first half of the year with revenue up 52%. Whilst some of this growth has been driven by acquisitions, it also reflects a number of new business wins including our first airport shuttle service in Orlando as well as contract extensions, including the extension of our Trans Express business through to 2021. We have continued our 100% contract retention rate since the inception of our Transit business in 2012. We are pleased to have been recognised by two separate authorities for our transit operations in their regions, receiving three safety awards in North Carolina and the Outstanding Transit Organization Award in Arizona, which amongst other things recognises innovation, customer service and operational improvements.

Spain and Morocco

ALSA delivered a good performance over the period, growing revenue by 4.3% on a constant currency basis, with both Spain and Morocco seeing record number of passengers. In Spain revenues rose 4.1% including the benefit of a new contract to operate transport services for holidaymakers ('Imserso') and the acquisition of Herranz, whilst in Morocco we continued to see strong revenue growth, up 6.5% supported by an increase in the network in Tangier and strong growth in Marrakech. Operating profit increased by 2.2% on a constant currency basis, reflecting revenue growth and profit from Herranz. A slight decline in operating margin, from 12.3% to 12.0%, resulted principally from the new Imserso work, which is a subsidised, capital-light contract and therefore offers revenue visibility and minimal cash consumption, albeit at a lower margin than the ALSA average.

Towards the end of the period, we bought an Ibizan regional bus operator for a purchase price of €4.5 million. This provides our first entry on the island and has annualised revenues of around €7 million.

We are implementing a more sophisticated revenue management system, operating on more than 200 flows. This will significantly enhance our capability to actively manage pricing on a real time basis, helping to drive revenue, profit and incremental demand. In the first half of the year we have seen revenue growth of 1% and passenger growth of 2% on those routes where revenue management is in place.

The Spanish long distance coach concession renewal process continues to experience delays, and with the latest general election in June still not delivering a conclusive result, we do not anticipate any major progress in the short-term. As a result of this and further to our previous guidance, we now do not see a major impact on revenues before 2018. As a high quality, innovative and efficient operator, we believe ALSA is well positioned to retain and secure concessions as and when contracts do come up for renewal.

ALSA is well placed to benefit from a strong summer season in Spain this year, with a significantly increased number of visitors travelling to the country. We are working closely with a number of airlines and online travel agents and platforms to raise our profile with foreign tourists, as well as reinforcing our presence at airports. We have also extended our summer marketing campaign through to the end of September.

Our Moroccan business continues to go from strength to strength and we again expect to carry more passengers in Morocco this year than in the whole of our Spanish business. We continue to look for further growth opportunities and have won a six-year contract to operate sight-seeing services in Marrakech. Our fourth urban bus contract, in Khouribga, is progressing well and we see further growth opportunities with the addition of services in new cities, building on our reputation for operational excellence and good customer service standards. We see some exciting and sizeable opportunities ahead, and are currently working on a bid for the Casablanca Tramway contract, with final submissions due in late 2016 and the contract commencing in December 2017.

We continue to deal with legal and political processes in respect of the previously awarded contract to run urban bus services in Porto, where the Portuguese Government subsequently cancelled a number of contract awards. Consequently, we are seeking to recover costs associated with the bid but do not expect to reach a resolution in the short-term.

UK Bus

Our UK Bus division has grown commercial revenue by 2.3%, with concessionary revenues bringing the overall growth figure down to 0.8%. This commercial revenue performance has been delivered despite our operations experiencing the industry-wide challenges of declining high street footfall, unsettled and unseasonal weather and worsening urban congestion.

We have sought to manage these challenges through tight cost control and efficiencies (with operating margin improving by 30 bps) and strengthened partnership working in the West Midlands. The introduction of bus prioritisation measures at key pinch-points to speed journey times is an example of this, which with associated investment in state-of-the-art 'Platinum' buses continues to deliver double digit passenger growth on these routes. We were also delighted to receive Department for Transport funding this week for 29 hybrid and electric buses in the West Midlands.

We continue to progress our industry-leading Alliance with TfWM (formerly known as Centro) more broadly, with the introduction of new initiatives such as contactless payments for the

Midland Metro tram system, which we will also introduce to our buses in 2017. Following the introduction of Swift smartcards in 2015, we are seeing strong take up of our smart ticketing options where multi-modal, multi-operator tickets are now available with PAYG smartcards and carnets – with growth of over 270% in journeys using the Swift smartcard, representing around 5% of journeys, in the first half of the year.

In May, our Midland Metro tram service was extended to the newly refurbished Birmingham New Street Station and recently opened Grand Central shopping complex, and we have seen record growth in passenger journeys of 26% in the first half of the year. We have also secured a new contract to provide corporate transport services for Amazon to their distribution centres around the UK, as well as extending contracts with Jaguar Land Rover and Birmingham Airport.

Drawing on the lessons from UK Coach and c2c we are refocusing a greater proportion of our marketing effort to digital channels, with campaigns such as 'Day Saved' helping to reduce costs and deliver improved return. Later this summer UK Bus will pilot mobile ticketing which not only will provide our customers with yet another innovative and convenient ticketing solution, but will also help to reduce our sales distribution costs.

Finally in January UK Bus became the first privately-owned public transport company to introduce the Living Wage Foundation Living Wage for all staff.

UK Coach

UK Coach grew by 1.3% as core revenue growth of 2.4% helped offset weak demand for our Eurolines services together with lower revenues from rail replacement services. As previously commented in May, we did see an immediate reduction in passenger numbers following the terrorist attacks in Brussels and more recently we have seen an increase in competition on discounted fares from rail operators which is resulting in lower yields.

Operating profit has risen 3.8% in the first half of the year with operating margin rising by 20 basis points to 7.8%. Through our constant focus on tightly managing costs, we have identified and will deliver annualised cost savings of around £1.4 million from a combination of network reviews, reducing inefficient mileage together with procurement savings.

We are launching a more sophisticated revenue management system across the network, which will significantly enhance our real time price management, helping to drive revenue, profit and incremental demand.

As well as reviewing our network efficiency, we also look to add new routes where we see growth opportunities – in the first half of this year we have launched new routes from London to Stansted, further strengthening our position in the airport market. We continue to look for new contract opportunities and have secured a three-year contract, in conjunction with UK Bus, to provide corporate transport services for Amazon to distribution centres around the UK. We have also secured a new partnership agreement with Expedia, and expanded existing partnerships with Ryanair and the Trainline.com.

We have made further improvements to our digital platforms and are engaging with our customers on a more personalised level, which is helping to deliver both revenue and cost benefits. Our website is now translated into five different languages, driving higher conversion rates from incremental inbound traffic from European visitors looking to travel across the UK. Improved journey planners and a more efficient PayPal payment system are amongst other website enhancements driving improved conversion rates.

And finally, we are pleased that customer satisfaction has improved by 1.7% and UK Coach has been re-confirmed as the most trusted ground transport provider in the latest UKCSI Survey.

Rail

In Rail we have seen an overall revenue increase of 40.5%, including the first time contribution of our German rail operations. c2c has continued to deliver a strong performance with revenue growth of 6.2% well ahead of the average growth rate of 3.1% for London and the South East. This growth has been supported by like-for-like passenger volume growth of 7.6%, in part driven by the introduction of a new timetable in December 2015.

As we previously announced, we reached agreement with the Department for Transport to bring 24 carriages into service from the autumn onwards (three years ahead of schedule), which will provide significant extra capacity and help drive revenue growth as we enhance our service options, driving incremental passenger growth.

While our Rail division has delivered an operating loss of £0.6m in the first half of this year (2015: operating profit £0.6m), this is stated after bid costs of £3.9 million which were £2.3 million higher than in the previous year, a £4.1 million increase in the premium charge on c2c, and a loss of £1.4 million in the period from our new German rail operations.

We continue to introduce industry-leading initiatives in our c2c franchise, including the introduction of an automatic compensation scheme for smartcard holders and a flexible season ticket for smartcard holders, aimed at part-time commuters. Both these initiatives are driving further strong growth in smart ticketing, with nearly 30% of annual season ticket holders now using smartcards, which not only provides more convenient and better value ticketing options for our customers but is also helping to reduce cost of sales.

We are awaiting the outcome of the East Anglia franchise competition, where we delivered a disciplined bid that balanced significant customer improvements with excellent value to taxpayers and fair returns to shareholders.

December 2015 saw the launch of our first German rail franchise, Rhine Munster Express (RME). We have been encouraged by our first full six months of operation of RME, carrying over 10 million passengers during the period and already we are achieving operational improvements in terms of punctuality and services compared to the previous operator. We look forward to delivering further benefits to our passengers in Germany in the coming months.

The mobilisation for our second German rail franchise is underway and our previous experience with the mobilisation of RME is proving invaluable. The first of two contracts for the Rhine Rhur Express (RRX) will commence in June 2019 with the second one starting in December 2020.

We continue to see German rail as an attractive growth opportunity with a strong pipeline of potential bids, including four in the next year. In addition, we await the outcome of the appeal process for the Nuremberg S-Bahn and would expect to hear in the autumn. Including the Nuremberg S-Bahn contract, we have already secured €300 million of annualised revenues from German rail by 2020.

Middle East

In only its second year of operation, our Bahraini bus joint venture is now carrying more than one million passengers per month and has carried 5.7 million passengers in the period. Passenger volumes have more than doubled on a monthly basis when compared to last year, benefitting from the scaling up of operations last summer together with strong underlying growth in passenger journeys. In the second half of this year we will introduce a smartcard ticketing option, the 'Go Card', together with online journey planners, with both of these initiatives being industry-leading in the region. Already our safety standards are rivalling those of the Group's core divisions, helping to further strengthen our credentials in the region.

We continue to work closely with the transport authority as they seek to develop public transport further across Bahrain. And we believe our services in Bahrain are opening up other contract opportunities within the Middle East, where we are actively involved in 4 bid processes with annualised revenues of around £225 million. Our reputation for successfully establishing operations in new markets is growing, and we are also looking at attractive markets in other regions.

Outlook

We remain on course to deliver our expectations for 2016 in spite of pressures we have experienced in the UK during the second quarter. We have purposefully built a diverse global business which is focussed on operational excellence, innovation, bolt-on acquisitions in our core markets and further global diversification. We will continue to be relentless in our discipline on costs, continually seeking process efficiencies and sharing best practice across the Group.

The rollout of revenue management systems in our coach businesses should deliver additional revenue in the second half and into 2017. Digital transactions are increasing across the Group and we expect this to continue as we drive an ambitious rollout of mobile website and app improvements to increase customer engagement, loyalty and revenue.

We will continue to manage cash flow tightly to invest for the future growth of the business in the areas where we see the best returns for shareholders, including targeted acquisitions in North America and Spain, and other capital-light opportunities in our current markets and in new territories where these offer attractive returns and meaningful growth potential in the longer-term. We also look forward to continuing the development of our new rail business in Germany, bringing to bear the operational excellence that has brought success in our established markets and, more recently, in places like Bahrain.

The weakening of Sterling has benefitted our result in the first half of this year, and if current exchange rates prevail this will also enhance the full year result. Looking further forward, we expect to realise benefits from the refinancing of our £350 million bond and, in 2018, from a lower fuel price. We will continue to hedge our fuel in local currencies.

We currently expect that the recent weakness in our UK businesses should be offset by growth from our overseas operations and are building on a range of initiatives including the careful deployment of our tightly managed free cash flow to support further growth.

For all these reasons we continue to view the future with confidence and believe we are well placed to deliver further growth and thus shareholder value, organically and through disciplined investment.

Dean Finch
Group Chief Executive
28 July 2016

FINANCIAL REVIEW

Presentation of results

We present our financial results on two bases. Normalised results show the performance of the business before intangible amortisation, since the Board believes this gives the reader a clearer understanding of existing business performance. IFRS results include this item and the tax relief thereon to give the statutory results.

Revenue

Group revenue for the period was £1,098.9 million (2015: £960.2m), an overall increase of 10.4% on a constant currency basis (up 14.4% on a reported basis). North America was the strongest performer, up 15.0% on a constant currency basis, benefitting from a number of bolt-on acquisitions made in the last twelve months, together with a strong bidding season where we achieved an average price increase of 3.7% across the entire portfolio and 7% on those contracts up for bid and renewal.

Rail also delivered a strong performance with overall revenue growth of 40.5%, including for the first time contribution from our German Rail operations where we commenced services on our RME network in December 2015. c2c continued its strong performance, growing revenue by 6.2%. Record passenger numbers in both Spain and Morocco have supported revenue growth of 4.3% on a constant currency basis, with continued strong growth in Morocco, up 6.5%, driven by an increase in the network in Tangier and strong growth in Marrakech.

Revenue bridge	£m	
2015 first half year revenue	960.2	
Currency translation	35.1	% Change
2015 first half year revenue at constant currency	995.3	
Organic growth	31.8	
Acquisitions	41.9	
German rail	28.2	
Weather	1.7	
2016 first half year revenue	1,098.9	10.4%

Profit

Group operating profit increased by 3.0% to £96.2 million on a constant currency basis (up 7.4% on reported basis). This is after incremental rail bid costs of £2.3 million and a further increase in the franchise premium charge for c2c of £4.1 million, as well as a small loss from the first six months of our German rail operations. Growth from our existing businesses together with a £5 million contribution from acquisitions and £9 million of cost efficiencies, have more than offset cost inflation of £12 million.

Profit bridge	£m	
2015 first half year operating profit (as reported)	90	
Currency	3	% Change
Operating profit at constant currency	93	
Growth	7	
Acquisitions	5	
Cost inflation	(12)	
Cost efficiency	9	
Bid costs	(2)	
UK rail franchise premium	(4)	
German rail	(1)	
Weather	1	
2016 first half operating profit	96	3.0%

North America grew profit by 9.6% on a constant currency basis, including the benefit from the acquisitions made over the last year and with a successful bid season seeing an average price increase of 3.7% across the portfolio. Profit in ALSA was up 2.2% on a constant currency basis, reflecting revenue growth in Spain and Morocco in what is traditionally the 'quiet half' of the year, together with the acquisition of Herranz. UK Bus grew profit by £0.5 million while UK Coach grew profit by £0.4 million with both divisions growing margins by 30 basis points and 20 basis points respectively. Rail recorded an operating loss of £0.6 million, reflecting the impact of higher incremental rail bid costs (£2.3m), a further increase in premium charges of £4.1 million and a loss of £1.4 million in the period from our German rail operations. The increase in central costs predominantly reflects our investment in Group marketing and digital functions.

Net finance costs increased slightly to £23.7 million (2015: £23.1m), reflecting the higher level of debt. With associate income, including the contribution from Bahrain, of £0.7 million (2015: £0.2m), profit before tax was £73.2 million (2015: £66.7m).

The Group's effective tax rate for 2016 is forecast to be around 20% (2015 Full year: 19%), in line with the expected medium-term rate, subject to future legislative changes. Basic earnings per share were 11.3 pence (2015: 10.2p).

Exceptional items
There are no exceptional items in the period or in the prior year.

IFRS results
Intangible amortisation increased to £16.3 million (2015: £12.4m) reflecting recent acquisitions in North America and Spain. Profit for the period was £48.0 million (2015: £44.8m). Basic EPS was 9.2 pence (2015: 8.5p), an increase of 8.2%.

IFRS profit	First half		Full year
	2016 £m	2015 £m	2015 £m
Normalised profit before tax	73.2	66.7	150.1
Exceptional items	-	-	-
Intangible amortisation	(16.3)	(12.4)	(25.7)
Profit before tax	56.9	54.3	124.4
Tax charge	(8.9)	(9.5)	(15.3)
Statutory profit for the period	48.0	44.8	109.1

Cash management
Our strong and sustainable cash flows allow us to retain a focus on ROCE while supporting 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 was £103.3 million (2015: £62.2m), after a more regular level of maintenance capital expenditure, net of disposals, of £57.4 million, around £18 million lower than in the first half of 2015. Our expectation for net maintenance capital expenditure for the full year remains at around £140 million. The majority of the maintenance capital investment has been in fleet replacement in the UK, Spain and North America.

There was an inflow in working capital of £9.6 million (2015 inflow: £0.2m).

£66.1 million of free cash flow was generated in the period (2015: £27.1m) reflecting the higher level of EBITDA, the lower level of maintenance capital expenditure and the working capital inflow. This free cash flow was after the annual interest coupon payments on the

Group's corporate bonds. We are again targeting delivery of £100 million in free cash flow for the full year and as previously indicated, we see this level of cash generation as being sustainable going forward.

Free cash flow	First half		Full year
	2016 £m	2015 £m	2015 £m
Operating profit	96.2	89.6	193.5
Depreciation and other non-cash items	57.7	52.3	104.6
EBITDA	153.9	141.9	298.1
Net maintenance capital expenditure	(57.4)	(75.0)	(111.7)
Working capital movement	9.6	0.2	(11.8)
Pension contributions above normal charge	(2.8)	(4.9)	(9.7)
Operating cash flow	103.3	62.2	164.9
Payments to associates and minorities	(0.1)	-	0.7
Net interest paid	(33.9)	(33.8)	(43.4)
Tax paid	(3.2)	(1.3)	(11.2)
Free cash flow	66.1	27.1	111.0
UK rail franchise exit outflow	(1.1)	-	(2.5)
Exceptional cash	(2.8)	(5.8)	(10.0)
Cash flow available for growth & dividends	62.2	21.3	98.5

After the run-off of historical exceptional items and exit TOC outflows which together total £3.9 million, the Group generated cash flow for growth and dividends of £62.2 million (2015: £21.3m).

Growth capex during the period of £15.5 million included additions to the bus fleet in Morocco to support service expansions in Agadir and Marrakech. We also made further investment in revenue management systems in both Spain and the UK as well as in new technology and infrastructure to support the ramp-up of our German rail operations. With both RME and our current Moroccan networks now operating at something approaching a steady state, we would expect growth capital expenditure in respect of these operations to fall away in future periods.

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 three such investments in North America and one in Spain, for total cash consideration of £38 million. We expect these acquisitions to contribute meaningfully to shareholder returns and to the future strategic direction of the Group, building on the demonstrable success of those businesses acquired and integrated in 2015.

Return on capital employed remains a key measure of the Group's discipline in capital allocation. Group return on capital employed remains at 11.7% (31 Dec 2015: 11.7%), reflecting the net effect of improvements in North America, including the success of the 2015 acquisitions, and higher net assets in UK Bus following recent investment in fleet.

Net funds flow for the period was an outflow of £57.2 million (2015: £50.0m), resulting in period-end net debt of £802.7 million which can simply be explained by a net outflow of £25.8m on retranslation of foreign currency debt balances and the acquisitions described above. Sterling weakened against both the Dollar and the Euro throughout the period, and devalued dramatically in June, following the result of the EU Referendum.

The Group maintains gearing discipline by matching the currency denomination of its debt to the currency in which EBITDA is earned. Simply put, gains from foreign exchange on EBITDA offset increases in debt due to movements in foreign exchange. As such, gearing at the end of the period was 2.5 times EBITDA, within the Group's target range of 2-2.5 times.

Net funds flow	First half		Full year
	2016	2015	2015
	£m	£m	£m
Cash flow available for growth & dividends	62.2	21.3	98.5
Net growth capital expenditure	(15.5)	(20.7)	(36.4)
Acquisitions and disposals	(37.6)	(22.2)	(69.4)
Dividends	(39.1)	(35.5)	(54.4)
Other, including foreign exchange	(27.2)	7.1	(19.5)
Net funds flow	(57.2)	(50.0)	(81.2)
Net Debt	(802.7)	(714.3)	(745.5)

Dividend

Our dividend policy is to pay a dividend covered two times by Group earnings. In line with our dividend policy we have declared a 5% increase in the interim dividend to 3.87 pence, reflecting the underlying increase in EPS, on a constant currency basis.

Treasury management

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

The Group's key accounting debt ratios at 30 June 2016 were as follows:

- Gearing ratio: 2.5 times EBITDA (31 Dec 2015: 2.5x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 6.8 times interest (31 Dec 2015: 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 2016, this represented £787 million of funding, primarily from two Sterling-denominated bonds, comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, a private placement of €78 million maturing in 2021 and £148 million of finance leases. The residual debt balance is funded from the Group's £416 million revolving credit facility (RCF), maturing in 2020. In January 2016, the Group entered into new bank facilities totalling £450 million, comprising a £350 million bridging-to-bond facility in anticipation of the refinancing of the Group's £350 million bond maturing in January 2017, together with a £100 million general corporate purposes facility, providing the Group with an appropriate level of medium-term liquidity and funding headroom. Both facilities are for an initial period of 18 months and include committed options to extend the maturity date until January 2019. This bridging facility gives the Group significant flexibility, enabling us to choose the optimum moment to refinance taking into account the prevailing low interest rate environment and potential future rate developments, without incurring punitive refinancing charges. At 30 June 2016, the Group had £506 million in cash and undrawn committed facilities available.

At 30 June 2016, 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. The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 30 June 2016, the proportion of Group debt at floating rates was 36%.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 30 June 2016 was £8.4 million (31 Dec 2015: £12.6m). The Group has previously reached agreement with the trustees of its key schemes which have fixed the deficit payments, under most eventualities, to just under £10 million per annum until 2017, calculated on a scheme funding basis. The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan, which remains open to accrual for existing active members only.

The IAS19 valuations at 30 June 2016 were as follows:

- UK Bus: £80.9 million deficit (2015: £60.4m deficit);
- UK Group scheme: £48.6 million surplus (2015: £34.9m surplus)
- UK Rail/other: £23.9 million surplus (2015: £12.9m surplus). The Group's rail business participates in the Railways Pension Scheme. This pension scheme transfers to an incoming operator in the event of a franchise termination.

Fuel costs

Fuel cost represents approximately 8% of revenue. The Group is fully hedged for 2016 at an average price of 46.6p per litre, 93% hedged for 2017 at an average price of 44.5p, 76% hedged for 2018 at an average price of 32.6p and 12% hedged for 2019 at an average price of 33.1p.

The reduction in fuel costs from 2018 and the opportunity to reduce financing costs provides us with a firm footing to increase shareholder value going forward.

Matthew Ashley
Group Finance Director
28 July 2016

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 2015 Annual Report and Accounts:

- Concession and contract renewal: 2016 is likely to see some significant bidding activity by the Group to retain and renew its existing portfolio of contracts and concessions, for example in Spain, and North America, which may be underbid by competitors;
- Economic conditions: parts of the business may be adversely affected by economic conditions as revenues in many of the businesses are historically correlated to GDP and employment;
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues;
- Contract management: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Contract mobilisation: principally mobilisation for new bus and rail contracts in the Middle East and Germany.
- Fuel cost: changes in economic and political climate can drive changes in cost for the Group;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in material charges to profit and cash flow;
- Financial risks: the Group faces risks from deteriorating customer credit and to movements in currencies.
- Cyber security: increasingly the global markets we operate in are subject to Information Systems and Technology failure, loss of confidential data and damage to brand reputation.

EU Referendum result

In light of the EU Referendum result we have also added the risk that the uncertainty over the nature and the length of the negotiation of the 'Brexit' may have an adverse impact on the UK economy.

It is possible that there may be an economic slowdown in the UK as a result of the vote for Brexit in the EU Referendum. However, with two-thirds of Group earnings generated in North America and Spain, where we expect to see no significant immediate effects from 'Brexit', we feel that the Group is well-positioned to deal with any short-term uncertainty in the UK.

The value of Sterling has fallen against both the Euro and US Dollar since the EU Referendum. Whilst this affects both our overseas earnings and debt balances, our policy of matching our debt and earnings in local currency ensures that our key gearing ratio is protected. We will continue to hedge our UK fuel in Sterling. We also monitor the interest rate environment, which is of relevance to our pension valuations and our plans to refinance the £350 million bond due to expire in January 2017. However, we do not currently expect any significant adverse effect as a result of interest rate movements in the light of the referendum result, particularly given the flexibility provided by our £450 million bridge facility, which does not expire until January 2019. It is too early to say if there will be any regulatory changes as a result of the EU referendum, however given our multi-national diversity we believe we are well placed to mitigate any risks that may arise.

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.

28 July 2016

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For the six months ended 30 June 2016

		Unaudited six months to 30 June						
	Note	**Total before intangible amortisation 2016 £m**	**Intangible amortisation 2016 £m**	**Total 2016 £m**	Total before intangible amortisation 2015 £m	Intangible amortisation 2015 £m	Total 2015 £m	Audited Year to 31 December Total 2015 £m
Continuing operations								
Revenue	**4**	**1,098.9**	**–**	**1,098.9**	960.2	–	960.2	1,919.8
Operating costs before intangible amortisation		**(1,002.7)**	**–**	**(1,002.7)**	(870.6)	–	(870.6)	(1,726.3)
Intangible amortisation	**5**	**–**	**(16.3)**	**(16.3)**	–	(12.4)	(12.4)	(25.7)
Total operating costs		**(1,002.7)**	**(16.3)**	**(1,019.0)**	(870.6)	(12.4)	(883.0)	(1,752.0)
Group operating profit	**4**	**96.2**	**(16.3)**	**79.9**	89.6	(12.4)	77.2	167.8
Share of results of associates		**0.7**	**–**	**0.7**	0.2	–	0.2	1.8
Finance income	**6**	**3.3**	**–**	**3.3**	2.8	–	2.8	5.9
Finance costs	**6**	**(27.0)**	**–**	**(27.0)**	(25.9)	–	(25.9)	(51.1)
Profit before tax		**73.2**	**(16.3)**	**56.9**	66.7	(12.4)	54.3	124.4
Tax (charge)/credit	**7**	**(14.6)**	**5.7**	**(8.9)**	(13.3)	3.8	(9.5)	(15.3)
Profit for the period		**58.6**	**(10.6)**	**48.0**	53.4	(8.6)	44.8	109.1
Profit attributable to equity shareholders		**57.6**	**(10.6)**	**47.0**	52.1	(8.6)	43.5	107.0
Profit attributable to non-controlling interests		**1.0**	**–**	**1.0**	1.3	–	1.3	2.1
		58.6	**(10.6)**	**48.0**	53.4	(8.6)	44.8	109.1
Earnings per share:								
– basic earnings per share	**9**			**9.2p**			8.5p	20.9p
– diluted earnings per share	**9**			**9.2p**			8.5p	20.9p
Normalised earnings per share:								
– basic earnings per share	**9**	**11.3p**			10.2p			23.4p
– diluted earnings per share	**9**	**11.3p**			10.2p			23.3p

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

	Unaudited six months to 30 June 2016 £m	Unaudited six months to 30 June 2015 £m	Audited year to 31 December 2015 £m
Profit for the period	**48.0**	44.8	109.1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	**2.4**	(4.0)	(9.4)
Deferred tax on actuarial gains/(losses)	**0.1**	0.8	1.4
	2.5	(3.2)	(8.0)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**137.5**	(79.3)	(31.0)
Exchange differences on retranslation of non-controlling interests	**2.0**	(1.1)	(0.6)
Gains/(losses) on cash flow hedges	**18.6**	8.1	(52.5)
Less: reclassification adjustments for gains or losses included in profit	**25.0**	15.5	36.1
Tax on exchange differences	**13.5**	(2.7)	(1.1)
Deferred tax on cash flow hedges	**(6.5)**	(4.7)	1.2
	190.1	(64.2)	(47.9)
Total comprehensive income/(expenditure) for the period	**240.6**	(22.6)	53.2
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders	**237.6**	(22.8)	51.7
Non-controlling interests	**3.0**	0.2	1.5
	240.6	(22.6)	53.2

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2016

	Note	**Unaudited 30 June 2016 £m**	Unaudited 30 June 2015 £m	Audited 31 December 2015 £m
Non-current assets				
Intangible assets		**1,405.4**	1,121.8	1,230.7
Property, plant and equipment		**894.7**	736.5	801.1
Available for sale investments		**7.5**	6.3	6.5
Derivative financial instruments	**10**	**20.1**	15.9	22.2
Deferred tax assets		**36.2**	25.7	31.1
Investments accounted for using the equity method		**11.6**	5.1	10.6
Trade and other receivables		**3.0**	1.8	4.0
Defined benefit pension assets	**11**	**74.9**	41.4	49.7
		2,453.4	1,954.5	2,155.9
Current assets				
Inventories		**24.2**	20.9	22.5
Trade and other receivables		**265.5**	189.8	241.9
Derivative financial instruments	**10**	**9.7**	0.3	2.4
Current tax assets		**0.6**	–	1.4
Cash and cash equivalents		**129.4**	43.3	60.4
		429.4	254.3	328.6
Total assets		**2,882.8**	2,208.8	2,484.5
Non-current liabilities				
Borrowings		**(426.3)**	(734.1)	(752.3)
Derivative financial instruments	**10**	**(17.9)**	(22.4)	(39.6)
Deferred tax liability		**(53.7)**	(57.4)	(53.8)
Other non-current liabilities		**(16.0)**	(10.7)	(16.0)
Defined benefit pension liabilities	**11**	**(83.3)**	(53.1)	(62.3)
Provisions		**(35.7)**	(23.4)	(32.1)
		(632.9)	(901.1)	(956.1)
Current liabilities				
Trade and other payables		**(554.0)**	(400.3)	(499.5)
Borrowings		**(536.9)**	(50.5)	(99.1)
Derivative financial instruments	**10**	**(67.1)**	(22.9)	(46.0)
Current tax liabilities		**(21.8)**	(30.8)	(16.1)
Provisions		**(38.2)**	(26.9)	(36.6)
		(1,218.0)	(531.4)	(697.3)
Total liabilities		**(1,850.9)**	(1,432.5)	(1,653.4)
Net assets		**1,031.9**	776.3	831.1
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		**(2.0)**	(1.5)	(7.8)
Other reserves		**108.0**	(95.9)	(80.1)
Retained earnings		**350.1**	302.4	345.6
Total shareholders' equity		**1,014.6**	763.5	816.2
Non-controlling interest in equity		**17.3**	12.8	14.9
Total equity		**1,031.9**	776.3	831.1

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2016

	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**

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2015	25.6	532.7	0.2	(1.5)	(32.8)	299.3	823.5	12.7	836.2
Own shares released to satisfy employee share schemes	–	–	–	2.3	–	(2.3)	–	–	–
Shares purchased	–	–	–	(2.3)	–	–	(2.3)	–	(2.3)
Total comprehensive income	–	–	–	–	(63.1)	40.3	(22.8)	0.2	(22.6)
Share-based payments	–	–	–	–	–	0.7	0.7	–	0.7
Tax on share-based payments	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Dividends	–	–	–	–	–	(35.5)	(35.5)	–	(35.5)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.1)	(0.1)
At 30 June 2015 (unaudited)	25.6	532.7	0.2	(1.5)	(95.9)	302.4	763.5	12.8	776.3

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2016

	Note	**Unaudited six months to 30 June 2016 £m**	Unaudited six months to 30 June 2015 £m	Audited year to 31 December 2015 £m
Cash generated from operations	**14**	**156.8**	132.4	264.1
Tax paid		**(3.2)**	(2.3)	(11.2)
Net cash from operating activities		**153.6**	130.1	252.9
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	**12**	**(21.5)**	(22.0)	(62.3)
Proceeds from disposal of business, net of cash disposed	**12**	**0.9**	–	–
Deferred consideration for businesses acquired	**12**	**(16.3)**	(0.1)	(0.2)
Purchase of property, plant and equipment		**(51.5)**	(83.1)	(107.5)
Proceeds from disposal of property, plant and equipment		**4.0**	4.4	10.2
Payments to acquire intangible assets		**(4.1)**	(3.3)	(16.4)
Payments to acquire associates		–	(0.1)	(3.5)
Interest received		**9.8**	9.3	5.6
Net cash used in investing activities		**(78.7)**	(94.9)	(174.1)
Cash flows from financing activities				
Purchase of own shares		**(1.5)**	(2.3)	(8.5)
Interest paid		**(42.5)**	(41.9)	(46.7)
Finance lease principal payments		**(15.5)**	(13.9)	(25.8)
Net loans drawn down		**78.5**	20.6	44.3
Receipt/(payment) on the maturity of foreign currency swaps		**8.8**	(0.3)	(11.1)
Dividends paid to non-controlling interests		**(0.1)**	–	(0.1)
Contribution from non-controlling interests		**–**	–	0.8
Dividends paid to shareholders of the Company		**(39.1)**	(35.5)	(54.4)
Net cash used in financing activities		**(11.4)**	(73.3)	(101.5)
Increase/(decrease) in cash and cash equivalents		**63.5**	(38.1)	(22.7)
Opening cash and cash equivalents		**60.4**	83.7	83.7
Increase/(decrease) in cash and cash equivalents		**63.5**	(38.1)	(22.7)
Foreign exchange		**5.5**	(2.3)	(0.6)
Closing cash and cash equivalents		**129.4**	43.3	60.4

1. General information

These interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared using the accounting policies set out on pages 111 to 119 of the Group's Annual Report and Accounts 2015 except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

The interim results are unaudited but have been reviewed by the Group's auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2015 have been extracted from the Group's Annual Report and Accounts 2015 which has been filed with the Registrar of Companies. The audit report on the Group's Annual Report and Accounts 2015 was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. The Group's Annual Report and Accounts 2015 are prepared in accordance with IFRS as adopted by the European Union.

Going concern

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

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

On 13th December 2015 the Group commenced operations in German Rail and as a result we have amended our existing revenue recognition policy for this new business. Rail revenue in Germany comprises passenger revenues and subsidy income receivable from the Public Transport Authorities. Passenger revenue, which is allocated between the various transport providers in each region by the tariff authority responsible for that region, is recognised based on passenger counts, tariff authority estimates and historical trends. Subsidy income is recognised over the life of each franchise based on contractual entitlements including, where appropriate, indexation and other adjustments made or expected to be made to the subsidy entitlement. In accordance with IAS 20, the subsidy income recognised in each period reflects a systematic allocation of the total contractual subsidy entitlement, based on the expected profile of the underlying cost base which the subsidy is intended to compensate.

A number of amendments to IFRSs became effective for the financial year beginning on 1 January 2016 however the group did not have to change its accounting policies or make material retrospective adjustments as a result of these new standards.

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

The Directors have assessed the following: IFRS 9 may impact both the measurement and disclosures of the Group's financial instruments. IFRS 15 is not likely 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.

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

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 2016		Six months to 30 June 2015		Year to 31 December 2015	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.33**	**1.43**	1.57	1.52	1.47	1.53
Canadian dollar	**1.72**	**1.91**	1.96	1.88	2.04	1.95
Euro	**1.20**	**1.28**	1.41	1.37	1.36	1.38

If the results for the 6 months to 30 June 2015 had been retranslated at the average exchange rates for the year to 30 June 2016, North America would have achieved normalised operating profit of £41.2m on revenue of £382.7m, compared to normalised operating profit of £39.2m on revenue of £363.0 as reported, and Spain and Morocco would have achieved a normalised operating profit of £31.6m on revenue of £257.2m, compared to normalised operating profit of £29.7m on revenue of £241.8m 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 28-31 in the Group's Annual Report and Accounts 2015.

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 2016 £m**	**Operating result 2016 £m**	Revenue 2015 £m	Operating result 2015 £m	Revenue 2015 £m	Operating result 2015 £m
UK Bus	**142.5**	**17.6**	141.4	17.1	286.4	37.5
UK Coach	**133.8**	**10.4**	132.2	10.0	281.2	32.3
Rail	**115.3**	**(0.6)**	82.0	0.6	168.4	0.6
Spain and Morocco	**268.2**	**32.3**	241.8	29.7	502.2	71.5
North America	**439.9**	**45.2**	363.0	39.2	683.2	66.8
Central functions	**–**	**(8.7)**	–	(7.0)	–	(15.2)
Intercompany elimination	**(0.8)**	**–**	(0.2)	–	(1.6)	–
Result from continuing operations	**1,098.9**	**96.2**	960.2	89.6	1,919.8	193.5
Intangible asset amortisation		**(16.3)**		(12.4)		(25.7)
Group operating profit		**79.9**		77.2		167.8
Share of results of associates		**0.7**		0.2		1.8
Net finance costs		**(23.7)**		(23.1)		(45.2)
Profit before tax		**56.9**		54.3		124.4
Tax charge		**(8.9)**		(9.5)		(15.3)
Profit for the period		**48.0**		44.8		109.1

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 Rail for rail replacement services. Inter-segment trading is undertaken on standard arm's length commercial terms.

5. Intangible asset amortisation

Intangible asset amortisation is analysed by reportable segment as follows:

	Six months to 30 June 2016 £m	Six months to 30 June 2015 £m	Year to 31 December 2015 £m
UK Coach	**0.2**	0.2	0.5
Rail	**0.4**	–	–
Spain and Morocco	**4.8**	5.1	9.9
North America	**10.9**	7.0	15.2
Central functions	**–**	0.1	0.1
	16.3	12.4	25.7

6. Net finance costs

	Six months to 30 June 2016 £m	Six months to 30 June 2015 £m	Year to 31 Dec 2015 £m
Bank and bond interest payable	**(23.6)**	(22.5)	(45.5)
Finance lease interest payable	**(1.7)**	(1.6)	(3.2)
Other interest payable	**(0.9)**	(0.9)	(0.9)
Unwind of provision discounting	**(0.6)**	(0.8)	(1.4)
Interest cost on defined benefit pension obligations	**(0.2)**	(0.1)	(0.1)
Finance costs	**(27.0)**	(25.9)	(51.1)
Other financial income	**3.3**	2.8	5.9
Net finance costs	**(23.7)**	(23.1)	(45.2)

7. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2016 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2016. The normalised tax charge of £14.6m (2015 interim: £13.3m) represents an effective tax rate on normalised profit before tax, for continuing operations, of 20% (2015 interim: 20%). The total tax charge of £8.9m (2015 interim: £9.5m) includes a deferred taxation charge of £1.2m (2015 interim: £3.9m credit).

In the March 2016 Budget Statement, it was announced that the UK corporation tax rate would reduce from 18% to 17% from 1 April 2020. As the legislation was not enacted by the period end, the impact is not included in these results.

8. Dividends paid and proposed

	Six months to 30 June 2016 £m	Six months to 30 June 2015 £m	Year to 31 December 2015 £m
Declared and paid during the period:			
Ordinary final dividend for 2014 of 6.95p per share	**–**	35.5	35.5
Ordinary interim dividend for 2015 of 3.685p per share	**–**	–	18.9
Ordinary final dividend for 2015 of 7.645p per share	**39.1**	–	–

	Six months to 30 June 2016 £m	Six months to 30 June 2015 £m	Year to 31 December 2015 £m
Proposed for approval and not recognised at period end:			
Ordinary interim dividend for 2015 of 3.685p per share	**–**	18.9	–
Ordinary final dividend for 2015 of 7.645p per share	**–**	–	39.1
Ordinary interim dividend for 2016 of 3.87p per share	**19.8**	–	–

9. Earnings per share

	Six months to 30 June 2016	Six months to 30 June 2015	Year to 31 December 2015
Basic earnings per share	**9.2p**	8.5p	20.9p
Normalised basic earnings per share	**11.3p**	10.2p	23.4p
Diluted earnings per share	**9.2p**	8.5p	20.9p
Normalised diluted earnings per share	**11.3p**	10.2p	23.3p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £47.0m (2015 interim: £43.5m; 2015 full year: £107.0m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

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

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

	Six months to 30 June 2016	Six months to 30 June 2015	Year to 31 December 2015
Basic weighted average shares	**510,026,180**	511,174,909	510,954,717
Adjustment for dilutive potential ordinary shares	**180,345**	275,107	2,399,159
Diluted weighted average shares	**510,206,525**	511,450,016	513,353,876

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 2016 £m	Six months to 30 June 2015 £m	Year to 31 December 2015 £m
Profit attributable to equity shareholders	**47.0**	43.5	107.0
Intangible asset amortisation	**16.3**	12.4	25.7
Tax relief on amortisation	**(5.7)**	(3.8)	(13.2)
Normalised profit attributable to equity shareholders	**57.6**	52.1	119.5

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 2016 the Group's portfolio of hedging instruments included fuel price derivatives, foreign exchange derivatives and interest rate derivatives. The fuel price derivatives are in place to hedge the changes in price of the different types of fuel used in each division. The foreign exchange derivatives are in place to hedge the foreign exchange risk on translation of net assets and earnings denominated in foreign currency. In addition, the Group holds four £50.0 million denominated interest rate derivatives to swap fixed interest on £200m of the Group's Sterling bonds to a floating rate and two €39.25m denominated interest rate derivatives equal in value to a Euro Private Placement.

These derivative financial instruments are held in the balance sheet at fair value and include the use of 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 2016. 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 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Non-current			
Fuel derivatives	**2.9**	–	–
Interest rate derivatives	**17.2**	15.9	22.2
Derivative financial assets	**20.1**	15.9	22.2
Current			
Fuel derivatives	**0.2**	–	–
Interest rate derivatives	**2.7**	–	–
Foreign exchange derivatives	**6.8**	0.3	2.4
Derivative financial assets	**9.7**	0.3	2.4
Non-current			
Fuel derivatives	**17.9**	22.4	39.6
Derivative financial liabilities	**17.9**	22.4	39.6
Current			
Fuel derivatives	**31.2**	22.4	44.2
Foreign exchange derivatives	**35.9**	0.5	1.8
Derivative financial liabilities	**67.1**	22.9	46.0

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 majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme, a funded defined benefit scheme.

The assets of 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 2016 was £5.4m (2015 interim: £5.4m; 2015 full year: £11.3m), of which £1.9m (2015 interim: £1.9m; 2015 full year: £3.9m) relates to the defined contribution schemes.

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

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
UK Bus	**(80.9)**	(51.1)	(60.4)
Rail	**26.3**	10.9	14.8
Company	**48.6**	30.5	34.9
Other	**(2.4)**	(2.0)	(1.9)
Total	**(8.4)**	(11.7)	(12.6)

The Rail defined benefit pension asset is net of a franchise adjustment of £54.1m (2015 interim: £33.0m; 2015 full year: £35.6m). An explanation of the franchise adjustment is included in note 33 to the Group's Annual Report and Accounts 2015.

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

	Six months ended 30 June 2016			Year ended 31 December 2015		
	UK Bus	**Rail**	**Company**	UK Bus	Rail	Company
Rate of increase in salaries	**2.5%**	**2.4%**	**2.5%**	2.5%	2.6%	2.5%
Rate of increase in pensions	**1.9%**	**1.9%**	**2.9%**	2.1%	2.1%	3.1%
Discount rate	**3.0%**	**3.0%**	**3.0%**	3.9%	3.9%	3.9%
Inflation rate (RPI)	**2.9%**	**2.9%**	**2.9%**	3.1%	3.1%	3.1%
Inflation rate (CPI)	**1.9%**	**1.9%**	**1.9%**	2.1%	2.1%	2.1%

12. Business Combinations

(a) Acquisitions

During the period the Group acquired two school bus and paratransit businesses in North America: Safeway Training and Transportation Services Inc and White Plains Bus Company (comprising White Plains Bus Co Inc and Suburban Paratransit Service Inc). In addition, the North America division acquired Ecolane Finland Oy during the period, a transit software developer. The total provisional fair value of net assets acquired in these businesses was £18.8m. Total consideration was £30.5m (including deferred consideration of £5.7m), resulting in provisional goodwill of £11.7m. Cash in the acquired businesses was £2.9m, therefore the net cash outflow for the period relating to these acquisitions was £21.9m.

During the period the Group also acquired Voramar el Gaucho, a business that operates transport and charter services in Ibiza, Spain. The total provisional fair value of net assets acquired in this business was £1.4m. Total consideration was £3.5m (including deferred consideration of £3.1m), resulting in provisional goodwill of £2.1m. Cash in the acquired business was £0.8m, therefore the net cash inflow for the period relating to this acquisition was £0.4m.

In addition to the above, deferred consideration of £0.7m was paid in the period relating to North America acquisitions from earlier years and £15.7m was paid in the period relating to the acquisition of the Madrid-El Escorial franchise in December 2015.

In the period to 30 June 2015 there were a number of small acquisitions in North America. Further details are disclosed in the interim condensed consolidated financial statements for that period and in the Group's 2015 Annual Report and Accounts. No material changes were made to the fair values during 2016.

(b) Disposals

On 31 March 2016 the Group disposed of a small business in the UK Coach division for consideration of £2.0m. Cash in the business was £0.8m and deferred consideration was £0.3m therefore the net cash inflow in the period was £0.9m. There was no material profit arising on the disposal.

13. Net debt

	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)**

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

Borrowings include non-current interest bearing loans and borrowings of £426.3m (2015 interim: £734.1m; 2015 full year: £752.3m).

Other non-cash movements represent finance lease additions of £21.2m (2015 interim: £13.6m) and a £1.2m increase to net debt (2015 interim: £1.1m increase) relating to loan and bond arrangement fees.

In January 2016, the Group entered into additional committed credit facilities totalling £450m. The new facilities include a £350m bridge facility to provide the Group with an appropriate level of liquidity prior to refinancing the Group's £350m 2017 bonds (shown within current liabilities), and a £100m facility to be used for general corporate purposes. Both facilities are for 18 months with three six-month extension options.

14. Cash flow statement

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

	Six months to 30 June 2016 £m	Six months to 30 June 2015 £m	Year to 31 December 2015 £m
Net cash inflow from operating activities			
Profit before tax	**56.9**	54.3	124.4
Net finance costs	**23.7**	23.1	45.2
Share of post-tax results under the equity method	**(0.7)**	(0.2)	(1.8)
Depreciation of property, plant and equipment	**58.8**	52.1	104.3
Intangible asset amortisation	**16.3**	12.4	25.7
Amortisation of fixed asset grants	**(0.2)**	(0.3)	(0.6)
Profit on disposal property, plant and equipment	**(2.5)**	(0.1)	(2.3)
Share-based payments	**1.7**	0.7	3.2
Decrease/(increase) in inventories	**0.7**	–	(0.7)
(Increase)/decrease in receivables	**(2.9)**	2.1	(32.7)
Increase in payables	**12.2**	7.2	34.8
Decrease in provisions	**(7.2)**	(18.9)	(35.4)
Cash generated from operations	**156.8**	132.4	264.1

15. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2016 were £100.6m (2015 full year: £53.0m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £36.2m (2015 full year: £36.4m) 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 2016, there were Rail performance bonds of £64.0m (2015 full year: £63.3m) and Rail season ticket bonds of £16.5m (2015 full year: £21.9m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £149.7m (2015 full year: £95.8m) and in Spain of £59.9m (2015 full year: £66.1m). There are also bonds of £6.0m (2015 full year: £8.1m) relating to operations in the Middle East. Letters of credit have been issued to support insurance retentions of £74.2m (2015 full year: £66.1m).

16. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2015 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 2016.

17. Post balance sheet events

There have been no significant post balance sheet events.

18. Definitions

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

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

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

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

Gearing ratio is the ratio of net debt to EBITDA over the last twelve months, including any pre-acquisition EBITDA generated in that twelve month period by businesses acquired by the Group during the period. For the purposes of calculating the gearing ratio, foreign currency debt and cash balances are translated at the average foreign currency exchange rates for the twelve month period.

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

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

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, Group Statement of Cash Flows and the related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
28 July 2016