26 July 2018

National Express Group PLC: Half Year results for the six month period ended 30 June 2018

Diversity paying dividends

Dean Finch, Group Chief Executive said:
"National Express has had another strong start to the year, delivering its best ever half year statutory profit, up 24% year-on-year. Our increasingly diversified portfolio has again delivered strong results and has entered a new phase of expansion in to complementary growth markets.

"All of our divisions have grown revenue, profit and commercial passengers through a relentless focus on good customer service and technology investment. We also continue to make disciplined acquisitions that help grow our portfolio strategically. We have made seven acquisitions so far this year and have entered new fast-growing markets, providing avenues for interesting future expansion. Our pipeline of new opportunities remains strong and growing.

"This combination of growth in our core business and the number of exciting new opportunities allows us to again increase the interim dividend by 10%. We remain on course to deliver the board's expectations."

Financial highlights

	HY 2018	HY 2017	Change	Change at constant currency
Continuing operations				
Group revenue	£1.21bn	£1.17bn	+3.2%	+6.4%
Group normalised operating profit	£118.7m	£111.6m	+6.4%	+9.8%
Group normalised PBT	£100.7m	£88.9m	+13.3%	+18.0%
Normalised basic EPS	15.0p	13.0p	+15.4%	
Statutory				
Group statutory operating profit	£98.1m	£87.3m	+12.4%	
Group statutory PBT	£80.1m	£64.6m	+24.0%	
Group PAT from continuing operations	£63.0m	£50.8m	+24.0%	
Statutory basic EPS	12.1p	10.9p	+11.0%	
Free cash flow	£85.2m	£82.4m	+£2.8m	
Net debt	£922.1m	£873.3m	+£48.8m	
Interim dividend	4.69p	4.26p	+10.1%	

Highlights

- Record Group statutory half year profit before tax of £80.1 million, up 24%.
- Growth in free cash of over 3% to £85.2 million; full year guidance raised to £170 million.
- ROCE increased by 20 basis points to 12.2%; net debt gearing held flat at 2.3x EBITDA.
- Interim dividend increased by 10.1% (4.69p).

Operational excellence: organic revenue growth in every division

- Revenue growth in all main divisions:
    - North America: grew by 9.7% in constant currency to $753.2 million;
    - ALSA: grew by 7% in constant currency to €395.7 million;
    - UK: grew by 0.8% to £273.6 million, with strong commercial growth in core coach (5.2%) offset by last year's strategic exit from 2 operations;
    - German Rail: declined 1.3% in constant currency, as last year benefitted from catch up revenues (up 5.6% on an underlying basis).

- Record normalised operating profits in our main international divisions combined with strong UK growth:
    - North America: grew by 8.7% in constant currency to $76.6 million;
    - ALSA: grew by 7.5% in constant currency to €48.6 million;
    - UK: grew by 21.5% to £31.6 million, boosted by £3.4 million of property disposals; underlying profit growth was 8.5%.

- A disciplined North American school bus bidding season, with rates secured higher than driver wage inflation:
    - Average rate increase of 6.6% on contracts up for bid or renewal, or 3.7% across the whole portfolio. Driver wage increases are projected to be 3.4% in the next school year.

- All main divisions have grown commercial passengers, with the Group carrying nearly 1.5% more year-on-year.

Technology investment driving innovation, efficiency and excellence

- We have installed the largest contactless payment system on buses outside of London, helping to drive like-for-like commercial passenger growth of 1.3% in the West Midlands.

- Our sophisticated revenue management systems on UK core and Spanish long haul coach routes have helped increase revenue per mile by 6.6% and 1.3% respectively.

- We are accelerating the roll out of smart safety DriveCam technology, which is helping reduce the incidence and cost of accidents.

Targeted expansion through strategic acquisition and new market entries

- We have made 7 acquisitions in the period: 3 in ALSA and 4 in North America, consolidating our presence in existing core markets and expanding in to growth segments.

- In July we won a significant 500 bus contract in Rabat, Morocco. We are now the largest public transport operator in Morocco.

- Our new Geneva, Switzerland operations have grown very strongly, with our first acquisition – AlpyBus – growing revenue by 26.3% and profit by 33% in the first half. New summer tourist services have been launched.

- Significant expansion in US charter and UK employee shuttle services, with new opportunities secured in the rapidly-growing Spanish cruise ship and urban minicab markets.

- A new on-demand bus service due to start shortly in the West Midlands.

Enquiries

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There will be a presentation and webcast for investors and analysts at 0900 on 26 July 2018. Details are available from Mads Neumann at Maitland.

Normalised operating profit, margin and EPS data, as referenced in this report, can be found on the face of the Group Income Statement in the first column. Normalised profit is defined as being statutory profit before intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures.

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 7 to the financial statements.

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

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

For a full list of definitions, please refer to note 17 to the financial statements.

Legal Entity Identifier: 213800A8IQEMY8PA5X34
Classification: 1.1 (with reference to DTR6 Annex 1R)

Dividend

The dividend will be paid on 21 September 2018 to shareholders on the register at close of business on 31 August 2018.

Group Chief Executive's Review

Overview and outlook

Our first half has again been a very successful one. Record profit performances again in our North American and ALSA divisions, alongside strong growth in the UK, demonstrate that our strategy is consistently delivering growth and underpinning growing shareholder returns.

Our investment and innovation in new systems and technology to deliver efficient, operationally excellent and customer-focused services is helping drive organic growth. Our returns on acquisitions also remain very strong at over 15%, with another seven made in the period and a strong pipeline of further opportunities in place. This combination of organic growth and strategic acquisition is proving a sustainable basis for growth. Further, we continue to benefit from a diversity of earnings with around 80% generated outside the UK and no single contract worth more than 4% of revenue.

Perhaps most pleasingly in the period we have seen the emergence of exciting new growth opportunities. We are building on the platforms we have established in strong markets, including through our recent acquisitions. We aim to be a market leader on service, price and customer relationships and grow our presence in the most affluent cities and regions. I believe we have established an exciting growth dynamic that is doing just that.

Fundamentally we continue to invest in improving our existing businesses, using new technology to engage our customers in new ways and run services more efficiently. This generates our organic growth and strong cash flow which then helps to secure new strategic acquisitions in growing markets with strong returns. But, we are now moving into a new phase of our acquisition strategy: beyond securing good businesses in their own right that also allow synergies through consolidation, and into a period where these new assets and local expertise are used to pursue growth in new market segments in an efficient way. We are combining operational excellence with local expertise and the new consolidated assets to pursue growth efficiently, providing the opportunity for even stronger returns.

Examples of this new approach include our strong charter growth in North America, cruise ship servicing operations in Spain and B2B services in the UK. Every division is also already pursuing other opportunities and further detail is provided in their sections below.

Our strategy therefore remains focused on the three pillars we have consistently set out as they have underpinned this performance, with increased activity in identifying and securing diversification opportunities:

- Operational excellence: including organic growth, tight cost control, rigorous cash flow management and the disciplined allocation of capital to maximise returns;
- Investment in technology to drive customer-focused innovation and excellence, improved safety performance and greater cost efficiency; and,
- Growth through targeted acquisitions and market diversification in the world's most affluent cities and regions.

This is a strategy that I am confident will continue to deliver strong and growing shareholder returns. We continue to deliver a strong free cash flow of £85.2 million (2017: £82.4m) and have raised our year-end target to £170 million. Normalised earnings per share again grew significantly, up 15.4% to 15.0p (2017: 13.0p). The Board has therefore again increased the interim dividend by 10.1% to 4.69p (2017: 4.26p), the third 10% increase in four years. Our policy is to pay a dividend covered two times by at least Group normalised earnings.

It is a strategy delivered by strong divisional performances, acting within this Group framework. I will therefore explain in more detail below how they have delivered strong organic growth through excellence and innovation as well as expanded through acquisition and new market segment growth, after first setting out the Group's financial highlights.

Financial performance highlights

National Express has made good progress in the first half of 2018, with Group revenue up 6.4% on a constant currency basis (3.2% on a reported basis). This has been driven in particular by the growth in North America and ALSA. Strong commercial revenue increases in UK core coach (up 5.2%) has been offset by last year's strategic exit from Eurolines and Hoppa (an airport shuttle service), therefore lowering the overall growth rate. German Rail saw a small decline in revenue, down 1.3% on a constant currency basis, with last year benefitting from catch up revenues not fully recognised in 2016. Like-for-like revenues increased by 5.6%.

	First half		Full Year
Revenue in constant currency	2018	2017	2017
ALSA (€m)	395.7	369.9	757.4
North America (US$m)	753.2	686.6	1,311.3
German Rail (€m)	43.7	44.3	90.3
Revenue in £m			
ALSA	348.1	318.1	663.5
North America	547.5	543.0	1,017.2
UK	273.6	271.3	561.5
German Rail	38.5	38.1	79.0
Group	1,207.7	1,170.5	2,321.2

Normalised operating profit has increased by 9.8% on a constant currency basis to £118.7 million (up 6.4% on a reported basis); statutory operating profit has increased by 12.4%. These results have been achieved due to record profits again in North America and ALSA and strong growth in the UK. The decline in German Rail's operating profits compared to the first half of last year reflects the catch-up revenues recognised in the 2017 results.

These results were adversely impacted by £4 million of currency translation in the first half driven by the overall strengthening of Sterling against the US Dollar over the last 12 months. Normalised profit before tax rose by 13.3% to £100.7 million, up 18.0% on a constant currency basis. After intangible amortisation of £20.6 million, statutory profit before tax was £80.1 million (2017: £64.6m), a new Group record for the half year.

	First Half		Full Year
Normalised operating profit in constant currency	2018	2017	2017
ALSA (€m)	48.6	45.2	108.3
North America (US$m)	76.6	70.5	121.6
German Rail (€m)	1.3	2.0	5.9
Normalised operating profit £m			
ALSA	42.8	38.8	94.9
North America	55.7	55.7	94.3
UK	31.6	26.0	70.9
German Rail	1.1	1.7	5.2
Central Functions	(12.5)	(10.6)	(23.8)
Normalised operating profit	118.7	111.6	241.5
Interest and associates	(18.0)	(22.7)	(41.5)
Normalised profit before tax	100.7	88.9	200.0

Divisional performance review

ALSA

	2018	2017	Change
Revenue	€395.7m	€369.9m	+7.0%
Normalised operating profit	€48.6m	€45.2m	+7.5%
Operating margin	12.3%	12.2%	+10bps
Passengers	157,423,000	154,194,000	+2.1%

Overview and outlook

ALSA has combined a strong increase in revenue and profit from existing operations and recent acquisitions, with the entering of new market segments that provide significant new opportunities for growth in the coming years. ALSA has delivered another record profit performance.

We remain well placed in the concession renewal process, with recent delay further reducing our previous guidance of a minimal impact in 2019. Continued investment in our core business, new contract wins such as Rabat, Morocco, three strategic acquisitions in the period and new market entries are helping to further diversify our earnings and provide growth opportunities. ALSA remains a high quality, well run business, with many opportunities ahead to continue to deliver value for shareholders.

Operational Excellence: driving organic growth

All main segments of the ALSA business grew in the period, except Spanish long haul services. A combination of the deliberate exiting of a loss-making contract last year, disruption in Catalonia and strikes in Madrid served to lower long haul revenue on a reported basis (down 1.2%). However, accounting for these, underlying revenues were flat. Further, this was more than off-set by the increases in our other segments: Spanish regional (up 3.6%); Spanish urban (up 2.1%); Morocco (up 8.6%); and ancillary revenues (up 25.1%).

This combined to deliver a revenue increase to €395.7 million and another record half year profit of €48.6 million. Normalised operating margin increased to 12.3% and passenger numbers also grew to over 157 million, another record. It is pleasing that ALSA's Spanish operations' customer satisfaction score continues to grow, up 5.9% to 7.7 (out of 10).

Technology investment to underpin excellence, efficiency and innovation

Our increasingly sophisticated revenue management system (RMS) has helped both drive the revenue and passenger increases on our Spanish regional services and mitigate the impact of the reduced demand on long haul services. The introduction of a new price ladder similar to UK Coach's in the period is proving successful. However, RMS has also embedded much stricter matching of services to demand; in the period we reduced long haul mileage operated by 2.5%.

We are continuing to invest in further enhancements to improve the quality and safety of our services and the ease with which customers can buy a ticket. We have accelerated the roll-out of smart safety Lytx DriveCam cameras, proven to reduce both the incidence and cost of accidents in our business: 1,000 will now be installed by the end of August. Our digital sales continue to grow strongly, up 3.5% to 41.6% of revenue in the period.

We continue to believe that our reputation for excellence and investment in technology such as RMS mean we are well-placed for the concession renewal process. As previously reported, the assessment methodology has been reformed to increase the importance of quality scores and reduce the weighting of price. We believe this should also provide a framework for more sustainable, sensible bidding.

The concession renewals programme has begun, with two of ALSA's medium-size contracts currently subject to re-bid. However, a combination of legal challenge and the recent Spanish government change has further delayed the programme. While we expect the process to re-start in September, experience suggests that this cannot be guaranteed. We previously guided that we do not expect any profit impact from renewals in 2018 and only a minimal impact in 2019. This new delay will only serve to reduce any 2019 impact further.

Targeted growth through strategic acquisition and market diversification
During the period we continued to grow our business and diversify our earnings through: new contract wins; acquisitions; and entry and expansion in to complementary markets.

We recently announced the new 500 bus contract in Rabat, Morocco. This 15 year contract, with an optional seven year extension, is expected to secure €1 billion of revenue. ALSA is the majority shareholder of a joint venture with a local company. With this contract ALSA will run services in five Moroccan cities, making it the largest public transport operator in Morocco. This win shows the benefit of our approach of consolidating new market entry and then looking for complementary expansion. This is our fourth new Moroccan contract in eight years, building on our initial entry to Marrakesh.

Our recent growth in and around Geneva, Switzerland is another example. After the initial purchase of the ski-transfer business AlpyBus in December 2016 – which itself has grown revenue 26.3% in the period – we have complemented its presence with three further acquisitions that operate in other local markets (principally urban and school bus services). We have consolidated back-office and operational functions to secure synergies. Our Swiss operations have grown strongly with revenue up 53.4% and profit growth of 52.6%. We are now using these combined assets and local expertise to target new growth segments in an efficient way. In particular we are targeting the summer tourist season where we see a strong growth opportunity, using vehicles in their historically quieter period.

We have made three further acquisitions in the period, all of which have a similar strategic logic. First, we purchased ArgaBus, a 77 bus operator of commuter and school services within the Madrid Consortium. This acquisition helps consolidate our position in Madrid, where we are now the second largest operator, and to secure synergy benefits.

Our second acquisition, Cal Pita, where we have taken a majority stake, helps open up a new Spanish region where ALSA's presence is small. Galicia has a significant pipeline of concession renewals in the coming years, and this well-respected 75 bus operator of interurban, school and discretionary services now gives us a platform to expand.

Third, we acquired BC Tours, the largest operator of transport and logistical services to the growing cruise market in Spain. As well as providing an entry in to a growing market segment, it also secures significant synergy benefits as our vehicles can be used to provide the tourist services that make up the majority of the business.

We have also added an additional avenue of entrepreneurial expansion, through the rapid growth in the number of minicab services we run. From 120 earlier this year, ALSA now operate over 400 minicab services in Madrid and Barcelona. We have sold a stake in this business to a minority partner. This is already providing a strong low-risk income stream that complements our bus and coach services. Our ambition is to be the premier inter-modal and 'last mile' service provider in Spain. It is a very interesting avenue for future growth.

Summary
ALSA remains a well-run and expanding business that is delivering record growth while diversifying in to interesting new markets. It is this combination of core excellence and a reputation for quality, as well as increasing diversification, that means we are confident it will emerge from the concession renewal process stronger.

North America

	2018	2017	Change
Revenue	$753.2m	$686.6m	+9.7%
Normalised operating profit	$76.6m	$70.5m	+8.7%
Operating margin	10.2%	10.3%	-10bps
Passengers	150,422,000	146,996,000	+2.3%

Overview and outlook
North America recorded another record profit performance as the benefits of our organic growth and new acquisitions continue to grow our business. Operating margin reduced by 10 basis points principally due to on-going driver wage pressure and fewer operating days, because of the exceptionally bad weather. In a disciplined school bus season we secured rate increases above driver wage inflation, with the benefit beginning later this year.

We continue to invest in excellence, with our new systems aiding management oversight, reducing risk and delivering cost savings. Our strategic acquisition programme continues, with four made in the period. Our determination to grow in complementary markets continues at a quickening pace, with strong progress in charter and transit; and new opportunities in the Charter School sector.

Operational Excellence: driving organic growth
Revenue growth of nearly 10% and a profit increase of 8.7% demonstrate the on-going benefit from recent acquisitions complementing our core business' performance. This growth has been achieved despite the significant disruption caused by the exceptionally cold weather. This disruption led to the school bus business alone losing nearly twice as many operational days as the year before.

The school bus business had a disciplined bid season. With North America at near full employment, driver wage inflation has been running at an exceptionally high level. We therefore adopted our 'up or out' strategy on all contracts up for renewal to ensure disciplined bids that protected returns. We secured rate increases of 6.6% on those contracts up for bid or renewal (2017: 3.7%), which translates to 3.7% across the whole portfolio (2017: 2.2%). These rate increases are larger than projected driver wage inflation of 3.4% for the 2018/19 school year, so we will begin to benefit from this pricing in the second half of this year.

This strategy of protecting profit and returns has inevitably led to our retention rate dropping to 90% of all contracts. Our overall bus count is currently down by 596 vehicles after losses are netted off against growth and acquisitions. So while our core school bus business will have fewer buses in the next school year, it will be more profitable.

We continue to grow our transit operations, with another contract win in Massachusetts and over $16.3 million of new business secured in the period. In six years we have therefore grown transit to be a more than $300 million annualised business. With a programme of renewals for our transit services starting this year, it is pleasing to have secured 15 contracts at re-bid, including one of our largest.

We are seeking to further embed customer-focus in the business. We are using detailed surveys and even closer engagement to ensure we understand and monitor delivery of customer requirements. This is augmented by BusReport, a centralised system where all parent and customer complaints are logged, allocated to the relevant CSC and then tracked to ensure completion but also to identify trends.

Technology investment to underpin excellence, efficiency and innovation
In such a large, continent-wide business, modern technology is proving increasingly important. We are determined to embed operational and safety excellence and secure efficiencies while respecting the need for local management to maintain strong relationships. Like the BusReport example above, we have been investing in technology that provides enhanced tools to do this.

We have created an industry-leading bus tracker system ('Durham Bus Tracker') that allows parents to view their child's school bus location. It provides information about the route, in near real time, including the scheduled and estimated arrival times to their stop. We already have over 158,000 parents as registered users, covering 356,000 students.

There are very encouraging reductions in 'event severity', the number of incidents and insurance costs where Lytx DriveCam smart safety cameras have been in place the longest. Beginning in 2014, our programme has over 7,400 vehicles in 63 North American locations now equipped. The results show that when comparing the costs of claims from preventable street accidents for the 12 months prior to fitment against post-installation, there has been a 30% reduction in the average cost of claims. So with further roll out in 2018 and 2019, alongside programmes that target speed awareness and enhanced driver monitoring, we expect to reap further driving standards, safety and cost benefits over the coming years.

Targeted growth through strategic acquisition and market diversification
We continue to pursue strategic acquisitions to grow our business and secure synergy benefits. Our previous acquisitions continue to make strong returns of at least 15% and we retain a strong pipeline of opportunities. What is becoming increasingly interesting is how we are using our existing presence and new acquisitions to access growing markets in an efficient manner.

Our ambition is that our CSCs move from the traditional management of existing local contracted services to become an entrepreneurial hub of multi-service operations. This would combine operational excellence and increasingly sophisticated technology with the targeting of complementary growth in, for example, local charter, employee shuttle, transit and Charter School markets. We are already seeing good progress as we combine the upgrading of our local management with new acquisitions in key locations that both secure synergy benefits but also open new market opportunities.

The four acquisitions we made in the period sought to combine securing synergies with existing operations and providing a platform for growth in interesting new markets:

- A&S Transportation: a Florida-based business of 260 vehicles, serving local Charter Schools;
- A1A Transportation: another Florida-based Charter School business of 94 buses, providing synergies with A&S Transportation;
- Quality Bus: a 315 vehicle school bus business in New York State, with over half in special education transport;
- Aristocrat Bus: a 30 vehicle motor coach and charter business in New Jersey.

We have identified the Charter School market as an interesting rapidly-growing market. There are currently 6,900 Charter Schools in 42 states, a six-fold increases in the last 15 years. Charter Schools are autonomous and operate their own bussing contracts typically allowing greater vehicle age flexibility (within rigorous safety standards) than traditional school bus contracts. As well as the two acquisitions listed above we are looking to grow in to this market from existing school bus locations, with strong asset utilisation opportunities.

In a similar way, we have expanded our small presence in the charter market (utilising buses for discretionary travel outside home-to-school hours). We learnt from the acquisition of Trinity in Detroit, Michigan (in late 2016), which had a strong charter business alongside its school bus operation. We placed the relevant Trinity manager in charge of a nationwide charter plan, with growth targets for every region, and are on course to deliver profit growth of around $4 million in this segment this year.

The Charter Schools and charter market examples demonstrate how we are looking to deliver good returns from sophisticated asset utilisation in markets adjacent to our existing operations. As well as our school bus operations, our transit sites are also providing useful platforms for adjacent growth. For example, this year we have begun a programme to target small transit shuttle contracts – to casinos and for a business' employees, or similar – in the adjacent area to recent acquisitions. So far this year we have already won 13 such contracts in New York, many of which can be serviced using existing vehicles in periods when they would otherwise not be used. Our 147 bus para-transit contract win in Massachusetts during the period is both good news in itself and provides another potential platform for growth. We believe there are further opportunities for asset-light growth here.

Summary
After a good bid season, and with the benefit of further strategic acquisitions our North America business continues to grow strongly. With programmes in place to modernise through technological innovation and diversify our earnings by growing in to complementary markets – often with attractive asset-light qualities – combined with a strong pipeline of further opportunities, North America remains an attractive growth market.

UK

	2018	2017	Change
Revenue	£273.6m	£271.3m	+0.8%
Normalised operating profit	£31.6m	£26.0m	+21.5%
Operating margin	11.5%	9.6%	+190bps
Commercial passengers	118,031,000	116,153,000	+1.6%

Overview and outlook
Our UK bus and coach businesses have accelerated their growth trends from the last quarter of 2017, with passenger growth amongst the strongest seen in years. In the period, core coach passengers increased 6% and West Midlands bus like-for-like commercial passengers grew by 1.3%. This helped boost core coach revenue by 5.2% and UK bus commercial revenue by 0.8%. Reported revenue growth is relatively subdued, however, because of last year's exit from Eurolines and Hoppa (a hotel shuttle business). Reported profit has been boosted by property disposals of £3.4 million, with underlying profit up by 8.5% and operating margin increasing by 70 basis points.

We continue to invest in further technology improvements to drive growth and are launching new services to capture opportunities within or adjacent to core markets. We have seen particularly encouraging results in a rapidly expanding market segment of employee shuttle and will also shortly launch an on-demand bus service in the West Midlands.

Operational Excellence: driving organic growth
As indicated above, both of our main UK businesses are seeing the benefit of increasingly sophisticated pricing to generate commercial passenger growth, alongside a focus on operational efficiency. After a number of years of declining passengers in Dundee, we have rolled-out a number of the pricing lessons from the West Midlands and are now seeing

passenger growth. In coach our RMS is helping drive growth, with record passenger numbers over Easter and during both May bank holidays, while increasing yield in each case, demonstrating the benefit of the increasingly sophisticated system, that has helped drive core coach revenues up by 5.2%.

This organic growth has been coupled with a focus on efficiency. We have exited low margin or loss making businesses – such as Hoppa and Eurolines – and amended routes and added new services to growing markets in both coach and bus. Our bus operation has reduced commercial mileage operated by 2.1% principally by speeding up existing journeys; coach has amended existing airport routes to serve new stops (such as Kings Cross) and added frequency to those with strong growth.

The benefit of the combination of organic growth and operational efficiency is seen in the significant improvements of revenue per mile: bus' has improved by 3%; core coach's has improved by 6.6%. We have also recognised £3.4 million of property profit from the sale and leaseback of our Dundee depot and exit of a facility in London. This has boosted operating profit to £31.6 million (up 21.5%) and operating margin to 11.5% (up 190bps). When normalising for these receipts, underlying profit increased by 8.5% and operating profit by 70 basis points (to 10.3%) reflecting the strong trading performance.

It is pleasing that we are also seeing the quality of our operations being recognised externally. In the independent Transport Focus customer survey, our bus satisfaction result is up 1% to 85%. In the period, UK coach has secured many award wins, including Operator of the Year, Large Operator of the Year and Making Coach a Better Choice at the UK coach awards. UK coach was also awarded a ROSPA Gold Award for the fourth year running.

We continue to work very closely with Transport for West Midlands (TfWM) and the West Midlands Mayor, to improve services and meet the region's congestion and air quality challenges. We also successfully transferred the Midland Metro tram service to TfWM in June.

Technology investment to underpin excellence, efficiency and innovation
We have invested to make our services increasingly easy to access. This involves a sophisticated digital 'front end', whether an app, mobile or website, to allow customers to easily identify the right service and secure the best price.

As well as continued investment in RMS, UK coach has further improved its website, with the journey planner now 35% faster and a programme to deliver a personalised web presence for customers underway. Customers will be recognised when they log on, with tailored offers presented reflecting their location and demographic. Coach has seen the proportion of revenue secured through digital channels increase by nearly 5 percentage points to 70.5%.

Our West Midlands bus services have installed the largest contactless payment network outside of London; also the only one to offer a daily fare cap like the capital. Alongside our investment in m-ticketing and apps, this is driving more frequent travel: for example, in a March survey, 53% of our mobile app users said digital tickets are making them travel more frequently. Through digital channels we can also target offers directly to customers. A promotion on June's Clean Air Day, for example, saw 13,444 people sign up with us digitally to redeem a free journey, 5,635 of whom were new or infrequent customers. In the subsequent three weeks we sold £19,000 of further m-tickets to these new digital customers. 67% of the non-users now say they travel with us after this promotion. We are targeting similar future offers.

A quiet revolution is underway: 50% of our UK bus journeys are now made using digital, smartcard or contactless payments methods. We expect this to reach 70% by the end of the year.

We have also continued our investment in technology to improve our safety performance. Lytx DriveCam is now installed across our UK operations, and is helping to drive double digit reductions in key harm metrics in both the bus and coach businesses. We are seeking to sustain this improvement through further investment in speed awareness and collision avoidance technologies, enhanced driver coaching – often using the video evidence provided by DriveCam – and Group-wide safety campaigns.

Targeted growth through strategic acquisition and market diversification
Since our acquisition of Clarke's of London in December 2016, we have secured synergy benefits with our Kings Ferry operations, including in the Kent to London coach commuter services. However, a key rationale for the acquisition was the opportunity to expand in to the growing in-bound tourist work in which Clarke's specialise. In the last year, we have grown Clarke's revenue in this area by 10% and see further opportunity for growth here.

UK coach has also placed a greater focus on growing commercial partnerships this year, to further diversify its income streams. We have signed 12 new partnerships, including with Webloyalty and the Jockey Club. When these new deals are combined with the expansion of existing offers, revenue from partnerships has increased by 50% in the period.

Our UK bus business has also started to look at opportunities in adjacent markets, deploying existing vehicles on new and additional services. In the West Midlands, we have recently launched a new service in Lichfield, secured another tender contract in Staffordshire and will shortly begin an on-demand service. Our Dundee depot, also drawing on West Midlands bus and UK coach vehicles and staff, has just operated the spectator bussing for the British Open golf championship.

Most significantly, we have combined our bus and coach operations to target employee shuttle contracts. In the period we won a new £4 million a year contract to operate employee shuttle services for Jaguar Land Rover in the West Midlands and Warwickshire. We are drawing on our combined bus and coach expertise and resources to target further similar growth opportunities. In the first half of the year we have grown this B2B work in the UK by 41% alone.

Summary
As the accelerating commercial passenger growth and digital and ticketing innovation demonstrates, our UK bus and coach businesses have recovered very strongly from the challenges of last year's first half. We are determined to maintain this momentum and innovation alongside combining our bus and coach expertise in interesting new growth markets.

German Rail
Headline revenue and profit were down in the period – (1.3%) and (35%) respectively – because the comparator period last year included an earnings catch-up from income we were unable to book in 2016. On an underlying basis, revenue is up 5.6%. Our mobilisation for our Rhine-Ruhr Express (RRX) services is progressing well. The first of our 3 RRX contracts starts in June 2019 and when combined with our existing 2 Rhine-Munster Express services will represent a strong presence in the Nord-Rhine Westphalia region. This remains an attractive market and we continue to bid for new contracts that meet our strict criteria.

Outlook
We have continued to build on this strong first half performance with a good start to summer sales. The strong school bus price growth in North America is particularly pleasing as it positions us well to grow profits and returns this year and next. Through its deliberate focus on quality and diversification, our Spanish business remains very well-placed to compete in the concession renewal process and maintain stable margins this year and next.

We retain a good pipeline of growth opportunities, with organic growth, new acquisitions, bid wins and complementary growth markets providing exciting avenues for further expansion. A strong management team is investing in technology to deliver excellent customer service and control the risks in our business in an ever-more sophisticated way.

The consistent delivery of our strategy has again secured strong cashflow and growing shareholder returns. Our confidence in the future of the business allows us to increase our target for free cash (to £170 million) and raise the interim dividend by 10% for the third time in four years.

Dean Finch
Group Chief Executive
26 July 2018

FINANCIAL REVIEW

Presentation of results

To supplement IFRS reporting, we also present our results on a normalised basis which shows the performance of the business before intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures. Unless otherwise noted, all reference to profit measures throughout this review are for normalised continuing operations for both the current and prior year reporting period.

Statutory profit

The Group again delivered a record first half statutory profit after tax amounting to £63.0 million (2017: £50.8m), driving basic earnings per share of 12.1 pence (2017: 10.9p), an increase of 11.0%.

Statutory profit

Reconciliation of statutory profit to normalised operating profit	First half		Full year
	2018	2017	2017
	£m	£m	£m
Normalised profit before tax	100.7	88.9	200.0
UK restructuring	–	(5.6)	(5.6)
Intangible amortisation	(20.6)	(18.7)	(38.0)
Profit before tax	80.1	64.6	156.4
Tax charge	(17.1)	(13.8)	(28.0)
Profit after tax from continuing operations	63.0	50.8	128.4
Profit from discontinued operations	0.5	6.4	5.9
Profit for the period	63.5	57.2	134.3

Intangible amortisation increased to £20.6 million (2017: £18.7m) driven by the acquisitions made over the last 12 months in our North America and ALSA divisions.

In the prior year, UK restructuring costs relate to the disposal of the Group's final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK rail and reorganised its UK organisation to reduce costs and facilitate better, clearer decision-making. The final stage in this process was the hand-back of the West Midlands tram business to the West Midlands Combined Authority in June 2018.

Revenue

Revenue bridge	£m
2017 first half year revenue	1,171
Currency translation	(36)
2017 first half year revenue at constant currency	1,135
Organic growth	21
Acquisitions	52
2018 first half year revenue	1,208

Group revenue for the period was £1,207.7 million (2017: £1,170.5m), an overall increase of 6.4% on a constant currency basis (up 3.2% on a reported basis with £36 million of foreign currency losses on translation). Constant currency revenue growth of £21 million from our existing businesses was boosted by a further £52 million from acquisitions.

Performance has again been particularly strong in our overseas businesses, with North America delivering 9.7% growth in constant currency benefitting from a number of bolt-on acquisitions made in the last 12 months. ALSA also delivered a strong performance, with revenue growth of 7.0% on a constant currency basis. This was driven by strong performance in Spain, notably on our regional and urban routes, together with another strong ski season in Switzerland, and strong growth in Morocco, with revenue growing by 8.6%.

Our UK business delivered revenue growth of 0.8%, with our Bus business growing revenue by 0.7% and Coach growing by 1.1%. Commercial bus revenue increased by 0.8%, with like-for-like passenger growth of 1.2% benefitting from the continuation of the low fare zones together with the launch of contactless and growing penetration of m-tickets. In Coach, core network revenue rose by 5.2%, where our Revenue Management System drove passenger and yield growth. This strong performance has been partially offset by lower revenue from festival events, together with the exit from Eurolines and a small coach transfer services business in 2017.

Normalised profit

Profit bridge for the continuing operations	£m
2017 first half year normalised operating profit (as reported)	112
Currency	(4)
Normalised operating profit at constant currency	108
Net impact of revenue growth	8
Acquisitions	10
Profit on exit of properties	3
Cost inflation	(28)
Cost efficiency	13
Fuel	9
Weather / operator days	(3)
Other	(1)
2018 first half normalised operating profit	119

Group normalised operating profit increased by 9.8% to £118.7 million on a constant currency basis, up 6.4% on a reported basis (2017: £111.6m) after the adverse impact of £4 million of currency translation driven by the strengthening of Sterling against the US Dollar. We delivered robust organic growth of £8 million from our existing businesses as the drivers of revenue growth noted above flow through. This was supplemented by a strong contribution of £10 million from acquisitions made in the last year, predominantly in the US.

These results include £28 million of cost inflation, most notably in the form of driver wage inflation in North America. We have retained our disciplined focus on cost control which, along with the ongoing benefit of efficiency measures introduced across the Group last year has delivered £13 million of savings in the first six months of 2018. Coupled with £9m lower hedged fuel prices, overall cost inflation has been limited to £6 million.

In the period, we recognised property-related profits of £3.4 million relating to the sale and leaseback of a facility in Dundee and cost provisions released following a smoother than expected exit of a facility in London.

Weather has impacted the first half results, with the severe storms in North America reducing the number of operator days, adversely impacting profit by £3 million, with a further £1 million impact from other factors including a strike in Madrid.

Summary income statement	First half		Full year
	2018 £m	2017 £m	2017 £m
Revenue	1,207.7	1,170.5	2,321.2
Operating costs	(1,089.0)	(1,058.9)	(2,079.7)
Normalised operating profit	118.7	111.6	241.5
Share of results from associates and joint ventures	0.3	(3.9)	(3.5)
Net finance costs	(18.3)	(18.8)	(38.0)
Normalised profit before tax	100.7	88.9	200.0
Tax	(22.4)	(21.4)	(48.0)
Normalised profit after tax	78.3	67.5	152.0

Group normalised operating profit margin grew by 30 basis points to 9.8% (2017: 9.5%) with margin growth in the UK and ALSA more than offsetting a small margin decline in North America, driven by ongoing inflationary pressure in drivers' wages.

Net finance costs decreased by £0.5 million to £18.3 million (2017: £18.8m), reflecting the lower interest costs following the successful debut issuance in the Eurobond market in November 2017 of the €250 million Floating Rate Note together with continued optimisation of our funding base.

We recorded a profit of £0.3 million (2017: loss £3.9m) from associates and joint ventures, with the loss last year reflecting the write-down of our investment in a minority stake in Deutsche Touring Group, a German partner in Eurolines, which entered into administration in 2017.

After accounting for net finance costs and profit from associates and joint ventures, profit before tax of £100.7 million grew 18.0% on a constant currency basis and by 13.3% on a reported basis (2017: £88.9m).

The Group's effective tax rate for 2018 normalised profit is forecast to be around 22% (2017 full year: 24.0%), in line with our previous guidance earlier this year.

Normalised basic earnings per share were 15.0 pence (2017: 13.0p), an increase of 15.4%.

Return on Capital Employed (ROCE)
ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. ROCE has increased again to 12.2% (2017: 12.0%), demonstrating our disciplined approach to capital allocation and balance sheet management and the accretive impact of our high return acquisitions.

Reconciliation of ROCE	HY 2018 £m
Group statutory operating profit (on a 12 month rolling basis)	208.7
Intangible amortisation for acquired businesses	39.9
Return – Normalised Group operating profit (on a 12 month rolling basis)	248.6
Average net assets	1,155.6
Remove: Average net debt	894.4
Remove: Average derivatives, excluding amounts within net debt	0.4
Foreign exchange adjustment	(10.5)
Average capital employed	2,039.9
Return on capital employed	12.2%

Cash management
The Group delivered £85.2 million of free cash flow in the period (2017: £82.4m) creating a solid platform for investing in growth and paying dividends. Given the expected lower level of capital expenditure for the full year as outlined below, we now expect to deliver free cash flow of £160 million to £170 million for the full year**.**

Free cash flow	First half		Full year
	2018 £m	2017 £m	2017 £m
Continuing normalised operating profit	118.7	111.6	241.5
Depreciation and other non-cash items	69.9	69.2	135.5
EBITDA	188.6	180.8	377.0
Net maintenance capital expenditure	(59.1)	(76.9)	(165.2)
Working capital movement	(22.2)	16.6	4.8
Pension contributions above normal charge	(3.7)	(1.4)	(5.0)
Operating cash flow	103.6	119.1	211.6
Net interest paid	(16.5)	(32.9)	(50.6)
Tax paid	(1.9)	(3.8)	(14.6)
Free cash flow	85.2	82.4	146.4

Operating cash flow was £103.6m (2017: £119.1m) a decline of £15.5m, this is principally explained by EBITDA growth of £7.8m and a reduction in capex payments of £17.8m offset by a working capital reversal of £38.8m. The 2017 working capital inflow of £16.6m was due to catch-up receipts on German Rail and one-off collections catch-up in North America. In the first half of this year, the outflow reflects normal working capital movements and timing in our growing business. The majority of the maintenance capital investment has been in fleet replacement predominantly in Spain and North America. Net maintenance capital expenditure was £17.8 million lower, benefitting from lower capital spend in North America as enhanced maintenance programmes enable us to return buses to service. Consequently, we now expect net capital expenditure for the full year to be lower than previously anticipated, at around £160 million.

Statutory cash generated from operations for the period was £160.6 million (2017: £181.2m) as shown in the Condensed Group Statement of Cash Flows and expanded further in note 14. Operating cash flow of £103.6 million (2017: £119.1m) presented in the table above is different, predominantly due to the inclusion of net maintenance capital expenditure of £59.1 million (2017: £76.9m) and the separate disclosure of discontinued operations.

Reconciliation of free cash flow to net cash flow from operating activities	HY 2018 £m
Free cash flow	85.2
Add: Operating cash flows from discontinued operations (note 7)	1.2
Add: Cash inflow from exceptional items in prior years	0.5
Remove: Net maintenance capital expenditure	59.1
Remove: Movements in arrangement fees (note 13)	0.7
(Profit) on disposal of fixed assets	(3.8)
Net cash flow from operating activities	142.9

Net funds flow	First half		Full year
	2018 £m	2017 £m	2017 £m
Free cash flow	85.2	82.4	146.4
Net growth capital expenditure	(4.2)	(3.0)	(13.2)
Net inflow from discontinued operations	1.2	29.9	27.5
Acquisitions (net of cash acquired)	(58.9)	(52.9)	(101.5)
Dividends	(47.3)	(42.9)	(64.7)
Other, including foreign exchange	(10.2)	(8.8)	(4.4)
Net funds flow	(34.2)	4.7	(9.9)
Net debt	(922.1)	(873.3)	(887.9)

Growth capital expenditure during the period of £4.2 million included infrastructure to support the mobilisation of the RRX contract in our German rail operations and further investment in new technology, ticketing and digital platforms in our UK operations.

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 seven such investments: four in our North America division and three in ALSA, for total consideration of £111.9 million of which £65.4 million is deferred. Deferred consideration for acquisitions made in 2017 was £35.6 million. We continue to deliver strong performances from our acquisitions, delivering returns on invested capital of at least 15%.

Net funds flow for the period was an outflow of £34.2 million (2017: inflow £4.7m), resulting in period-end net debt of £922.1 million.

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

Dividend

Our policy is to pay a dividend covered at least two times by Group normalised earnings. In line with our dividend policy, we have declared a 10.1% increase in the interim dividend to 4.69 pence reflecting these strong results.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy is to target a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA in a ratio of 2.0x to 2.5x over the medium-term. Fitch (BBB-/stable) credit rating agency has reaffirmed its investment grade credit rating in the second quarter of this year, with Moody's due to review its rating later in the year (BBB-/positive outlook).

The Group's key accounting debt ratios at 30 June 2018 were as follows:

- Gearing ratio: 2.3 times EBITDA (31 Dec 2017: 2.3x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 10.5 times interest (31 Dec 2017: 10.2x; bank covenant not to be less than 3.5x).

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding.

At 30 June 2018, the Group had £1.6 billion of debt capital and committed facilities, comprised of a £225 million Sterling bond and a €250 million FRN, both maturing in 2020; a private placement of €78 million maturing in 2021; £32 million and £495 million revolving credit facilities ('RCF') maturing in 2021; and 2023 respectively (with two one year optional extensions); a £400 million bond maturing in 2023; and £159 million of finance leases. At 30 June 2018, the Group's RCF were undrawn with £691 million in cash and undrawn committed facilities available.

At 30 June 2018, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in foreign currency profit translation with corresponding movements in the Sterling value of debt. These corresponded to 1.8x EBITDA earned in the US, held in US Dollars, and 2.0x EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 30 June 2018, the proportion of Group debt at floating rates was 39% (Dec 2017: 43%).

Pensions
The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 30 June 2018 was £70.1 million (Dec 2017: £94.5m). The two principal plans are the UK Group scheme, which is closed to new accrual, and the West Midlands Bus plan, which remains open to accrual for existing active members only. We have completed the triennial valuation of both schemes and expect that the overall level of contribution will be around £10 million per annum until 2020.

The IAS19 valuations for the principal schemes at 30 June 2018 were as follows:

- WM Bus: £115.8 million deficit (Dec 2017: £133.8m deficit);
- UK Group scheme: £49.6 million surplus (Dec 2017: £43.2m surplus)

Fuel costs
Fuel cost represents approximately 7% of revenue. The Group is fully hedged for 2018 at an average price of 34.4p per litre, 80% hedged for 2019 at an average price of 35.0p, 57% hedged for 2020 at an average price of 33.6p and 8% hedged for 2021 at an average price of 34.4p. As previously guided, we anticipate fuel savings of around £20 million for the full year.

Impact of new accounting standards
A new accounting standard, IFRS 16, comes into effect on 1 January 2019.

IFRS 16 "Leases" will come into effect on 1 January 2019. The standard will primarily impact the treatment of the operating leases held by the Group, with these leases being recognised on the balance sheet. Work is ongoing to assess the full impact of the new standard, with an implementation project well advanced. The Group, however, has not yet concluded on the value of right-of-use assets and lease liabilities that will be recognised on adoption, or on how they will impact the Group's income statement or cash flow classification. By way of indication, the Group had gross operating lease commitments of £603.9m at 31 December 2017. This does not reflect the discounting of commitments to present value, as required by IFRS16.

In line with the estimate disclosed in the Group's Annual Report and Accounts for the year ending 31 December 2017, the adoption of IFRS 9 'Financial Instruments' gave rise to transitional adjustments to provisions of £24.8m (see note 1 for more detail). Note 1 also provides details of our adoption of IFRS 15 'Revenue from contracts with customers'. Both of these new standards came into effect on 1 January 2018.

Summary

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

Chris Davies
Group Finance Director
26 July 2018

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For six months ended 30 June 2018

	Note	Normalised result 2018 £m	Separately disclosed items 2018 £m	Total 2018 £m	Normalised result 2017 £m	Separately disclosed items 2017 £m	Total 2017 £m	Audited Year to 31 December Total 2017 £m
		Unaudited six months to 30 June						
Continuing operations								
Revenue	4	**1,207.7**	**–**	**1,207.7**	1,170.5	–	1,170.5	2,321.2
Operating costs before UK restructuring	4	**(1,089.0)**	**(20.6)**	**(1,109.6)**	(1,058.9)	(18.7)	(1,077.6)	(2,117.7)
UK restructuring	4	**–**	**–**	**–**	–	(5.6)	(5.6)	(5.6)
Total operating costs		**(1,089.0)**	**(20.6)**	**(1,109.6)**	(1,058.9)	(24.3)	(1,083.2)	(2,123.3)
Group operating profit	4	**118.7**	**(20.6)**	**98.1**	111.6	(24.3)	87.3	197.9
Share of results from associates and joint ventures		**0.3**	**–**	**0.3**	(3.9)	–	(3.9)	(3.5)
Finance income	5	**4.8**	**–**	**4.8**	4.4	–	4.4	10.0
Finance costs	5	**(23.1)**	**–**	**(23.1)**	(23.2)	–	(23.2)	(48.0)
Profit before tax		**100.7**	**(20.6)**	**80.1**	88.9	(24.3)	64.6	156.4
Tax charge	6	**(22.4)**	**5.3**	**(17.1)**	(21.4)	7.6	(13.8)	(28.0)
Profit after tax for the period from continuing operations		**78.3**	**(15.3)**	**63.0**	67.5	(16.7)	50.8	128.4
Profit for the period from discontinued operations	7	**–**	**0.5**	**0.5**	–	6.4	6.4	5.9
Profit for the period		**78.3**	**(14.8)**	**63.5**	67.5	(10.3)	57.2	134.3
Profit attributable to equity shareholders		**76.8**	**(14.8)**	**62.0**	66.1	(10.3)	55.8	131.0
Profit attributable to non-controlling interests		**1.5**	**–**	**1.5**	1.4	–	1.4	3.3
		78.3	**(14.8)**	**63.5**	67.5	(10.3)	57.2	134.3
Earnings per share:	9							
– basic earnings per share				**12.1p**			10.9p	25.7p
– diluted earnings per share				**12.1p**			10.9p	25.5p
Normalised earnings per share:								
– basic earnings per share		**15.0p**			13.0p			29.1p
– diluted earnings per share		**15.0p**			13.0p			29.0p
Earnings per share from continuing operations:								
– basic earnings per share				**12.0p**			9.7p	24.5p
– diluted earnings per share				**12.0p**			9.7p	24.4p

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Unaudited six months to 30 June 2018 £m	Unaudited six months to 30 June 2017 £m	Audited year to 31 December 2017 £m
Profit for the period	**63.5**	57.2	134.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans	**23.1**	(11.0)	(14.0)
Deferred tax on actuarial gains/(losses)	**(4.4)**	2.0	2.1
	18.7	(9.0)	(11.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**3.1**	(12.6)	(15.2)
Exchange differences on retranslation of non-controlling interests	**–**	0.4	0.7
Tax on exchange differences	**0.8**	(0.3)	1.0
Gains/(losses) on cash flow hedges	**21.9**	(31.6)	(18.5)
Less: reclassification adjustments for gains or losses included in profit	**3.9**	13.3	23.6
Deferred tax on cash flow hedges	**(4.5)**	3.0	(3.4)
	25.2	(27.8)	(11.8)
Comprehensive income/(expenditure) for the period	**43.9**	(36.8)	(23.7)
Total comprehensive income for the period	**107.4**	20.4	110.6
Total comprehensive income attributable to:			
Equity shareholders	**105.9**	18.6	106.6
Non-controlling interests	**1.5**	1.8	4.0
	107.4	20.4	110.6

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2018

	Note	**Unaudited 30 June 2018 £m**	Unaudited 30 June 2017 £m	Audited 31 December 2017 £m
Non-current assets				
Intangible assets		**1,711.8**	1,532.5	1,633.4
Property, plant and equipment		**975.4**	974.8	968.2
Available for sale investments		**7.1**	8.0	8.1
Derivative financial instruments	10	**21.3**	15.5	13.4
Deferred tax assets		**32.9**	52.3	41.4
Investments accounted for using the equity method		**11.7**	10.8	11.3
Trade and other receivables		**4.7**	16.7	20.1
Defined benefit pension assets	11	**49.6**	39.8	43.2
		2,814.5	2,650.4	2,739.1
Current assets				
Inventories		**26.3**	25.9	24.9
Trade and other receivables		**390.6**	319.1	356.3
Derivative financial instruments	10	**21.1**	10.7	15.4
Current tax assets		**–**	–	1.5
Cash and cash equivalents		**163.5**	78.0	314.3
Assets classified as held for sale		**14.0**	–	–
		615.5	433.7	712.4
Total assets		**3,430.0**	3,084.1	3,451.5
Non-current liabilities				
Borrowings		**(1,044.8)**	(817.1)	(1,058.0)
Derivative financial instruments	10	**–**	(13.0)	(1.3)
Deferred tax liability		**(51.4)**	(79.0)	(60.0)
Other non-current liabilities		**(11.8)**	(11.4)	(36.0)
Defined benefit pension liabilities	11	**(119.7)**	(129.1)	(137.7)
Provisions		**(49.5)**	(57.0)	(65.4)
		(1,277.2)	(1,106.6)	(1,358.4)
Current liabilities				
Trade and other payables		**(793.0)**	(623.0)	(672.4)
Borrowings		**(61.8)**	(158.7)	(167.4)
Derivative financial instruments	10	**(3.4)**	(25.8)	(9.8)
Current tax liabilities		**(22.3)**	(13.0)	(11.6)
Provisions		**(70.0)**	(58.1)	(65.5)
		(950.5)	(878.6)	(926.7)
Total liabilities		**(2,227.7)**	(1,985.2)	(2,285.1)
Net assets		**1,202.3**	1,098.9	1,166.4
Shareholders' equity				
Called up share capital		**25.6**	25.6	25.6
Share premium account		**532.7**	532.7	532.7
Capital redemption reserve		**0.2**	0.2	0.2
Own shares		**(2.0)**	(3.0)	(6.0)
Other reserves		**206.8**	165.9	181.6
Retained earnings		**414.6**	358.2	410.9
Total shareholders' equity		**1,177.9**	1,079.6	1,145.0
Non-controlling interest in equity		**24.4**	19.3	21.4
Total equity		**1,202.3**	1,098.9	1,166.4

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	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 2018	25.6	532.7	0.2	(6.0)	181.6	386.1	**1,120.2**	21.4	**1,141.6**
Profit for the period	–	–	–	–	–	62.0	**62.0**	1.5	**63.5**
Comprehensive income for the period	–	–	–	–	25.2	18.7	**43.9**	–	**43.9**
Total comprehensive income	–	–	–	–	25.2	80.7	**105.9**	1.5	**107.4**
Shares purchased	–	–	–	(2.8)	–		**(2.8)**	–	**(2.8)**
Own shares released to equity employee share schemes	–	–	–	6.8	–	(6.8)	**–**	–	**–**
Share based payments	–	–	–	–	–	2.3	**2.3**	–	**2.3**
Tax on share based payments	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends	–	–	–	–	–	(47.3)	**(47.3)**	–	**(47.3)**
Dividends payable to non-controlling interests	–	–	–	–	–	–	**–**	(0.6)	**(0.6)**
Other movements with non-controlling interests	–	–	–	–	–	–	**–**	2.1	**2.1**
At 30 June 2018 (unaudited)	**25.6**	**532.7**	**0.2**	**(2.0)**	**206.8**	**414.6**	**1,177.9**	**24.4**	**1,202.3**

* opening balances have been restated for the adoption of IFRS 9 'Financial instruments' (see note 1).

	Share capital £m	Share premium £m	Capital Redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	194.1	362.0	**1,106.8**	18.7	**1,125.5**
Profit for the period	–	–	–	–	–	55.8	**55.8**	1.4	**57.2**
Comprehensive income for the period	–	–	–	–	(28.2)	(9.0)	**(37.2)**	0.4	**(36.8)**
Total comprehensive income	–	–	–	–	(28.2)	46.8	**18.6**	1.8	**20.4**
Shares purchased	–	–	–	(4.4)	–	–	**(4.4)**	–	**(4.4)**
Own shares released to satisfy employee share schemes	–	–	–	9.2	–	(9.2)	**–**	–	**–**
Share based payments	–	–	–	–	–	2.2	**2.2**	–	**2.2**
Tax on share based payments	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends	–	–	–	–	–	(42.9)	**(42.9)**	–	**(42.9)**
Dividends payable to non-controlling interests	–	–	–	–	–	–	**–**	(1.1)	**(1.1)**
Other movements with non-controlling interests	–	–	–	–	–	(0.3)	**(0.3)**	(0.1)	**(0.4)**
At 30 June 2017 (unaudited)	**25.6**	**532.7**	**0.2**	**(3.0)**	**165.9**	**358.2**	**1,079.6**	**19.3**	**1,098.9**

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2018

	Note	**Unaudited six months to 30 June 2018 £m**	Unaudited six months to 30 June 2017 £m	Audited year to 31 December 2017 £m
Cash generated from operations	14	**160.6**	181.2	359.0
Tax paid		**(1.9)**	(3.8)	(14.1)
Interest paid		**(23.0)**	(43.2)	(62.5)
Interest received		**7.2**	10.8	13.1
Net cash flow from operating activities		**142.9**	145.0	295.5
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	12	**(22.3)**	(5.7)	(48.2)
Deferred consideration for businesses acquired	12	**(35.6)**	(45.8)	(49.0)
Proceeds from disposal of business, net of cash disposed		**0.7**	43.9	42.8
Purchase of property, plant and equipment		**(58.8)**	(63.8)	(124.6)
Proceeds from disposal of property, plant and equipment		**7.5**	4.5	17.9
Payments to acquire intangible assets		**(6.6)**	(1.3)	(11.9)
Receipts/(payments) relating to associates and investments		**0.8**	(0.9)	–
Net cash flow from investing activities		**(114.3)**	(69.1)	(173.0)
Cash flows from financing activities				
Finance lease principal payments		**(20.3)**	(19.0)	(34.4)
Increase in borrowings		**–**	95.3	328.1
Repayment of borrowings		**(98.7)**	(351.8)	(356.7)
(Payments)/receipts for the maturity of foreign currency swaps		**(10.8)**	1.1	5.7
Purchase of own shares		**(2.8)**	(4.2)	(8.1)
Dividends paid to non-controlling interests		**(0.1)**	(0.2)	(1.1)
Payments for equity in non-controlling interests		**–**	(0.4)	(0.2)
Dividends paid to shareholders of the Company		**(47.3)**	(42.9)	(64.7)
Net cash flow from financing activities		**(180.0)**	(322.1)	(131.4)
Decrease in cash and cash equivalents		**(151.4)**	(246.2)	(8.9)
Opening cash and cash equivalents		**314.3**	324.4	324.4
Decrease in cash and cash equivalents		**(151.4)**	(246.2)	(8.9)
Foreign exchange		**0.6**	(0.2)	(1.2)
Closing cash and cash equivalents		**163.5**	78.0	314.3

NATIONAL EXPRESS GROUP PLC
NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS
For the six months ended 30 June 2018

1. General information

These condensed interim financial statements for the six months ended 30 June 2018 do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the board of directors on 1 March 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The Group's Annual Report and Accounts for the year ended 31 December 2017 were prepared in accordance with IFRS as adopted by the European Union. The condensed interim financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Figures for the year ended 31 December 2017 have been extracted from the Group's Annual Report and Accounts for the year ended 2017. The interim results are unaudited but have been reviewed by the Group's auditor.

Going concern

The Directors have reviewed assumptions about current trading performance, and have taken account of reasonably possible adverse changes to performance impacting availability of resources over the time period assessed. The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operation for the period to 31 December 2019, and accordingly the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Accounting policies

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Group's 2017 Annual Report and Accounts, except for the adoption of new standards effective as of 1 January 2018.

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

The Group has applied for the first time IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 9 Financial Instruments

This standard addresses the classification, measurement and de-recognition of financial assets and liabilities. The standard also introduces new rules for hedge accounting and a new impairment model for financial assets.

The new impairment model in IFRS 9 requires the recognition of impairment provisions on expected credit losses rather than incurred credit losses under IAS 39. For trade and other receivables we have applied the simplified approach as permitted by IFRS 9 and for significant portfolios of receivables have determined expected credit losses using the matrix method. This change in accounting policy has resulted in a transitional increase in provisions of £24.8m.

1. General information (continued)

Accounting policies (continued)

Hedge accounting for the period has been prepared in accordance with IFRS 9. There has been no financial impact to the opening position or to the movements in the period as a result of the new standard and our hedging relationships remain highly effective.

The Group has applied the new rules prospectively from 1 January 2018. The reclassifications and adjustments referred to above have been recognised in the opening balance sheet as at 1 January 2018 as follows:

	31 December 2017 £m	Remeasurements £m	1 January 2018 £m
Current assets			
Trade and other receivables	356.3	(24.8)	331.5
	712.4	(24.8)	687.6
Total assets	3,451.5	(24.8)	3,426.7
Net assets	1,166.4	(24.8)	1,141.6
Shareholders' equity			
Retained earnings	410.9	(24.8)	386.1
Total equity	1,166.4	(24.8)	1,141.6

IFRS 15 'Revenue from contracts with customers'
IFRS 15 establishes the principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer.

The adoption of IFRS 15 has had no material impact on Group revenue recognition. With regard to disclosures, a new numerical disaggregation of revenue has been presented in note 4. A brief description of the types of revenue included in the note is as follows:

Contract revenues
For the purposes of disclosure, the Group has applied the term contract revenues to describe documented contracts that typically cover periods of at least one year, excluding grants and subsidies. The contracts primarily relate to home to school and transit contracts in North America, urban bus contracts in Spain and certain coach contracts in the UK. Revenues are recognised as the services are provided and in accordance with the terms of the contract.

Passenger revenues
Passenger revenues primarily relate to ticket sales in the UK, German Rail, intercity coach services in Spain and urban bus services in Morocco. Ticket sales revenue is recognised by reference to the date of customer travel. Revenue from tickets that cover more than one day, for example monthly travel cards and season tickets, are initially deferred as a liability and released to the income statement over the period of the ticket.

Passenger revenue in German Rail is allocated between the various transport providers in each region by the tariff authority responsible for that region, and is recognised based on passenger counts, tariff authority estimates and historical trends.

1. General information (continued)

Accounting policies (continued)

Grants and subsidies
Grants and subsidies are received in the UK, ALSA and German Rail. For the UK and ALSA, revenues are recognised as the services are provided and in accordance with the terms of the contracts.

In German Rail, subsidy income is recognised over the life of the franchise and 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.

Private hire
Private hire operations are contracts provided in the UK, ALSA and North America divisions and are typically of a short duration. Revenue is recognised over the period in which the private hire is provided to the customer.

Other revenues
Other revenues primarily comprise non-passenger services in Spain, transit software income in North America and advertising revenues.

New accounting standards not yet applied

The Group has not yet applied IFRS 16 'Leases', which becomes effective on 1 January 2019.

A project to assess the impact of IFRS 16 is at an advanced stage and will complete in the coming months. The assessment has focused on all of the Group's existing operating and finance leases, as well as considering other contractual arrangements to identify whether they constitute a lease under the definitions of the new standard.

Given that the project has not finalised, it is not possible to disclose the amount of right-of-use assets and new lease liabilities that will be recognised on adoption of the standard, or how this will affect the Group's income statement and classification of cash flows.

By way of indication, IFRS 16 will primarily affect the accounting for the Group's operating leases, to which the Group had commitments of £603.9m at 31 December 2017. This is a gross value and does not reflect a discounting of the commitments to their present value, as required by IFRS 16.

Short term and low-value leases are excluded and will continue to be charged to the income statement on a straight-line basis over the term of the lease. The Group estimates that only a small proportion of the existing operating leases will relate to payments for short-term and low value leases.

IFRS 16 will be adopted on 1 January 2019 and management intend to apply the modified retrospective approach on transition.

1. General information (continued)

Accounting policies (continued)

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 2018		Six months to 30 June 2017		Year to 31 December 2017	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.32**	**1.38**	1.30	1.26	1.35	1.29
Canadian dollar	**1.73**	**1.76**	1.69	1.68	1.70	1.67
Euro	**1.13**	**1.14**	1.14	1.16	1.13	1.14

If the results for the 6 months to 30 June 2017 had been retranslated at the average exchange rates for the period to 30 June 2018, North America would have achieved normalised operating profit of £51.2m on revenue of £499.1m, compared to normalised operating profit of £55.7m on revenue of £543.0m as reported, and ALSA would have achieved a normalised operating profit of £39.7m on revenue of £325.3m, compared to normalised operating profit of £38.8m on revenue of £318.1m 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 36-40 in the Group's Annual Report and Accounts for the year ended 2017.

4. Segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Committee, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide. Management considers the Group Executive Committee to be the chief decision-making body for deciding how to allocate resources and for assessing operating performance.

The UK division includes operations previously reported as two separate segments: UK Bus and UK Coach. Following the discontinuation of UK Rail and the resulting simplified UK footprint, the Group reorganised its UK management structure such that these businesses now report as one operating segment. Prior period segmental information has been restated accordingly.

Revenue is disaggregated by reportable segment, class and type of service as follows:

	Six months to 30 June 2018					
Analysis by class and reportable segment	**Contract revenues £m**	**Passenger revenues £m**	**Grants and subsidies £m**	**Private hire £m**	**Other revenues £m**	**Total £m**
UK	**13.0**	**217.8**	**27.0**	**6.3**	**9.5**	**273.6**
German Rail	**–**	**21.0**	**15.2**	**–**	**2.3**	**38.5**
ALSA	**94.6**	**216.7**	**7.8**	**18.7**	**10.3**	**348.1**
North America	**502.4**	**–**	**–**	**38.1**	**7.0**	**547.5**
Total	**610.0**	**455.5**	**50.0**	**63.1**	**29.1**	**1,207.7**
Analysis by major service type:						
Passenger transport	**610.0**	**455.5**	**50.0**	**63.1**	**10.2**	**1,188.8**
Other products and services	**–**	**–**	**–**	**–**	**18.9**	**18.9**
Total	**610.0**	**455.5**	**50.0**	**63.1**	**29.1**	**1,207.7**

	Six months to 30 June 2017					
Analysis by class and reportable segment	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
UK	12.2	215.1	28.6	4.5	10.9	271.3
German Rail	–	20.7	16.8	–	0.6	38.1
ALSA	89.1	191.4	8.3	18.9	10.4	318.1
North America	498.8	–	–	38.6	5.6	543.0
Total	600.1	427.2	53.7	62.0	27.5	1,170.5
Analysis by major service type:						
Passenger transport	600.1	427.2	53.7	62.0	9.7	1,152.7
Other products and services	–	–	–	–	17.8	17.8
Total	600.1	427.2	53.7	62.0	27.5	1,170.5

There are no material inter-segment sales between reportable segments.

4. Segmental analysis (continued)

Operating profit is analysed by reportable segment as follows:

Analysis by class and reportable segment	Normalised operating profit 2018 £m	Intangible amortisation for acquired businesses 2018 £m	Segment result 2018 £m	Normalised operating profit 2017 £m	Intangible amortisation for acquired businesses 2017 £m	UK restructuring 2017 £m	Segment result 2017 £m
UK	**31.6**	**(0.5)**	**31.1**	26.0	(0.4)	(5.6)	20.0
German Rail	**1.1**	**(0.5)**	**0.6**	1.7	(0.5)	–	1.2
ALSA	**42.8**	**(5.3)**	**37.5**	38.8	(4.3)	–	34.5
North America	**55.7**	**(14.3)**	**41.4**	55.7	(13.5)	–	42.2
Central functions	**(12.5)**	**–**	**(12.5)**	(10.6)	–	–	(10.6)
Operating profit from continuing operations	**118.7**	**(20.6)**	**98.1**	111.6	(18.7)	(5.6)	87.3
Share of results from associates and joint ventures			**0.3**				(3.9)
Net finance costs			**(18.3)**				(18.8)
Profit before tax			**80.1**				64.6
Tax charge			**(17.1)**				(13.8)
Profit after tax for the period from continuing operations			**63.0**				50.8
Profit for the period from discontinued operations			**0.5**				6.4
Profit for the period			**63.5**				57.2

5. Net finance costs

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 Dec 2017 £m
Bank and bond interest payable	**(18.9)**	(19.3)	(38.0)
Finance lease interest payable	**(2.3)**	(2.0)	(3.9)
Other interest payable	**(0.2)**	(0.4)	(2.7)
Unwind of provision discounting	**(0.5)**	(0.5)	(1.3)
Interest cost on defined benefit pension obligations	**(1.2)**	(1.0)	(2.1)
Finance costs	**(23.1)**	(23.2)	(48.0)
Other financial income	**4.8**	4.4	10.0
Net finance costs	**(18.3)**	(18.8)	(38.0)

6. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2018 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2018. The normalised tax charge of £22.4m (2017 interim: £21.4m) represents an effective tax rate on normalised profit before tax for continuing operations of 22% (2017 interim: 24%). The total tax charge of £17.1m (2017 interim: £13.8m) includes a deferred taxation charge of £0.6m (2017 interim: £0.7m).

7. Discontinued operations

On 24 June 2018 the Group handed back the Midland Metro tram operations to the West Midlands Combined Authority. This operation was recognised as discontinued in the 2017 Annual Report, along with the disposal of the National Express Thameside 'c2c' franchise to Trenitalia and overall exit from UK rail operations that year.

Details of the discontinued operations are as follows:

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Revenue	**5.0**	25.3	29.7
Operating costs	**(6.1)**	(26.2)	(31.2)
Trading loss before tax	**(1.1)**	(0.9)	(1.5)
One-off costs relating to discontinued operations	**–**	(7.0)	(7.0)
Gross profit on disposal of discontinued operations	**–**	12.9	12.9
Net (loss)/profit from discontinued operations before tax	**(1.1)**	5.0	4.4
Attributable income tax credit	**1.6**	1.4	1.5
Net profit from discontinued operations attributable to equity shareholders	**0.5**	6.4	5.9

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

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Cash inflow/(outflow) from operating activities	**1.2**	(13.5)	(14.8)
Cash outflow from investing activities	**–**	(0.5)	(0.5)
Net cash inflow/(outflow)	**1.2**	(14.0)	(15.3)

8. Dividends paid and proposed

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Declared and paid during the period:			
Ordinary final dividend for 2016 of 8.41p per share	**–**	42.9	42.9
Ordinary interim dividend for 2017 of 4.26p per share	**–**	–	21.8
Ordinary final dividend for 2017 of 9.25p per share	**47.3**	–	–

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Proposed for approval and not recognised at period end:			
Ordinary interim dividend for 2017 of 4.26p per share	**–**	21.8	–
Ordinary final dividend for 2017 of 9.25p per share	**–**	–	47.3
Ordinary interim dividend for 2018 of 4.69p per share	**23.9**	–	–

9. Earnings per share

	Six months to 30 June 2018	Six months to 30 June 2017	Year to 31 December 2017
Basic earnings per share	**12.1p**	10.9p	25.7p
Normalised basic earnings per share	**15.0p**	13.0p	29.1p
Basic earnings per share from continuing operations	**12.0p**	9.7p	24.5p
Diluted earnings per share	**12.1p**	10.9p	25.5p
Normalised diluted earnings per share	**15.0p**	13.0p	29.0p
Diluted earnings per share from continuing operations	**12.0p**	9.7p	24.4p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £62.0m (2017 interim: £55.8m; 2017 full year: £131.0m) 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 2018	Six months to 30 June 2017	Year to 31 December 2017
Basic weighted average shares	**510,654,886**	509,862,298	510,407,865
Adjustment for dilutive potential ordinary shares	**310,922**	504,834	2,336,951
Diluted weighted average shares	**510,965,808**	510,367,132	512,744,816

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 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Profit attributable to equity shareholders	**62.0**	55.8	131.0
Intangible asset amortisation for acquired businesses	**20.6**	18.7	38.0
UK restructuring costs	**–**	5.6	5.6
Separately disclosed tax	**(5.3)**	(7.6)	(20.0)
Profit for the period from discontinued operations	**(0.5)**	(6.4)	(5.9)
Normalised profit attributable to equity shareholders	**76.8**	66.1	148.7

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 2018 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 denominated in foreign currency. In addition, the Group holds two £50.0 million denominated interest rate derivatives to swap fixed interest on £100m of the Group's Sterling bonds to a floating rate and two €39.25m denominated interest rate derivatives equal in value to a Euro Private Placement.

These derivative financial instruments are held in the balance sheet at fair value and are measured using level 2 inputs. The fair value is either determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments, or by the use of valuation techniques using market data. 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, other than deferred contingent consideration and available for sale investments, which are considered immaterial. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value measurements.

The Group applies relevant hedge accounting to all derivatives outstanding as at 30 June 2018. All hedge relationships were effective under the rules of IFRS 9.

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

	At 30 June 2018 £m	At 30 June 2017 £m	At 31 December 2017 £m
Non-current			
Fuel derivatives	**11.9**	0.4	2.5
Interest rate derivatives	**8.4**	10.7	10.0
Cross currency swaps	**1.0**	4.4	0.9
Derivative financial assets	**21.3**	15.5	13.4
Current			
Fuel derivatives	**19.4**	2.2	7.9
Interest rate derivatives	**0.6**	1.9	4.2
Foreign exchange derivatives	**1.1**	6.6	3.3
Derivative financial assets	**21.1**	10.7	15.4
Non-current			
Fuel derivatives	**–**	13.0	1.3
Derivative financial liabilities	**–**	13.0	1.3
Current			
Fuel derivatives	**0.4**	21.1	3.9
Cross currency swaps	**–**	–	4.1
Foreign exchange derivatives	**3.0**	4.7	1.8
Derivative financial liabilities	**3.4**	25.8	9.8

11. Pensions and other post-employment benefits

The UK division ('UK') and National Express Group PLC (the 'Company') operate both defined benefit and defined contribution schemes.

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 ALSA, and maintains a small, legacy rail defined benefit scheme. The post-employment benefits for these schemes have been combined into the 'Other' category below.

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.

The total pension operating cost for the six months to 30 June 2018 was £4.7m (2017 interim: £3.9m; 2017 full year: £8.7m), of which £2.4m (2017 interim: £1.9m; 2017 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 2018 £m	At 30 June 2017 £m	At 31 December 2017 £m
UK	**(115.8)**	(124.9)	(133.8)
Company	**49.6**	39.8	43.2
Other	**(3.9)**	(4.2)	(3.9)
Total	**(70.1)**	(89.3)	(94.5)

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

	Six months ended 30 June 2018		Year ended 31 December 2017	
	UK	**Company**	UK	Company
Rate of increase in salaries	**2.5%**	**2.5%**	2.5%	2.5%
Rate of increase in pensions	**2.1%**	**3.1%**	2.2%	3.2%
Discount rate	**2.7%**	**2.7%**	2.5%	2.5%
Inflation rate (RPI)	**3.1%**	**3.1%**	3.2%	3.2%
Inflation rate (CPI)	**2.1%**	**2.1%**	2.2%	2.2%

12. Business Combinations

(a) Acquisitions – North America

During the period, the North American division acquired 100% control of four businesses in the US, none of which are material individually:

- Quality Bus Service LLC – school bus and charter bus services in Sparrowbush, NY
- Aristocrat Limousine & Bus Company – charter bus services in Parsippany, NJ
- A&S Transportation Inc – school bus transportation services in Naples, FL
- A1A Transportation Inc – school bus transportation services in Davie, FL

In aggregate, the provisional fair values of the assets and liabilities acquired, along with adjustments to the fair values of prior year acquisitions, were as follows:

	£m
Intangible assets	14.7
Property, Plant and Equipment	3.0
Trade and other receivables	6.1
Cash and other equivalents	0.6
Trade and other payables	(8.9)
Provisions	(7.8)
Deferred tax assets	9.3
Net assets acquired	17.0
Goodwill	25.0
Total consideration	42.0
Represented by:	
Cash consideration	33.2
Payments for cash acquired in the business	0.6
Deferred consideration	8.2
	42.0

The fair value adjustments made in respect of acquisitions during the period are provisional and will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

Trade and other receivables had a gross contracted value of £6.2m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £0.1m.

Goodwill of £25.0m arising from the acquisitions consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our North American operations, along with synergy benefits expected to be achieved.

Included in the consideration shown above is contingent consideration of £4.6m relating to four acquisitions. For these acquisitions, the Group is required to pay an indemnity contingent on the performance of sellers' indemnification obligations or other post-closing obligations under the acquisition agreements. The payments are dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £4.6m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £8.3m of revenue and £2.4m to the Group's profit for the periods between acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue would have been £1,215.5m and the Group's continuing operating profit would have been £99.2m.

12. Business Combinations (continued)

(b) Acquisitions – ALSA

During the period, the ALSA division acquired a controlling interest in three businesses in Spain, none of which are material individually:

- Argabus SA (100%) – commuter urban and charter bus services in Madrid area, Spain
- BC Tours (75%) – tourist charter, other transportation services and coastal trade in Palma de Mallorca, Spain
- Autos Cal Pita SA (97%) – regional and charter bus services in Galicia, Spain

In aggregate, the provisional fair values of the assets and liabilities acquired, along with adjustments to the fair values of prior year acquisitions, were as follows:

	£m
Intangible assets	26.6
Property, Plant and Equipment	11.5
Trade and other receivables	4.2
Cash and other equivalents	23.6
Debt and debt equivalents	(1.7)
Trade and other payables	(6.4)
Provisions	(5.0)
Deferred tax assets	0.6
Minority interests	(2.1)
Net assets acquired	51.3
Goodwill	18.6
Total consideration	69.9
Represented by:	
Cash consideration	4.5
Payments for cash acquired in the business	8.2
Deferred consideration*	57.2
	69.9

* Deferred consideration includes net cash of £13.7m

The fair value adjustments made in respect of acquisitions during the period are provisional and will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

Trade and other receivables had a fair value and a gross contracted value of £4.2m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £18.6m arising from the acquisitions consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our operations in Spain, along with synergy benefits expected to be achieved.

Included in the consideration shown above is contingent consideration of £2.6m relating to Autos Cal Pita SA. The Group is required to pay consideration on renewal of contracts on a one year to two year basis. The payment is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £2.6m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

12. Business Combinations (continued)

The acquired businesses contributed £3.5m of revenue and £1.2m to the Group's profit for the periods between acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue would have been £1,218.8m and the Group's continuing operating profit would have been £98.8m.

(c) Acquisitions – further information

Deferred consideration of £35.4m was paid in the period relating to acquisitions in North America in earlier years. Total cash outflow in the period from acquisitions in the North America division was £68.6m, comprising consideration for current year acquisitions of £33.8m and deferred consideration of £35.4m, less cash acquired in the business of £0.6m.

In addition for North America, during the period there was a decrease to the provisional fair values of businesses acquired in the prior year of £4.0m.

Deferred consideration of £0.2m was paid in the period relating to acquisitions in the ALSA division in earlier years. Total cash inflow in the period from acquisitions in the ALSA division was £10.7m, comprising consideration for current year acquisitions of £12.7m and deferred consideration of £0.2m, less cash acquired in the business of £23.6m.

In addition for ALSA, during the period there was an increase to the provisional fair values of businesses acquired in the prior year of £1.4m.

During the period to 30 June 2018, the movement in the Group's carrying value of goodwill principally relates to these acquisitions.

(d) Disposals

There have been no material business disposals in the period.

13. Net debt

	At 1 January 2018 £m	Cash Flow £m	Acquisitions & disposals £m	Foreign Exchange £m	Other movements £m	At 30 June 2018 £m
Components of financing activities						
Bank and other loans	**(115.6)**	**98.7**	**–**	**0.3**	**(0.3)**	**(16.9)**
Bonds	**(851.9)**	**–**	**–**	**1.0**	**1.2**	**(849.7)**
Fair value of interest rate derivatives	**10.3**	**–**	**–**	**–**	**(1.9)**	**8.4**
Fair value of foreign exchange swaps	**1.5**	**10.8**	**–**	**(14.2)**	**–**	**(1.9)**
Cross currency swaps	**1.0**	**–**	**–**	**2.2**	**–**	**3.2**
Finance lease obligations	**(173.1)**	**20.3**	**(1.7)**	**(2.7)**	**(1.7)**	**(158.9)**
Other debt payable	**(73.6)**	**–**	**–**	**0.3**	**0.3**	**(73.0)**
Total components of financing facilities	**(1,201.4)**	**129.8**	**(1.7)**	**(13.1)**	**(2.4)**	**(1,088.8)**
Cash	**100.7**	**(32.5)**	**24.2**	**0.6**	**–**	**93.0**
Overnight deposits	**4.9**	**(1.9)**	**–**	**–**	**–**	**3.0**
Other short-term deposits	**208.7**	**(141.2)**	**–**	**–**	**–**	**67.5**
Cash and cash equivalents	**314.3**	**(175.6)**	**24.2**	**0.6**	**–**	**163.5**
Other debt receivables	**0.7**	**–**	**–**	**0.6**	**–**	**1.3**
Remove: Fair value of foreign exchange swaps	**(1.5)**	**(10.8)**	**–**	**14.2**	**–**	**1.9**
Net debt*	**(887.9)**	**(56.6)**	**22.5**	**2.3**	**(2.4)**	**(922.1)**

	At 1 January 2017 £m	Cash Flow £m	Acquisitions & disposals £m	Foreign Exchange £m	Other movements £m	At 30 June 2017 £m
Components of financing activities						
Bank and other loans	(13.3)	(93.5)	(0.3)	(1.8)	(0.2)	(109.1)
Bonds	(983.2)	350.0	–	–	2.7	(630.5)
Fair value of interest rate derivatives	14.4	–	–	–	(3.7)	10.7
Fair value of foreign exchange swaps	(3.9)	(1.1)	–	6.8	–	1.8
Cross currency swaps	11.1	–	–	(6.1)	–	5.0
Finance lease obligations	(159.5)	19.0	(1.1)	7.1	(19.8)	(154.3)
Other debt payable	(72.4)	–	–	(1.9)	0.7	(73.6)
Total components of financing facilities	(1,206.8)	274.4	(1.4)	4.1	(20.3)	(950.0)
Cash	72.3	1.2	(14.9)	(0.2)	–	58.4
Overnight deposits	3.5	0.6	–	–	–	4.1
Other short-term deposits	248.6	(233.1)		–	–	15.5
Cash and cash equivalents	324.4	(231.3)	(14.9)	(0.2)	–	78.0
Other debt receivables	0.5	–	–	–	–	0.5
Remove: Fair value of foreign exchange swaps	3.9	1.1	–	(6.8)	–	(1.8)
Net debt*	(878.0)	44.2	(16.3)	(2.9)	(20.3)	(873.3)

* Excludes accrued interest on long-term borrowings

13. Net debt (continued)

Borrowings include non-current interest bearing loans and borrowings of £1,044.8m (2017 interim: £817.1m; 2017 full year: £1,058.0m).

Other non-cash movements represent finance lease additions of £1.7m (2017 interim: £19.8m) and a £0.7m reduction from the amortisation of loan and bond arrangement fees (2017 interim: £0.5m). A £1.9m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £1.6m fair value increase in bonds and a £0.3m fair value increase in other debt payable.

14. Cash flow statement

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

	Six months to 30 June 2018 £m	Six months to 30 June 2017 £m	Year to 31 December 2017 £m
Net cash inflow from operating activities			
Profit before tax from continuing operations	**80.1**	64.6	156.4
Loss before tax from discontinued operations (note 7)	**(1.1)**	(0.9)	(1.5)
Total profit before tax	**79.0**	63.7	154.9
Net finance costs	**18.3**	18.8	38.0
Share of results from associates and joint ventures	**(0.3)**	3.9	3.5
Depreciation of property, plant and equipment	**66.3**	71.2	135.6
Intangible asset amortisation	**22.3**	18.7	41.6
Amortisation of fixed asset grants	**(0.2)**	(0.3)	(1.0)
Profit on disposal property, plant and equipment	**(3.8)**	(1.0)	(5.4)
Share-based payments	**2.3**	2.0	5.3
Increase in inventories	**(0.6)**	(1.2)	(0.5)
Increase in receivables	**(43.5)**	(28.8)	(52.7)
Increase in payables	**34.0**	46.3	62.5
Decrease in provisions	**(13.2)**	(12.1)	(22.8)
Cash generated from operations	**160.6**	181.2	359.0

15. Commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2018 were £58.1m (2017 full year: £32.7m).

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £24.1m (2017 full year: £24.7m) 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 2018, there were Rail performance bonds of £6.3m (2017 full year: £6.3m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £194.6m (2017 full year: £148.3m) and in Spain of £41.2m (2017 full year: £41.9m). There are also bonds relating to operations in the Middle East of £6.0m (2017 full year: £5.9m). Letters of credit have been issued to support insurance retentions of £95.8m (2017 full year: £91.9m).

16. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's 2017 Annual Report 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 2018.

17. Definitions

Normalised operating profit, margin and EPS data, as referenced in this report, can be found on the face of the Group Income Statement in the first column. Normalised profit is defined as being statutory profit before intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures.

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 7.

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

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

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

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

'Return on assets' ('ROA') is the same calculation as ROCE, with the additional exclusion of intangible assets from capital employed.

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

Operating cash flow is the cash flow equivalent of normalised operating profit.

Free cash flow is the cash flow equivalent of normalised profit after tax.

EBITDA is "Earnings Before Interest, Tax, Depreciation and Amortisation." It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, 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).

17. Definitions (continued)

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

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

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

Independent Review Report to National Express Group PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Condensed Group Income Statement, the Condensed Group Statement of Comprehensive Income, the Condensed Group Balance Sheet, the Condensed Group Statement of changes in Equity, Condensed Group Statement of Cash Flows and the related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
26 July 2018