Press release

26 July 2012

National Express Group PLC

Half Year Results for the six months ended 30 June 2012

National Express Group PLC ("National Express" or the "Group"), a leading international public transport group, operates bus and coach services in the UK, continental Europe/North Africa and North America, together with rail services in the UK.

Operating highlights
National Express has continued to make progress in challenging economic conditions. The first half year saw non-rail profitability maintained despite the considerable headwinds of the previously anticipated loss of UK Government subsidy for Coach concessions and the onset of recession in Spain. As expected, rail profits have fallen following the hand back of East Anglia.

Delivering returns

- Increase in operating margin[1] to 11.3% (2011: 10.5%)
- UK Bus margin and profit continue to grow
- Strong operating cash generation, with 125% conversion of operating profit

Managing in uncertain times

- Stable profit in Spain, despite challenging economic environment and localised industrial action, with excellent cash collection. Expansion of bus operations in Morocco, renewal of Granada bus station concession and acquisition of a concession in Bilbao

Pursuing growth

- North America has grown profit and enjoyed another successful bid season with a retention rate of 97% and new bid wins of 1,300 buses (2011: 1,000)
- Integration of the Petermann acquisition progressing smoothly and the business is performing well
- Acquisition of Transit businesses in North America with annual revenues of $30 million and a bid pipeline of $130 million now established
- Successful prequalification for Essex Thameside and Great Western, plus four German rail routes

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[1] *Unless otherwise stated, all profit, margin and EPS data refer to normalised results. See definitions for further detail.*

Financial highlights

- Underlying Group revenue up 3%
- Group operating profit of £105.5 million, with non-rail operating profit broadly flat at £90.0 million
- Group profit before tax down £13.5 million to £82.0 million, reflecting the end of the East Anglia rail franchise
- Statutory profit of £32.1 million
- Group basic earnings per share (EPS) of 12.6 pence, with non-rail EPS maintained at 10.0p
- Group net debt increased by £196.0 million during first half year to £829.7 million, reflecting acquisitions and the East Anglia rail handover, with gearing in line with Board policy at 2.47 times EBITDA
- Interim dividend increased by 5% to 3.15 pence.

Financial summary

Half year ended 30 June		**2012**	**2011**	**Change**
Revenue (£m)	Non-rail	808.9	783.8	+3%
	Rail	125.2	335.1	-63%
	Group	934.1	1,118.9	-17%
Group operating profit (£m)	Non-rail	90.0	90.5	-1%
	Rail	15.5	27.1	-43%
	Group	105.5	117.6	-10%
Share of results from associates (£m)		0.5	0.5	-
Net finance costs (£m)		(24.0)	(22.6)	+6%
Profit before taxation (£m)		82.0	95.5	-14%
Statutory profit for the period (£m)		32.1	54.7	-41%
Group operating margin		11.3%	10.5%	+80bp
Net debt (£m)		829.7	635.3	+194.4
Basic EPS (pence)	Non-rail	10.0	9.9	+1%
	Rail	2.6	4.2	-38%
	Group	12.6	14.1	-12%
Interim dividend per share (pence)		3.15	3.00	+5%

Trading comment

Dean Finch, National Express Group Chief Executive, commented:

"The first half of 2012 has seen a resilient underlying performance across the Group, considering the headwinds we have faced. This reflects a reassuringly stable performance in Spain, accompanied by good growth in UK Bus and North America, with lower profits in our Rail and UK Coach businesses, as expected.

This trend is expected to continue in the second half of the year, with further progress from UK Bus and our recent North America acquisitions. UK Coach will still face headwinds but should progressively mitigate concession funding changes. ALSA's flexible operating model and experienced management team is best placed to cope with the uncertainties presented by the economic crisis in Spain. Across the Group, we continue to drive operational efficiency, cost control and incremental revenue growth, focusing on improving returns on invested capital and creating long term economic value for shareholders.

Looking further ahead, we have a pipeline of emerging opportunities across the portfolio of businesses, building on organic growth, as well as new contract bid prospects in rail, bus and school bus services.

Our new North American transit business and emerging opportunities in Continental Europe will support this. National Express owns and operates some high quality assets in a number of different markets and is well placed to exploit the emerging opportunities in these difficult times and continue to grow the business."

Board changes
John Devaney has informed the Board that he wishes to retire from the Board in early 2013 in order to focus on his other business commitments as Chairman of Cobham plc and NATS and to spend more time pursuing his private equity interests. The Board has accordingly commenced a search for a replacement independent non-executive Chairman, which will be overseen by Tim Score, the Senior Independent Director, and Jorge Cosmen, the Deputy Chairman. A further announcement will be made in due course.

John Devaney said: "*I have thoroughly enjoyed my tenure at National Express and feel proud to have been part of the team that steered the business through its difficulties three years ago and helped transform it into the strong business it is today. With the Group now thriving, I feel that next year will be the right time to step down and, by announcing this now, it will give the Board ample time to identify my successor*."

Jorge Cosmen, Deputy Chairman, said: "*John has been a tremendous chairman for National Express and a valued colleague and, on behalf of the whole Board, I would like to thank him for his successful stewardship of the Group*."

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Definitions
- *Underlying revenue is measured on a consistent basis year-on-year, after adjusting for the impact of currency (£11.1m), acquisitions (£21.5m), disposals (£nil) and rail franchises no longer operated (£219.0m).*
- *Unless otherwise stated, all profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: Statutory result excluding profit or loss on the sale of business, exceptional profit or loss on sale of non-current assets and charges for goodwill impairment, intangible asset amortisation, exceptional items and tax relief thereon, for continuing operations. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.*
- *Operating margin is the ratio of normalised operating profit to revenue for continuing businesses.*
- *Operating cash flow is intended to be the cash flow equivalent of normalised operating profit. A reconciliation is set out in the table within the Cash management section below.*
- *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).*
- *EBITDA is 'Earnings Before Interest, Tax, Depreciation and Amortisation'. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments. It is defined in line with the Group's banking documentation.*

- *The EPS generated by the Rail business is calculated using the normalised operating profit of the Rail division plus the estimated interest saved on cash relating to rail season tickets, taxed at the Group's effective tax rate.*

Notes to Editors

- National Express Group is a leading transport provider delivering services in the UK, North America and Spain. Every year more than 700 million journeys are made on our buses, trains, light rail services and coaches. The Group employs 40,000 people and operates over 21,000 vehicles.
- **Spain** - Our Spanish business, ALSA, is the largest private provider of public transport operating 185 concessions covering long distance, regional and urban bus and coach services. ALSA also operates a rapidly growing bus network in Morocco.
- **North America** – we operate 20,000 school buses across 30 US states and four Canadian provinces, mostly through 3 to 5 year contracts with local school boards, which provide good medium term revenue visibility. In addition, we now operate transit contracts in four US states. The business is the second largest private student transport operator in North America.
- **UK Bus** - National Express is the market leader in the West Midlands, the UK's largest urban bus market outside of London. We operate more than 1,600 vehicles and cover over 70 million miles per year. We also run bus services in Coventry and Dundee and operate the Midland Metro light rail service between Birmingham and Wolverhampton.
- **UK Coach** - National Express is the largest operator of scheduled coach services in the UK. The business operates high frequency services linking hundreds of destinations across the country, including major cities and airports. We are the UK partner in Eurolines, the only Europewide scheduled coach operator serving over 600 destinations in 33 countries. Around 3.5 million customers travel with us every year.
- **UK Rail** - National Express operates one rail franchise in the UK, Essex Thameside, known as c2c. It serves destinations between London (Fenchurch Street station) and South Essex and is an award-winning train operator, delivering the best performance in the UK rail industry with a record-breaking annual punctuality figure of 97% and 91% customer satisfaction according to the Spring 2012 National Passenger Survey.

BUSINESS REVIEW

Overview of the first half year

Since announcing a record Group profit in 2011, National Express has continued to make progress in challenging economic conditions, with underlying revenue growing in each of our businesses except UK Coach. We have protected overall non-rail operating profit, despite significant headwinds. This has reflected a resilient performance in Spain, accompanied by growth in UK Bus and North America. Our remaining Rail business has also performed well, following the end of the East Anglia franchise in February 2012. Performance in our UK Coach business has been disappointing, though much as anticipated, following the withdrawal of the UK government's senior citizen concession scheme in November 2011.

In February this year, I highlighted the substantial hurdles which these austerity measures and contract changes would impose on the Group in 2012. Our UK Coach and Rail businesses have been particularly impacted by the withdrawal of concession subsidies and the end of the East Anglia franchise respectively. Since then, the macro-economic environment in Spain has also deteriorated. Against this backdrop, we are reporting a reduction in overall Group profitability in the first half year.

However, we have made initial progress in mitigating these headwinds. Underlying Group revenue is up 3% year-on-year, with reported Group revenue at £934.1 million. Normalised operating profit from non-rail businesses is broadly flat at £90.0 million (first half 2011: £90.5m), with total group normalised operating profit of £105.5 million (2011: £117.6m) reflecting reduced rail profit. Operating margin increased to 11.3% (2011: 10.5%) and normalised profit before taxation was £82.0 million (2011: £95.5m). Cash generation was good with 125% conversion of operating profit into operating cash flow and a reduction in working capital of £17 million. This cash generation, coupled with a secure financial platform, has supported investment in new fleet and acquisitions in existing and new markets; in the last 12 months we have purchased almost 2,000 buses for our global fleet and integrated both Petermann school bus and new transit opportunities in North America. Net debt remains within the Board target range of 2 to 2.5 times EBITDA.

Overcoming the significant headwinds in 2012 is being achieved by focusing on three key areas:

1. **A sustainable, proven platform**: our core bus and coach services are proving robust, sustainable and defensible, despite the challenging economic times. By delivering attractively priced, well invested, efficiently run public transport services, we are meeting the needs of our customers and generating profits for shareholders. In the first half year, revenue grew in UK Bus, Eurolines coaches, c2c rail, Spain bus and coach, and North America school bus, as customers continued to rely on National Express to meet their transport needs.

2. **Initial progress mitigating austerity measures and contract change**: National Express continues to address the challenges posed by austerity and change. Cutbacks in government support for concessionary schemes and fuel, loss of the East Anglia franchise and currency weakness resulted in an adverse impact on profit of over £21 million in the first half year. Initial progress has been made mitigating this through cost control and organic growth. Furthermore, recent completion of acquisitions in North America should add at least £15 million of operating profit in a full year.

3. **Building future growth momentum**: leveraging the Group's portfolio in the UK, North America and Spain, National Express is expanding in three target markets – US Transit; selected European/North African bus and coach opportunities; and Rail. With an order book worth over £4.1 billion, and over 75% of Group revenue secured through contracts or exclusive long term concessions, we have already added over £130 million of annual revenue through acquisitions, secured new contracts in existing businesses worth over £200 million over their life, and are bidding for several UK and German rail routes. Plans to expand in Morocco and German bus and coach markets are also established.

Performance summary
Group revenue for the period was £934.1 million (2011: £1,118.9m), with the reduction reflecting the end of the National Express East Anglia franchise in February, as well as adverse currency movements. Revenue from non-rail businesses was 3% higher at £808.9 million (2011: £783.8m).

Group normalised operating profit decreased by £12.1m to £105.5 million (2011: £117.6m). Non-rail normalised operating profit was broadly unchanged at £90.0 million (2011: £90.5m). This reflects progress in mitigating a reduction in fuel duty subsidy in both the UK and Spain, withdrawal of the government's UK Coach concession scheme and the impact of currency translation:

	First half year-on-year profit impact £m
Withdrawal of UK Coach concession scheme	(7.1)
Reduction in fuel duty rebates in UK & Spain	(2.4)
Adverse impact of currency on profit translation	(1.7)
Impact on non-rail businesses	(11.2)
End of East Anglia rail franchise	(10.0)
Total impact	(21.2)

Normalised operating profit by division in Sterling terms was as follows:

	First half		**Full year**
Normalised operating profit	**2012 £m**	**2011 £m**	**2011 £m**
Spain	35.4	38.6	90.1
North America	36.9	34.6	47.9
UK Bus	17.2	15.2	32.7
UK Coach	6.3	11.7	34.9
Corporate and project-related costs	(5.8)	(9.6)	(23.8)
Total non-rail	90.0	90.5	181.8
Rail	15.5	27.1	43.4
Group	105.5	117.6	225.2

Normalised profit before taxation was £82.0 million (2011: £95.5m). With a reduced effective tax rate in 2012, normalised basic earnings per share (EPS) was 12.6 pence (2011: 14.1p), with EPS generated by the Group's non-rail businesses maintained at 10.0 pence (2011: 9.9p).

Delivering our strategy
As set out in February 2012, we have three key steps to our strategy:

- Delivering operational excellence in our existing businesses
- Securing growth opportunities in existing businesses
- Developing new contract opportunities in targeted markets.

1) Delivering operational excellence in our existing businesses
Delivering operational excellence drives organic revenue growth, margin protection and progression, and cash generation for shareholders.

Organic revenue growth
Revenue growth has been delivered in the first half year in UK Bus, ALSA, North America and c2c. Our strategy reflects four key elements:

- Investment in fleet – Almost 2,000 new vehicles introduced across the business. Over 300 buses delivered in the last 12 months in UK Bus and Coach, 225 buses and coaches in ALSA, and over 1,400 buses in North America

- Application of technology – GPS is now installed on all North America school buses, while smartcard development in UK Bus will see further roll-outs in the second half of 2012

- Having the very best drivers – we are developing the Institute of Advanced Motoring accreditation in UK Bus and Coach, as part of our Master Driver programme across the Group

- Delivering value for money services and looking after our customers – we have kept fare rises low and have delivered significant improvements in passenger survey results in UK Bus, UK Coach, Rail and ALSA. We delivered 97% retention in North America school bus.

Margin protection and progression
After excellent progress towards industry-leading margins in 2010 and 2011, we continue to focus on delivering new cost efficiencies through global procurement, network optimisation, driver efficiency and overhead reduction. Combined with the benefits of revenue growth, cost efficiency allowed the UK Bus business to offset the impact of reduced fuel duty during the second quarter without fare increases. GPS and vehicle telemetry is driving cost efficiencies across UK Bus, UK Coach and North America school bus operations. Corporate costs have been reduced year-on-year, while we continue to invest to develop new market opportunities. In the current economic environment, delivering an efficient cost base is essential to protect margins.

Cash generation
The Group has maintained its focus on cash generation, to fund investment and to pay dividends to shareholders. Operating cash flow in the first half year was £131.7 million (2011: £103.4m). This was achieved despite an increase in replacement capital expenditure as the Group continues to step up its investment programme. Net working capital improved during the period by £17 million, reflecting a substantial reduction in ALSA's overdue balances with Spanish state-backed customers.

As expected, net debt increased during the first half year to £829.7 million (31 December 2011: £633.7m). This reflected £147 million invested in acquisitions and the unwind of cash in the East Anglia rail franchise. With a gearing of 2.47 times EBITDA (2011 full year: 1.95 times), this brings debt within the Board's target range of 2 to 2.5 times, well within the Group's banking covenant of 3.5 times. Fitch Ratings recently affirmed the Group's investment grade rating and stable outlook. Strong future free cash generation is expected to meet the needs of organic investment, limited planned bolt-on acquisition and dividends to shareholders.

2) Securing growth opportunities in existing businesses
With over 75% of the Group's revenue from contracted and exclusive concession markets, National Express is developing opportunities to grow its existing £4.1 billion order book. The North America school bus business delivered another good bidding season ahead of the new school year start-up, securing contracts for 1,300 new buses, including six conversion contracts. The acquisition of the Petermann school bus business has been completed, adding over 3,000 school buses to existing operations. With its reputation for quality service, over $5 million of synergies have already been delivered, with at least $7 million expected in total. ALSA also secured new business, including in Agadir and Bilbao.

3) Developing new contract opportunities in targeted markets
During the half year, the Group has made good progress in developing additional opportunities in selected target markets. The Group's strategy is to focus on three adjacent modes and markets to complement existing operations:

- **US Transit**: National Express has established a position in this high-potential market, combining Petermann's existing transit contracts with the acquisition of a Boston-based operator. Target sectors comprise the Federally-mandated para-transit market, shuttle operations and the fixed route market. Favourable demographics combine with low capital expenditure requirements, complementing the more capital intensive school bus business and adding to synergies.

- **Rail**: In March, the Group pre-qualified for two UK rail bidding processes - Great Western and National Express's existing Essex Thameside (c2c) franchises. With high quality, experienced bid teams and £6 billion of industry revenue to be tendered in the next five years, the Group is well placed to submit innovative and competitive tenders. In addition, the Group is targeting selective regional rail opportunities in Germany, and has pre-qualified for four routes. The Spanish government have recently announced an intention to privatise their rail network from July next year. As a rail licence holder in Spain, we will explore opportunities in this new market.

- **Selected European opportunities**: As the largest operator of scheduled coach services in Europe, National Express is exploring opportunities where European deregulation changes may lead to market development, with an initial investment in resource in Germany.

Dividend
The Board has set out a dividend policy that it considers to be sustainable and appropriate for the existing economic environment, with cover of at least two times from non-rail earnings, together with free cash flow cover over the medium term. With non-rail EPS of 10.0 pence in the first half year (2011: 9.9p), the Board has approved an interim dividend of 3.15 pence per share (2011: 3.00p), an increase of 5%. This will be payable on 21 September 2012 to shareholders on the register at close of business on 7 September 2012.

Board and employees
On 13 March 2012, the Group announced that Miranda Curtis would not be standing for re-election at the Annual General Meeting on 10 May 2012, in order to pursue her other business interests. On behalf of the Board, I would like to thank Miranda for her contribution and wish her well for the future. The Group is now progressing its search for a replacement.

John Devaney has informed the Board that he wishes to retire from the Board in early 2013 in order to focus on his other business commitments as Chairman of Cobham plc and NATS and to spend more time pursuing his private equity interests. The Board has accordingly commenced a search for a replacement independent non-executive Chairman, which will be overseen by Tim Score, the Senior Independent Director, and Jorge Cosmen, the Deputy Chairman. A further announcement will be made in due course.

I would also like to acknowledge the efforts and commitment of our employees. Austerity and recession brings challenges which our people have worked through, delivering a better business more able to meet customer needs.

Outlook
The trends seen in the first half of the year are expected to continue in the second half. There is no doubt that the challenges of austerity will continue, particularly in the UK and Spain. Further progress is anticipated in UK Bus and from our North America acquisitions. UK Coach will still face headwinds but should build on its progress to mitigate concession funding changes. ALSA's flexible operating model and experienced management team is best placed to cope with the uncertainties presented by the economic crisis in Spain. Across the Group, we are continuing to drive operational efficiency, cost control and incremental revenue growth. We are focused on improving returns on invested capital and creating long term economic value for shareholders.

Looking further ahead, we have a pipeline of emerging opportunities across the portfolio of businesses, building on organic growth, as well as new contract bid opportunities in rail, bus and school bus services. Our new North American transit business and emerging opportunities in Continental Europe will support this. National Express owns and operates some high quality assets in a number of different markets and is very well placed to exploit the emerging opportunities in these difficult times and therefore to grow the business.

Dean Finch
Group Chief Executive
26 July 2012

FINANCIAL AND PERFORMANCE REVIEW

Revenue
Group revenue for the period was £934.1 million (2011: £1,118.9m), with the reduction reflecting the handing over of the National Express East Anglia franchise in February (a reduction of £219.0 million year-on-year), as well as an adverse impact from currency translation (a reduction of £11.1 million). Underlying revenue for the Group increased by 3%, with every business growing other than UK Coach, where the £15 million concession withdrawal had a substantial adverse impact.

Normalised profit
Normalised operating profit decreased by £12.1 million to £105.5 million (2011: £117.6m). During the period the Group has made progress to address the loss of East Anglia rail profit, reduced fuel duty subsidy in UK Bus and Coach, and withdrawal of UK Coach concession income. The key changes in normalised operating profit year-on-year were as follows:

	£m	£m
2011 normalised operating profit		117.6
Impact of one-off changes*	(21.2)	
Growth (organic & acquisition)	12.4	
General cost inflation	(16.2)	
Rail franchise premium	(7.1)	
Fuel price	(5.1)	
Cost efficiency & procurement savings	17.6	
Other	7.5	
Total		(12.1)
2012 normalised operating profit		105.5

** set out under 'Performance summary' above*

Net finance costs increased to £24.0 million (2011: £22.6m), reflecting increased debt following the acquisition of Petermann and the cash unwind from the East Anglia contract. Normalised profit before taxation was £82.0 million (2011: £95.5m).

	Half year ended 30 June		Full year
	2012 £m	2011 £m	2011 £m
Revenue	934.1	1,118.9	2,238.0
Operating costs	(828.6)	(1,001.3)	(2,012.8)
Normalised group operating profit	105.5	117.6	225.2
Share of results from associates	0.5	0.5	1.4
Normalised net finance costs	(24.0)	(22.6)	(46.4)
Normalised profit before taxation	82.0	95.5	180.2

The Group's effective tax rate reduced to 21.5% (2011: 23.9%). It is expected that an effective rate below 25% can be sustained in the medium term, subject to any future legislative changes. Normalised basic EPS were 12.6 pence (2011: 14.1p).

Statutory profit for the period
Statutory profit for the six months to 30 June 2012 was £32.1 million (2011: £54.7m). Exceptional items of £16.3 million (2011: nil) related to costs for the acquisition of Petermann (£7.5m) and Rail bid costs (£8.8m). Intangible amortisation was £25.9 million (2011: £25.4m). Basic EPS were 6.2 pence (2011: 10.6p).

Cash management

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

Operating cash flow, which measures cash generated from business operations, was £131.7 million (2011: £103.4m). This represents a conversion rate of operating profit of 125% (2011: 88%). Operating cash flow comprised EBITDA of £157.4 million (2011: £171.7m), investment of £38.2 million (2011: £28.5m) in replacement fleet, while working capital reduced by £17.4 million (2011 increase: £34.4m). The latter reflected good cash collection from municipal authorities in Spain.

	Half year ended 30 June		Full year
	2012	**2011**	**2011**
	£m	**£m**	**£m**
Normalised operating profit	105.5	117.6	225.2
Depreciation	53.5	51.6	105.5
Grant amortisation, profit on disposal and share-based payments	(1.6)	2.5	2.4
EBITDA	157.4	171.7	333.1
Net maintenance capital expenditure	(38.2)	(28.5)	(110.2)
Working capital movement	17.4	(34.4)	(52.5)
Pension contribution above normal charge	(4.9)	(5.4)	(10.6)
Operating cash flow	131.7	103.4	159.8

Operating cash flow in the first half year funded rail franchise exit costs for the East Anglia franchise (£75.2 million) and a small residual payment for the East Coast franchise (£7.0 million). The remaining cash in the Rail business which would have to be paid out in the event of a franchise exit totals approximately £20 million.

In addition, the first half saw cash outflows for exceptional items, including acquisition and rail bid costs, the final payment under the now terminated Eurostar associate contract, cash interest and cash tax payments. As a result, the free cash outflow in the first half year was £18.0 million (2011 inflow: £41.2m). Following the exit of the East Anglia franchise, the Board is targeting annual free cash flow in future years of around £100 million.

Acquisition costs of £146.9 million, growth capital investment of £1.1 million and a final dividend of £33.1 million resulted in a net funds outflow of £196.0 million (2011: £24.9m).

	Half year ended 30 June		Full year
	2012	**2011**	**2011**
	£m	**£m**	**£m**
Operating cash flow	131.7	103.4	159.8
Exceptional cash flow	(16.3)	(5.2)	(8.2)
UK rail franchise exit	(82.2)	(4.7)	(5.8)
Payment to associates	(9.0)	(9.0)	(8.0)
Net interest	(36.2)	(37.8)	(44.6)
Dividends paid to minorities	(0.5)	(0.3)	(0.4)
Taxation	(5.5)	(5.2)	(8.4)
Free cash flow	(18.0)	41.2	84.4
Net growth capital expenditure	(1.1)	(12.6)	(35.6)
Petermann capital expenditure adjustment	(7.9)	-	-
Acquisitions and disposals	(146.9)	(7.0)	(7.6)
Dividends	(33.1)	(30.5)	(45.8)
Other	11.0	(16.0)	(18.7)
Net funds flow	(196.0)	(24.9)	(23.3)

Debt and risk management
The Group has maintained a prudent approach to its financing and is committed to an investment grade rating on its debt. The Board's policy targets a level of debt that allows for disciplined strategic growth and ample headroom on Group covenants. Following the one-off nature of the Petermann acquisition and East Anglia rail franchise handover, 2012 will be a year in which this ratio is expected to peak. Net debt at 30 June 2012 increased to £829.7 million (31 December 2011: £633.7m).

The Group's key debt ratios (measured consistent with its banking documentation) are as follows:

- Gearing ratio 2.47 times (2011: 1.95x; Group bank covenant not to exceed 3.5x);
- Interest cover ratio 6.9 times (2011: 7.0x; bank covenant not to be less than 3.5x).

The Board's policy is to maintain the net debt:EBITDA gearing ratio between 2.0x to 2.5x in the medium term. The Group's investment grade credit rating and stable outlook was reaffirmed during the period by Fitch Ratings.

The Group's policy is to source the majority of its debt funding from non-bank, long maturity, fixed rate sources, matching the Group's income and cash-generating units where possible. The Group is primarily debt funded from two Sterling-denominated bonds, comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020. In addition, the Group had £141 million of debt funded through longer term finance leases. The residual debt balance is funded from the Group's £500 million revolving credit facility, funded through a syndicate of 13 international banks and maturing in August 2014. At 30 June 2012, £202 million was drawn under this facility.

At 30 June 2012, the Group had foreign currency debt as net investment hedges; these help mitigate volatility in foreign currency translation of profit with corresponding movements in the Sterling value of debt. These corresponded to 1.2 times EBITDA earned in the US held in US Dollars and 1.8 times EBITDA earned in Spain held in Euros. The Group's contract to create a synthetic Euro debt position at the 2011 year end has now expired and been replaced with actual debt drawing.

The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 30 June 2012, the proportion of Group debt at floating rates was 39%.

Pensions and fuel
The Group's principal defined benefit pension schemes are all in the UK. These schemes had a combined deficit under IAS19 at 30 June 2012 of £33.8 million (31 December 2011: £1.8 million). The deficit under the Railways Pension Scheme (£1.5m) is transferred to the incoming operator on franchise termination.

In the last two years, the Group has reached agreements with the trustees of both the Group (Coach) and Bus pension plans over recovery programmes to eliminate deficits on a scheme funding basis. For the Coach scheme, this plan envisages Group contributions of £4.2 million per annum from January 2011 for just over six years. This follows closure of the scheme to new accrual in January 2011 and is planned to bring the fund to a 'self sufficiency' level, whereby the trustees would no longer be reliant on the Group for deficit funding. Deficit payments for the Bus scheme will be £5.5 million per annum, with this scheme remaining open to accrual for pre-1992 active members only. This scheme was further de-risked during the period by securing future payments for existing pensioners in a £272 million insurance buy-in to the scheme. On an accounting basis, as the majority of the assets are now earning returns closer to the gilt rate, this has resulted in the accounting deficit increasing.

Non-rail fuel cost represents approximately 10% of the related revenue. The Board's policy is to hedge fully a minimum of 15 months of its addressable consumption against movements in price in all businesses, together with at least 50% of the next 9 months consumption in contract businesses. The

Group is fully hedged for its usage in 2012, at an average price of 43 pence per litre, 83% hedged for 2013, at an average price of 48 pence, and 43% hedged for 2014, at an average price of 48 pence.

Principal risks and uncertainties
The Group's other principal risks and uncertainties remain in line with those detailed in the Annual Report and Accounts 2011 on pages 38 and 39 and are summarised here:

- Economic conditions: parts of the business may be adversely affected by economic conditions, for example in Spain and the UK, as revenues in many of the businesses are historically correlated to GDP and employment;
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business, through the operation of concessions, safety procedures, equipment specifications, employment requirements, environmental procedures and other operating issues;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in substantial, material charges to profit and cash flow;
- Contractual: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Credit risk: there is a risk that contract customers are either late or unable to pay sums to the Group.

Divisional reviews

Spain

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

Half year ended 30 June	2012 m	2011 m
Revenue	£256.9	£267.3
Operating profit	£35.4	£38.6
Revenue	€312.4	€306.4
Operating profit	€43.0	€44.4
Operating margin	13.8%	14.4%

ALSA's performance has been resilient, as it provides essential mobility to Spanish consumers facing a challenging economic environment. In local currency, revenue was €312.4 million (2010: €306.4m), an overall increase of 2%. Within this, passenger transport revenue grew by 4%, whilst the smaller, low margin ancillary businesses (principally fuel transportation and motorway service areas) saw reduced activity in line with the general economy. Total revenue in Sterling terms decreased to £256.9 million (2010: £267.3m).

In the Intercity coach business revenue growth of 2% was driven by yield improvement, whilst passenger volumes were 2% lower. Pricing continues to improve relative to rail, the latter impacted by reduced state subsidy, although there has been an increase in low cost airline competition on certain corridors. Many national intercity coach concessions are due for retendering by the Ministry of Transport but this has been deferred, with the first retenders now expected at the end of 2012. We expect the process to retain the advantage of incumbency; as the best-in-class operator, ALSA will submit strong, competitive bids, ensuring that the quality of the service offered to passengers remains of the highest standard.

Passenger revenues in the Spanish Urban bus business grew at 4%, primarily driven by contractual pricing. The Moroccan bus operation continues to expand, extending the scope of its services in Agadir and growing overall at 20%. In March, ALSA renewed its concession to operate Granada bus station and acquired a €35 million annual revenue concession in Bilbao, where actions are now in hand to restore profitability. With 100% of revenue in Spanish Urban bus operations contracted and mainly free from demand risk, we closely manage outstanding balances effectively. During the period we have benefitted from a new central government scheme to clear a backlog of municipal debts. We received over €25 million from this scheme and during the first half year receivable amounts and overdue accounts from state bodies both reduced by one third to €38 million (31 December 2011: €57m) and €14 million (2011: €21m) respectively.

	Revenue growth %
Intercity	+2
Urban (Spain)	+4
Urban (Morocco)	+20
Passenger transport	+4
Ancillary revenue	-22
Total revenue	+2

Normalised operating profit in local currency was 3% lower at €43.0 million (2011: €44.4m). Higher fuel costs, including increased government duty, and the ending of an airport contract in 2011 reduced margin. There are encouraging signs that increased labour flexibility in Spain will help us manage costs in line with revenue. Although a recent strike in Asturias is estimated to have had a direct impact of €0.7 million, subsequent constructive negotiations with the unions will have a positive long term structural benefit to the business. In Sterling terms, normalised operating profit decreased to £35.4 million (2011: £38.6m) reflecting a weakening in the Euro to an average of €1.22 (2011: €1.15).

North America

In North America, National Express operates 20,000 school buses across the US and Canada, mostly through 3 to 5 year contracts with local school boards, which provide good medium term revenue visibility. In addition, we now operate transit contracts in 4 US states.

Half year ended 30 June	**2012 m**	**2011 m**
Revenue	£299.5	£264.7
Operating profit	£36.9	£34.6
Revenue	US$473.1	US$427.7
Operating profit	US$58.2	US$55.9
Operating margin	12.3%	13.1%

North America delivered good revenue growth, with the existing order book of long term contracts with school boards strengthened by the acquisition of the Petermann school bus business and a new transit operation servicing US municipalities. Progress on integration has been good.

In local currency, revenue was US$473.1 million (2011: US$427.7 million), an increase of 11%. The Durham and Stock school bus businesses saw organic revenue up 3%, with contracts for over 600 new buses at the start of the 2011/12 school year. This was partially offset by the number of school days operated being two days shorter than the prior year. Charter revenue grew strongly, increasing by 16%. Acquisitions added revenue of $38 million. In Sterling terms, overall revenue increased by 13% to £299.5 million (2011: £264.7 million).

	Revenue growth %
Yield	+1
New contracts	+4
Reduction in school days	-2
Existing school bus business (Durham & Stock)	+3

Acquisitions (Petermann & Transit)	+8
Total revenue (local currency)	+11

Normalised operating profit in local currency rose 3% to US$58.2 million (2011: $55.9m), with operating margin slightly lower at 12.3% (2011: 13.1%). This included the impacts of acquisitions with the integration of Petermann and the addition of new transit contracts in Massachusetts, Illinois, Ohio and Pennsylvania – growth in transit will generally be at lower margins, reflecting the 'capital-light' nature of the business, and Petermann was completed just ahead of the loss-making summer shutdown. In addition, we are investing in technology to drive future cost efficiency, including our Compass system using GPS to reduce fuel consumption and idle time, an enterprise asset management system to drive lower maintenance costs and further procurement savings, and vehicle telemetry to improve driving style. In Sterling terms, normalised operating profit increased by 7% to £36.9 million (2011: £34.6m).

The bid season for school bus contracts starting this autumn was successful. We have secured 1,300 new buses for the forthcoming school year, including six conversion contracts. Retention was high, at 97%, leading to net growth of over 750 buses. The future pipeline of conversion opportunities remains strong.

The acquisition of the Petermann school bus business was completed on 1 May, with approximately 10% of the acquired business divested as part of regulatory approval. The business is expected to contribute over US$5 million in normalised operating profit to the Group in 2012 and made US$13 million in its last full year. Integration is progressing well, with US$5m of synergies already delivered out of a forecast US$7 million in a full year. This acquisition has also supplemented our drive into the adjacent US transit market. Petermann's CEO is leading our business development in this US$25 billion market. Our acquisition of a US$30 million revenue business serving Boston's 'The Ride' programme in March forms the core of our *paratransit* capability, providing 'dial-a-ride' services for disabled and senior citizens under Federal funding. Several Petermann contracts provide the platform for growing our *shuttle transport* business, serving major employers and universities. We are also assessing options to enter the *fixed route* market, providing suburban bus services on a selected basis. The Transit business is expected to add to our strong book of contracted income with school boards and municipalities.

UK Bus

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

Half year ended 30 June	**2012 £m**	**2011 £m**
Revenue	133.5	131.6
Operating profit	17.2	15.2
Operating margin	12.9%	11.6%

The UK Bus business continues to perform well, with investment and cost efficiency combining to build a stronger business. The business successfully mitigated the impact of austerity measures in the first half year. Investment in the fleet and use of innovative marketing and technology are supporting revenue growth and improved margin.

UK Bus revenue increased to £133.5 million (2011: £131.6 million). Travelcard sales have proved popular, particularly through new partnerships with schools, colleges and employers. The introduction of a £1 city hop fare to help cash-strapped passengers, telemarketing and group travel promotions have all been positive. Unlike some other operators, we were able to absorb the impact of a 20% reduction in the government's fuel duty rebate without a fare increase.

We are encouraging passenger travel through investment across the fleet. Over 220 buses have been introduced onto the network in the last 12 months, including 18 hybrid vehicles to date and 31 recently ordered; these are generating positive customer feedback. During 2012, we will invest over £30 million in capital across our networks. We have also implemented some significant changes to modernise the network, taking customers more directly to popular destinations with fewer delays and higher frequencies. In addition, we are investing in a new vehicle quality programme, including deep cleans, repaints and new interior upholstery, as well as supporting reductions in anti-social behaviour. The latest Passenger Focus survey reported an increase in our overall passenger satisfaction to 84%. From April 2012 we have secured a three-year concession fares settlement with the local transport executive which will support our further investment in a high-quality network.

£m	Revenue growth %
Like-for-like revenue change	4%
Mileage increase/(reduction)	(1)%
Commercial revenue	3%
Concession income	(2)%
Total revenue	1%

Normalised operating profit increased to £17.2 million (2011: £15.2m), with operating margin of 12.9%. Building on the successful two year turnaround programme, cost efficiencies continue to be generated, with newer fleet reducing maintenance costs, lean engineering now rolled out across the network, and on-board telemetry reducing costs and improving driving style. Our smartcard programme, which currently supports the concession travel scheme, will be extended over the next 12 months to commercial passengers. Forthcoming municipal work in Birmingham city centre to extend the tram network will offer both opportunities and disruption, while we are also launching real-time service information to passengers via bus stops and mobile apps.

UK Coach

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

Half year ended 30 June	2012 £m	2011 £m
Revenue	120.0	122.3
Operating profit	6.3	11.7
Operating margin	5.3%	9.6%

After a record-breaking year in 2011, the UK Coach business has faced the significant challenge of the removal of the government-funded senior citizen concession scheme in November 2011. This has been partially mitigated by revenue growth in the core network excluding concessionary travel, together with sharing the impact with concessionary customers through the introduction of a £10, one-third off coach card, with concessionary revenue 37% lower. This has allowed the division to target a £5 million recovery of the total £15 million impact in 2012.

Revenue declined in the first half year by 2% to £120.0 million (2011: £122.3m). Underlying revenue on the core express network rose 2%, as yield improvements offset a 2% decline in passenger volume.

	Revenue growth %
Passenger yield	+2
New routes	+2
Passenger volume	-2
Passenger revenue growth in express network	+2
Concession income	-37

Total revenue in express network	-6
Other revenues	+11
Total revenue	-2%

Normalised operating profit in the seasonally quieter first half of the year was £6.3 million (2011: £11.7m), the loss of the government subsidy removing £7 million of profit during the first half. In addition, higher fuel prices impacted the business, offset by core network revenue growth and rigorous cost control, especially in driver and partner operating costs.

Recent pricing initiatives, focused on clear, simple fare structures, have seen an improvement in volume. Targeted marketing programmes are appealing to summer bargain hunters, with a million seats available for £4 and a ‘4 for £40’ group travel offer. Sales of the senior citizen travel card have reached 110,000 to date. Investment in the express coach business has continued. 100 coaches will be delivered onto the network this year, with half the fleet less than two years old. Real-time information is being progressively provided to customers, resulting in an improvement in both passenger experience and scheduling. The ‘Traffilog’ tracking and driver management system is improving driving style and fuel efficiency. Passenger survey results continue to be strong, with 88% of our customers recommending National Express.

Outside of express coach, Eurolines has continued to drive revenue growth of over 10%, with its increased frequencies to Paris, Brussels and Amsterdam offering great value compared to the cost of rail or airline tickets. The Kings Ferry has secured a major contract to provide operational transportation at the Olympics.

Rail

National Express operates one franchise in the UK, called c2c, delivering industry-leading operational and customer performance. The Group’s other rail franchise, East Anglia, ended in February 2012.

Half year ended 30 June	**2012 £m**	**2011 £m**
Revenue	125.2	335.1
Operating profit	15.5	27.1
Operating margin	12.4%	8.1%

The Rail division has reduced in scale with the loss of the East Anglia franchise but has successfully pre-qualified to bid for two UK franchises and four routes in Germany. Underlying revenue in c2c grew 7% in the first six months of the year, driven by passenger volume up 4% and yield improvement. Overall divisional revenue decreased to £125.2 million (2011: £335.1 million), reflecting the end of the East Anglia franchise in February.

Half year ended 30 June	**2012 £m**	**2011 £m**
c2c	68.2	63.5
Exited franchise	57.0	271.6
Total revenue	125.2	335.1

Normalised operating profit was £15.5 million (2011: £27.1m), improving operating margin to 12.4% (2011: 8.1%). The franchise extension arrangement at c2c is generating a profit share benefit for both the Group and the Government. The East Anglia profit reduction was £10.0 million year-on-year.

c2c is now consistently the top performing franchise in the country. During the first half year, it achieved the highest ever recorded annual punctuality for a franchise of 97.0%. It is also in the top three franchises in National Passenger Survey results. The forthcoming Olympics will give c2c the opportunity to showcase its quality operation to a wider audience.

In March, the UK Department for Transport announced that National Express had pre-qualified onto the shortlist to bid for the retender of its Essex Thameside (c2c) franchise, as well as the Great Western franchise. Submissions for both are expected later this year with franchises awarded to start in 2013. With experienced bid teams in place, the Board is focused on ensuring that the bids are competitive and produce positive shareholder returns. The Group has also pre-qualified for its first German regional rail route bids, which are smaller contracts with limited revenue risk.

Cautionary statement

This Review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the Review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside of the Company’s control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Responsibility statement

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

26 July 2012

Key performance indicators

The following key performance indicators (KPIs) are those on which we manage our business. For the half year, these are as follows:

Financial

Underlying revenue growth (%)	First half 2012	First half 2011	Full year 2011
Spain*	4	5	6
N. America*	3	10	8
UK Bus (commercial)	3	6	3
UK Coach (core network)	-6	7	5
Rail (c2c)	7	8	8

*local currency

Normalised operating margin (%)	First half 2012	First half 2011	Full year 2011
Spain	13.8	14.4	16.4
N. America	12.3	13.1	10.0
UK Bus	12.9	11.6	12.4
UK Coach	5.3	9.6	13.5
Rail	12.4	8.1	6.3

Non-financial KPIs

Passenger numbers (million)	First half 2012	First half 2011	Full year 2011
Spain	108.5	103.8	207.5
UK Bus	135.3	136.9	273.6
UK Coach – core network	9.5	10.0	16.8
c2c	18.3	17.6	35.6

Mileage operated (million)	First half 2012	First half 2011	Full year 2011
Spain	88.9	83.0	169.9
UK Bus	34.5	34.8	69.8
UK Coach	41.8	39.9	82.2

Routes operated (thousand)	First half 2012	First half 2011	Full year 2011
North America	17.3	14.5	15.3

Safety KPIs

Signals passed at danger (per million train miles)	First half 2012	2011
National Express East Anglia	0.49	0.67
c2c	0.95	nil

Preventable vehicle accidents (last 12 months, per million vehicle miles)	First half 2012	2011
Spain	17.9	24.4
North America	7.4	10.4
UK Bus	22.6	22.8
UK Coach	13.6	13.4

Lost-time employee injuries (last 12 months, per thousand full-time equivalent employees)	First half 2012	2011
Spain	50.9	50.7
North America	17.0	17.1
UK Bus	34.0	40.6
UK Coach	22.5	48.5
UK Rail	3.3	10.3

The Group's *'Driving Out Harm'* safety improvement programme is now starting to show that significant improvements have been made in every division, either in preventable vehicle accidents, lost time employee injuries, or both. As management make continued progress in embedding a change in safety culture, this is expected to lead to a sustained material reduction in vehicle accidents and employee injuries and to benefit all stakeholders in the Group in the long term.

Definitions

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

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

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

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

EBITDA is ‘Earnings Before Interest, Tax, Depreciation and Amortisation’. It is calculated by taking normalised operating profit and adding depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments. It is defined in line with the Group’s banking documentation

Net interest expense is finance costs less finance income.

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

NATIONAL EXPRESS GROUP PLC
GROUP INCOME STATEMENT
For the six months ended 30 June 2012

		Unaudited six months to 30 June						
	Note	**Total before intangible amortisation & exceptional items 2012 £m**	**Intangible amortisation & exceptional items 2012 £m**	**Total 2012 £m**	Total before intangible amortisation & exceptional items 2011 £m	Intangible amortisation & exceptional items 2011 £m	Total 2011 £m	Audited Year to 31 December Total 2011 £m
Continuing operations								
Revenue	**4**	**934.1**	**–**	**934.1**	1,118.9	–	1,118.9	2,238.0
Operating costs before intangible amortisation & exceptional items		**(828.6)**	**–**	**(828.6)**	(1,001.3)	–	(1,001.3)	(2,012.8)
Intangible amortisation	**5**	**–**	**(25.9)**	**(25.9)**	–	(25.4)	(25.4)	(50.8)
Exceptional items	**6**	**–**	**(16.3)**	**(16.3)**	–	–	–	–
Total operating costs		**(828.6)**	**(42.2)**	**(870.8)**	(1,001.3)	(25.4)	(1,026.7)	(2,063.6)
Group operating profit	**4**	**105.5**	**(42.2)**	**63.3**	117.6	(25.4)	92.2	174.4
Share of post tax results from associates and joint ventures accounted for using the equity method		**0.5**	**–**	**0.5**	0.5	–	0.5	1.4
Finance income	**7**	**2.0**	**–**	**2.0**	2.9	–	2.9	6.7
Finance costs	**7**	**(26.0)**	**–**	**(26.0)**	(25.5)	–	(25.5)	(53.1)
Profit before tax		**82.0**	**(42.2)**	**39.8**	95.5	(25.4)	70.1	129.4
Tax (charge)/credit	**6,8**	**(17.6)**	**9.9**	**(7.7)**	(22.8)	7.4	(15.4)	(26.8)
Profit for the period		**64.4**	**(32.3)**	**32.1**	72.7	(18.0)	54.7	102.6
Profit attributable to equity shareholders		**64.1**	**(32.3)**	**31.8**	72.1	(18.0)	54.1	101.2
Profit attributable to non-controlling interests		**0.3**	**–**	**0.3**	0.6	–	0.6	1.4
		64.4	**(32.3)**	**32.1**	72.7	(18.0)	54.7	102.6
Earnings per share:								
– basic earnings per share	**10**			**6.2p**			10.6p	19.9p
– diluted earnings per share	**10**			**6.2p**			10.6p	19.8p
Normalised earnings per share:								
– basic earnings per share	**10**	**12.6p**			14.1p			27.0p
– diluted earnings per share	**10**	**12.5p**			14.1p			26.9p

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012

	Unaudited six months to 30 June 2012 £m	Unaudited six months to 30 June 2011 £m	Audited year to 31 December 2011 £m
Profit for the period	**32.1**	54.7	102.6
Other comprehensive income:			
Exchange differences on retranslation of net assets of foreign operations (net of hedging)	**(30.7)**	40.6	(26.4)
Exchange differences on retranslation of non-controlling interests	**(0.3)**	0.4	(0.2)
Actuarial (losses)/gains on defined benefit pension plans	**(38.0)**	10.0	(8.6)
(Losses)/gains on cash flow hedges	**(11.4)**	24.9	24.2
Transfers to the income statement on cash flow hedges	**(7.4)**	(13.5)	(25.3)
Tax on exchange differences	**(0.8)**	(0.2)	2.9
Deferred tax on actuarial (losses)/gains	**9.2**	(2.6)	0.4
Deferred tax on cash flow hedges	**5.1**	(3.0)	(0.6)
Other comprehensive (expenditure)/income for the period net of tax	**(74.3)**	56.6	(33.6)
Total comprehensive (expenditure)/income for the period	**(42.2)**	111.3	69.0
Total comprehensive (expenditure)/income attributable to:			
Equity shareholders	**(42.3)**	110.3	67.9
Non-controlling interests	**0.1**	1.0	1.1
	(42.2)	111.3	69.0

NATIONAL EXPRESS GROUP PLC
GROUP BALANCE SHEET
At 30 June 2012

	Note	Unaudited 30 June 2012 £m	Unaudited 30 June 2011 £m	Audited 31 December 2011 £m
Non-current assets				
Intangible assets		**1,282.4**	1,305.6	1,212.5
Property, plant and equipment		**783.8**	719.7	754.5
Available for sale investments		**7.1**	8.2	7.6
Derivative financial instruments	**11**	**17.2**	11.4	31.0
Investments accounted for using the equity method		**6.0**	7.4	6.6
Trade and other receivables		**2.5**	9.8	5.9
Defined benefit pension assets	**12**	**18.6**	13.5	18.6
		2,117.6	2,075.6	2,036.7
Current assets				
Inventories		**17.3**	18.1	18.8
Trade and other receivables		**198.9**	231.0	248.1
Derivative financial instruments	**11**	**9.5**	23.2	21.1
Deferred tax assets		**12.5**	–	–
Current tax assets		**–**	–	0.9
Cash and cash equivalents		**85.8**	102.8	92.5
		324.0	375.1	381.4
Total assets		**2,441.6**	2,450.7	2,418.1
Non-current liabilities				
Borrowings		**(729.0)**	(675.5)	(718.4)
Derivative financial instruments	**11**	**(5.2)**	(2.7)	(2.4)
Deferred tax liability		**(86.8)**	(96.6)	(95.2)
Other non-current liabilities		**(3.4)**	(5.2)	(4.9)
Non-current tax liabilities		**(2.6)**	(8.2)	(5.4)
Defined benefit pension liabilities	**12**	**(52.4)**	(3.5)	(20.4)
Provisions		**(26.4)**	(17.9)	(24.0)
		(905.8)	(809.6)	(870.7)
Current liabilities				
Trade and other payables		**(360.2)**	(471.4)	(466.4)
Borrowings		**(219.1)**	(75.3)	(54.8)
Derivative financial instruments	**11**	**(4.0)**	(4.5)	(0.2)
Current tax liabilities		**(27.6)**	(19.8)	(19.7)
Provisions		**(34.0)**	(50.2)	(40.9)
		(644.9)	(621.2)	(582.0)
Total liabilities		**(1,550.7)**	(1,430.8)	(1,452.7)
Net assets		**890.9**	1,019.9	965.4
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		**(2.4)**	(14.9)	(14.0)
Other reserves		**54.7**	177.1	99.9
Retained earnings		**272.2**	291.7	313.1
Total shareholders' equity		**883.0**	1,012.4	957.5
Non-controlling interest in equity		**7.9**	7.5	7.9
Total equity		**890.9**	1,019.9	965.4

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2012

	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 2012	25.6	532.7	0.2	(14.0)	99.9	313.1	**957.5**	7.9	**965.4**
Own shares released to satisfy employee share schemes	–	–	–	2.6	–	(2.6)	**–**	–	**–**
Shares purchased	–	–	–	(4.8)	–	–	**(4.8)**	–	**(4.8)**
Loss on disposal of own shares	–	–	–	13.8	–	(9.8)	**4.0**	–	**4.0**
Total comprehensive income	–	–	–	–	(45.2)	2.9	**(42.3)**	0.1	**(42.2)**
Share-based payments	–	–	–	–	–	2.5	**2.5**	–	**2.5**
Tax on share-based payments	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Dividends	–	–	–	–	–	(33.2)	**(33.2)**	–	**(33.2)**
Dividends paid to non-controlling interests	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Purchase of non-controlling interests	–	–	–	–	–	–	**–**	0.4	**0.4**
At 30 June 2012	**25.6**	**532.7**	**0.2**	**(2.4)**	**54.7**	**272.2**	**883.0**	**7.9**	**890.9**

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

NATIONAL EXPRESS GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2012

	Note	**Unaudited six months to 30 June 2012 £m**	Unaudited six months to 30 June 2011 £m	Audited year to 31 December 2011 £m
Cash generated from operations	**15**	**52.2**	113.0	247.0
Tax paid		**(5.5)**	(5.2)	(8.4)
Net cash from operating activities		**46.7**	107.8	238.6
Cash flows from investing activities				
Payments to acquire businesses, net of cash		**(153.1)**	(0.4)	(0.4)
Deferred consideration for businesses acquired, net of those disposed		**(0.5)**	(5.6)	(5.7)
Purchase of property, plant and equipment		**(39.5)**	(37.7)	(104.5)
Proceeds from disposal of property, plant and equipment		**12.1**	1.6	6.3
Payments to acquire intangible assets		**–**	(1.4)	(3.9)
Dividends received from associates		**–**	–	1.0
Interest received		**8.3**	5.5	5.6
Net cash used in investing activities		**(172.7)**	(38.0)	(101.6)
Cash flows from financing activities				
Proceeds from sale of treasury shares		**3.9**	–	–
Purchase of treasury shares		**(4.8)**	(2.7)	(2.7)
Interest paid		**(44.5)**	(42.6)	(50.2)
Finance lease principal payments		**(10.8)**	(11.8)	(24.9)
Net loans drawn down / (repaid)		**204.2**	6.9	(35.6)
Receipt / (payment) for the maturity of foreign currency swaps		**5.5**	(15.2)	(12.8)
Dividends paid to non-controlling interests		**(0.4)**	(0.3)	(0.4)
Payments for equity in non-controlling interests		**–**	–	(0.5)
Dividends paid to shareholders of the Company		**(33.2)**	(30.5)	(45.8)
Net cash used in financing activities		**119.9**	(96.2)	(172.9)
Decrease in cash and cash equivalents		**(6.1)**	(26.4)	(35.9)
Opening cash and cash equivalents		**92.5**	128.8	128.8
Decrease in cash and cash equivalents		**(6.1)**	(26.4)	(35.9)
Foreign exchange		**(0.6)**	0.4	(0.4)
Cash and cash equivalents		**85.8**	102.8	92.5

NATIONAL EXPRESS GROUP PLC
NOTES TO THE INTERIM FINANCIAL REPORT
For the six months ended 30 June 2012

1. General information

These interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared using the accounting policies set out on pages 81 to 89 of the Group's Annual Report & Accounts 2011 except as described below and in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and International Accounting Standard (IAS) 34 "Interim Financial Reporting". Taxes on income in the interim periods are accrued using the tax rate that is expected to apply to total annual earnings.

The interim results are unaudited but have been reviewed by the Group's auditors. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2011 have been extracted from the Group's Annual Report and Accounts 2011 which has been filed with the Registrar of Companies. The audit report on the Group's Annual Report and Accounts 2011 was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The Group's Annual Report and Accounts 2011 are prepared in accordance with IFRS as adopted by the European Union.

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

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

Seasonality
The Group operates a diversified portfolio of bus, coach and rail businesses operating in international markets. The North American Bus business typically earns higher operating profits for the first half of the year (ie the 6 months to 30 June) than for the second half. This is because of the timing of school terms and the summer holiday period. The UK Coach and European Bus & Coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. On a Group basis, the results are not seasonal in nature.

2. Exchange rates

The most significant exchange rates to UK Sterling for the Group are as follows:

	Six months to 30 June 2012		Six months to 30 June 2011		Year to 31 December 2011	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.57**	**1.58**	1.60	1.62	1.55	1.61
Canadian dollar	**1.60**	**1.59**	1.55	1.57	1.58	1.58
Euro	**1.24**	**1.22**	1.11	1.15	1.20	1.15

If the results for the six months to 30 June 2011 had been retranslated at the average exchange rates for the six months to 30 June 2012, North American Bus would have achieved normalised operating profit of £35.1m on revenue of £269.0m, compared to reported normalised operating profit of £34.6m on revenue of £264.7m and European Coach & Bus would have achieved normalised operating profit of £36.4m on revenue of £252.0m compared to reported normalised operating profit of £38.6m on revenue of £267.3m.

3. Risks and uncertainties

The principal risks and uncertainties are described in the Financial and Performance Review. Additional information on risks and uncertainties is contained on pages 37-39 in the Group Annual Report and Accounts 2011.

4. Segmental analysis

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

	Six months to 30 June				Year to 31 December	
Analysis by class and geography of business	**Revenue 2012 £m**	**Operating result 2012 £m**	Revenue 2011 £m	Operating result 2011 £m	Revenue 2011 £m	Operating result 2011 £m
UK Bus	**133.5**	**17.2**	131.6	15.2	263.5	32.7
UK Coach	**120.0**	**6.3**	122.3	11.7	259.1	34.9
Rail	**125.2**	**15.5**	335.1	27.1	688.3	43.4
North America	**299.5**	**36.9**	264.7	34.6	481.0	47.9
European Coach & Bus	**256.9**	**35.4**	267.3	38.6	551.1	90.1
Intercompany elimination	**(1.0)**	**–**	(2.1)	–	(5.0)	–
Central functions	**–**	**(5.8)**	–	(6.9)	–	(14.6)
Project costs	**–**	**–**	–	(2.7)	–	(9.2)
Result from continuing operations	**934.1**	**105.5**	1,118.9	117.6	2,238.0	225.2
Intangible asset amortisation		**(25.9)**		(25.4)		(50.8)
Exceptional items		**(16.3)**		–		–
Group operating profit		**63.3**		92.2		174.4
Share of post tax results from associates and joint ventures		**0.5**		0.5		1.4
Net finance costs		**(24.0)**		(22.6)		(46.4)
Profit before tax		**39.8**		70.1		129.4
Tax charge		**(7.7)**		(15.4)		(26.8)
Profit for the period		**32.1**		54.7		102.6

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

5. Intangible asset amortisation

Intangible assets in Rail have been amortised on a straight-line basis to the end of the franchise, by £0.2m (2011 interim: £0.8m; 2011 full year: £1.7m). Intangible assets representing customer contracts have been subject to an amortisation charge in European Coach & Bus of £21.2m (2011 interim: £23.0m; 2011 full year: £45.8m), and in North America of £1.3m (2011 interim: £0.5m; 2011 full year: £0.9m). Software intangible assets have been subject to an amortisation charge in North America of £1.5m (2011 interim: £1.1m, 2011 full year: £2.4m). Customer relationship intangible assets in North America have been subject to an amortisation charge of £1.7m (2011 interim £nil, 2011 full year: £nil).

6. Exceptional items

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

Exceptional costs in the six months to 30 June 2012 comprise £8.8m of franchise bids costs in Rail and £7.5m of acquisition and integration costs for the Group's North American acquisitions (note 13). There were no exceptional items in 2011.

Exceptional operating items can be analysed by operating segment as follows:

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Rail	**8.8**	–	**–**
North America	**7.5**	–	**–**
	16.3	–	**–**

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

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Tax credit on intangible asset amortisation	**7.8**	7.4	14.7
Tax credit on exceptional items	**2.1**	–	–
	9.9	7.4	14.7

7. Net finance costs

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 Dec 2011 £m
Bank and bond interest payable	**(22.8)**	(22.9)	(46.2)
Finance lease interest payable	**(2.4)**	(1.9)	(5.0)
Other interest payable	**(0.1)**	(0.1)	(0.2)
Unwind of provision discounting	**(0.7)**	(0.6)	(1.7)
Finance costs	**(26.0)**	(25.5)	(53.1)
Finance income: Bank interest receivable	**2.0**	2.9	6.7
Net finance costs	**(24.0)**	(22.6)	(46.4)

8. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2012 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2012. The normalised tax charge of £17.6m (2011 interim: £22.8m; 2011 full year: £41.5m) represents an effective tax rate on normalised profit before tax, for continuing operations, of 21.5% (2011 interim: 23.9%; 2011 full year: 23.0%). The total tax charge of £7.7m (2011 interim: £15.4m; 2011 full year: £26.8m) includes a deferred taxation credit of £3.1m (2011 interim credit: £2.3m; 2011 full year charge: £6.8m).

On the 21 March 2012, the UK Chancellor of the Exchequer announced a further 1% reduction in the UK Corporation tax rate to 24% effective from 1 April 2012, along with subsequent reductions of 1% each year to a final rate of 22%.

The reduction in rate from 25% to 24% was substantively enacted on 26 March 2012 to come into effect on 1 April 2012. The change in rate from 25% to 24% has resulted in a tax credit of £0.1m to the profit and loss account.

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

9. Dividends paid and proposed

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Declared and paid during the period:			
Ordinary final dividend for 2010 paid of 6.00p per share	**–**	30.5	30.5
Ordinary interim dividend for 2011 of 3.00p per share	**–**	–	15.3
Ordinary final dividend for 2011 paid of 6.50p per share	**33.2**	–	–

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Proposed for approval and not recognised as a liability as at period end:			
Ordinary interim dividend for 2011 of 3.00p per share	**–**	15.3	–
Ordinary final dividend for 2011 paid of 6.50p per share	**–**	–	33.2
Ordinary interim dividend for 2012 of 3.15p per share	**16.1**	–	–

10. Earnings per share

	Six months to 30 June 2012	Six months to 30 June 2011	Year to 31 December 2011
Basic earnings per share	**6.2p**	10.6p	19.9p
Normalised basic earnings per share	**12.6p**	14.1p	27.0p
Diluted earnings per share	**6.2p**	10.6p	19.8p
Normalised diluted earnings per share	**12.5p**	14.1p	26.9p

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of £31.8m (2011 interim: £54.1m; 2011 full year: £101.2m) by the weighted average number of ordinary shares in issue during the period, excluding those held by employees' share ownership trusts and held as own shares which are both treated as cancelled.

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

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

	Six months to 30 June 2012	Six months to 30 June 2011	Year to 31 December 2011
Basic weighted average shares	**510,121,945**	509,224,268	509,388,824
Adjustment for dilutive potential ordinary shares	**1,292,588**	1,454,804	1,556,324
Diluted weighted average shares	**511,414,533**	510,679,072	510,945,148

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

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

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Profit attributable to equity shareholders	**31.8**	54.1	101.2
Intangible asset amortisation	**25.9**	25.4	50.8
Exceptional operating items	**16.3**	–	–
Tax relief on amortisation and exceptional items (including exceptional tax)	**(9.9)**	(7.4)	(14.7)
Normalised profit attributable to equity shareholders	**64.1**	72.1	137.3

11. Derivative financial assets and liabilities

The Group's multi-national transport operations and debt financing expose it to a variety of financial risks, including the effects of changes in fuel prices, foreign currency exchange rates and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects of these financial risks on the financial performance of the Group by means of derivative financial instruments.

As at 30 June 2012 the Group's portfolio of hedging instruments included fuel price derivatives, foreign exchange derivatives and interest rate derivatives. The fuel price derivatives are in place to hedge the changes in price of the different types of fuel used in each division. The foreign exchange derivatives are in place to hedge the foreign exchange risk on translation of net assets and earnings denominated in foreign currency. In addition, the Group holds four £50.0 million denominated interest rate derivatives to swap fixed interest on £200m of the Group's Sterling bonds to a floating rate.

These derivative financial instruments are held in the balance sheet at fair value, as determined by the third party financial institutions with which the Group holds the instruments and internal valuations using market data.

The Group applies relevant hedge accounting to all derivatives outstanding as at 30 June 2012. All hedge relationships were effective under the rules of IAS 39.

Derivative financial assets and liabilities in the balance sheet:	**At 30 June 2012 £m**	At 30 June 2011 £m	At 31 December 2011 £m
Non-current			
Interest rate derivatives	**16.0**	-	23.7
Fuel price derivatives	**1.2**	11.4	7.3
Derivative financial assets	**17.2**	11.4	31.0
Current			
Interest rate derivatives	**4.2**	3.3	–
Fuel price derivatives	**5.0**	19.9	13.1
Foreign exchange derivatives	**0.3**	–	8.0
Derivative financial assets	**9.5**	23.2	21.1
Non-current			
Fuel price derivatives	**5.2**	–	2.4
Interest rate derivatives	**-**	2.7	–
Derivative financial liabilities	**5.2**	2.7	2.4
Current			
Foreign exchange derivatives	**0.7**	4.2	0.2
Fuel price derivatives	**3.3**	0.3	–
Interest rate derivatives	**–**	–	–
Derivative financial liabilities	**4.0**	4.5	0.2

12. Pensions and other post-employment benefits

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

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

During the period, certain liabilities of the Travel West Midlands Pension Fund relating to current and deferred pensioners valued at £238m, were insured at a cost of £272m at the transaction date. This insurance policy is a qualifying insurance policy, and therefore the value of the policy and the value of the liabilities have been recognised within actuarial losses in the Group statement of comprehensive income. This buy-in has reduced risk and volatility, and brought greater stability to the Group's pension contribution commitments.

The total pension cost for the six months to 30 June 2012 was £3.9m (2011 interim: £5.6m; 2011 full year: £11.7m), of which £2.5m (2011 interim: £4.0m; 2011 full year: £8.2m) relates to the defined benefit schemes and £1.4m (2011 interim: £1.6m; 2011 full year: £3.5m) relates to the defined contribution schemes.

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

	At 30 June 2012 £m	At 30 June 2011 £m	At 31 December 2011 £m
UK Bus	**(49.5)**	8.9	(16.8)
UK Coach	**18.6**	4.6	18.6
Rail	**(1.5)**	(2.3)	(2.2)
Other	**(1.4)**	(1.2)	(1.4)
Total	**(33.8)**	10.0	(1.8)

The Rail defined benefit pension liability is net of the franchise adjustment of £58.8m (2011 interim: £69.3m; 2011 full year: £59.6m). Details of the franchise adjustment are included in note 34 to the Annual Report and Accounts 2011.

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

	Six months ended 30 June 2012			Year ended 31 December 2011		
	UK Bus	**UK Coach**	**UK Rail**	UK Bus	UK Coach	UK Rail
Rate of increase in salaries	**2.8%**	**2.8%**	**2.8%**	3.0%	3.0%	3.0%
Rate of increase in pensions	**1.8%**	**2.8%**	**1.8%**	2.0%	3.0%	2.0%
Discount rate	**4.7%**	**4.7%**	**4.7%**	5.0%	5.0%	5.0%
Inflation rate (RPI)	**2.8%**	**2.8%**	**2.8%**	3.0%	3.0%	3.0%
Inflation rate (CPI)	**1.8%**	**1.8%**	**1.8%**	2.0%	2.0%	2.0%

13. Business Combinations

i) Petermann Partners Inc

On the 1 May 2012, in the United States, the Group acquired the entire share capital of MGOP Petermann Holdings 2 LLC and, directly and indirectly, the entire share capital of Petermann Partners Inc ('Petermann'). The business operates transportation for students, including transportation for special needs students.

	Book value £m	Fair value adjustments £m	Total £m
Intangible assets	–	42.3	**42.3**
Property, plant and equipment	47.4	(8.3)	**39.1**
Inventory	0.9	–	**0.9**
Trade and other receivables	13.7	–	**13.7**
Cash and cash equivalents	7.6	–	**7.6**
Trade and other payables	(10.5)	(7.6)	**(18.1)**
Deferred tax asset	13.0	(11.6)	**1.4**
Net assets acquired	72.1	14.8	**86.9**
Goodwill on acquisition			**54.8**
Total			**141.7**

Represented by:	
Consideration	**123.0**
Payment for cash acquired in the business	**7.6**
Working capital adjustment	**3.5**
Capital expenditure adjustment	**7.9**
Proceeds from asset sale	**(3.9)**
Related loss on cash flow hedges (net of tax)	**3.6**
	141.7
Add back: tax on loss on cash flow hedges	**1.1**
Less: net cash acquired	**(7.6)**
Less: deferred consideration	**(0.8)**
Net cash outflow	**134.4**

The acquisition balance sheet has been adjusted to reflect provisional fair value adjustments. The intangible asset adjustment recognises customer contracts and relationships acquired with Petermann (£39.3m), trademarks (£2.3m) and the value of non-compete agreements (£0.7m). The customer contracts are amortised over the life of the contracts, which is on average 15 years, the trademarks are amortised over 5 years being the length of expected continued use of the trademarks and the non-compete agreements over 3 years.

The tangible fixed asset adjustment largely comprises a fair value write down of the carrying value of buses acquired, along with a write down of certain software assets and leasehold improvements. The trade and other payables adjustment comprises provisions for insurance and environmental claims.

At 30 June the net consideration paid, including adjustments, was £137.3m. Within this amount was a £3.9m receipt for the sale of certain assets in Texas and Washington that were required to be divested by the Department of Justice as a prerequisite for completing the purchase of Petermann. In addition, a cash outflow of £4.7m arose from hedging the acquisition using US dollar foreign exchange derivatives. Cash acquired in the business was £7.6m, therefore the net cash outflow for the Group was £134.4m. A further £0.8m will be paid in July 2012 following finalisation of the working capital adjustment.

In addition £5.3m of acquisition costs were incurred and have been expensed, of which £0.6m was expensed in 2011.

13. Business Combinations (continued)

From the date of acquisition the acquired business contributed £1.2m to operating profit. If the combination had taken place at the beginning of 2012 the Group operating profit in 2012 would have increased by £2.4m and revenue from continuing operations in 2012 would have increased by £39.9m.

Included in the goodwill recognised above are certain intangible assets 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 school bus operations. Management believes that goodwill represents value to the Group for which the recognition of a discrete intangible asset is not permitted. The majority of the value was assessed to comprise of synergy benefits expected to be achieved by merging the business into the Group's North American operations.

ii) Other acquisitions

On the 23 March 2012, in the United States, the Group acquired the entire share capital of The Joint Venture of Thompson Transit Inc and YCN Transportation LLC ('JV'). The JV operates part of The Ride service for the Massachusetts Bay Transit Authority, which provides transportation services under the Americans for Disability Act. The provisional fair value of net assets acquired was £11.2m. Consideration was £16.7m, resulting in goodwill of £5.5m. There was £0.2m of cash acquired in the business and £2.6m of deferred consideration, therefore the net cash outflow for the Group was £13.9m.

On the 23 March 2012, in the United States, the Group acquired the entire share capital of YCN Transportation LLC ('YCN') which operates Special Education School Transportation Services in the City of Boston. The provisional fair value of net assets acquired was £2.6m. Consideration was £4.7m, resulting in goodwill of £2.1m. There was £0.2m of cash acquired in the business, therefore the net cash outflow for the Group was £4.5m.

Also in 2012, the Group acquired a controlling interest in Compañía Navarra De Autobuses SA (Conda), a Spanish intercity transport business previously held as an associate. Cash paid for the business was £nil, but borrowings of £0.8m were consolidated into the Group.

14. Net debt

	At 1 January 2012 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2012 £m
Cash and cash equivalents	**92.5**	**(14.1)**	**8.0**	**(0.6)**	**–**	**85.8**
Other debt receivable	**0.7**	**0.4**	**–**	**–**	**–**	**1.1**
Borrowings:						
Bank loans	**(7.9)**	**(204.2)**	**(0.8)**	**3.8**	**2.3**	**(206.8)**
Bonds	**(583.4)**	**–**	**–**	**–**	**(3.8)**	**(587.2)**
Fair value of bond hedging derivatives	**16.4**	**–**	**–**	**–**	**3.1**	**19.5**
Finance lease obligations	**(151.3)**	**10.8**	**(0.4)**	**1.7**	**(1.8)**	**(141.0)**
Other debt payable	**(0.7)**	**(0.4)**		**–**	**–**	**(1.1)**
Total borrowings	**(726.9)**	**(193.8)**	**(1.2)**	**5.5**	**(0.2)**	**(916.6)**
Net debt*	**(633.7)**	**(207.5)**	**6.8**	**4.9**	**(0.2)**	**(829.7)**

* excludes accrued interest on bonds

14. Net debt (continued)

	At 1 January 2011 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2011 £m
Cash and cash equivalents	128.8	(26.4)	–	0.4	–	102.8
Other debt receivable	0.7	0.2	–	–	–	0.9
Borrowings:						
Bank loans	(39.8)	(6.9)	(1.0)	(0.4)	–	(48.1)
Bonds	(565.6)	–	–	–	(2.3)	(567.9)
Fair value of bond hedging derivatives	(1.1)	–	–	–	1.7	0.6
Finance lease obligations	(131.6)	11.8	–	1.8	(3.6)	(121.6)
Other debt payable	(1.8)	(0.2)	–	–	–	(2.0)
Total borrowings	(739.9)	4.7	(1.0)	1.4	(4.2)	(739.0)
Net debt*	(610.4)	(21.5)	(1.0)	1.8	(4.2)	(635.3)

* excludes accrued interest on bonds

Borrowings include non-current interest bearing loans and borrowings of £729.0m (2011 interim: £675.5m; 2011 full year: £718.4m).

Other non-cash movements represent finance lease additions of £1.8m (2011 interim: £3.6m) and a £1.6m decrease to net debt (2011 interim: £0.6m increase) relating to loan and bond arrangement fees.

Included in cash and cash equivalents are restricted balances of £2.3m (2011 interim: £15.0m; 2011 full year: £14.0m) held by the Rail subsidiaries.

15. Cash flow statement

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

	Six months to 30 June 2012 £m	Six months to 30 June 2011 £m	Year to 31 December 2011 £m
Net cash inflow from operating activities			
Profit before tax from continuing operations	**39.8**	70.1	129.4
Net finance costs	**24.0**	22.6	46.4
Share of post tax results from associates and joint ventures under the equity method	**(0.5)**	(0.5)	(1.4)
Depreciation of property, plant and equipment	**53.5**	51.6	105.5
Intangible asset amortisation	**25.9**	25.4	50.8
Amortisation of property, plant and equipment grants	**(0.6)**	(0.7)	(1.5)
(Profit)/loss on disposal non-current assets	**(3.5)**	0.4	(1.1)
Share-based payments	**2.5**	2.8	5.0
Increase in inventories	**2.5**	(0.2)	(1.4)
Decrease/(increase) in receivables	**66.5**	(11.4)	(18.8)
Decrease in payables	**(137.8)**	(28.7)	(28.9)
Decrease in provisions	**(20.1)**	(18.4)	(37.0)
Cash generated from operations	**52.2**	113.0	247.0

16. Changes in commitments and contingencies

Capital commitments

Capital commitments contracted but not provided at 30 June 2012 were £23.5m (2011 full year: £43.7m).

Contingent liabilities

In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2012, the Group has issued UK Rail performance bonds of £4.0m (2011 full year: £25.8m) and UK Rail season ticket bonds of £14.9m (2011 full year: £92.3m). The Group has other performance bonds which include the £nil (2011 full year: £9.0m) performance bond in respect of Inter-Capital and Regional Rail Limited, a performance bond with Birmingham City Council relating to the building of the new coach station of £0.2m (2011 full year: £0.2m), performance bonds in respect of businesses in the US of £102.2m (2011 full year: £108.1m) and the rest of Europe of £22.8m (2011 full year: £23.3m). Letters of credit have been issued to support insurance retentions of £34.7m (2011 full year: £30.8m).

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group Annual Report and Accounts 2011 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 2012.

18. Post balance sheet events

There were no significant post balance sheet events.

Independent Review Report to National Express Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, Group Statement of Cash Flows and the related notes 1 to 18. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
26 July 2012