national express

28 July 2022

National Express Group PLC: Half Year Results for the six months ended 30 June 2022

Evolve strategy delivering strong growth; momentum building across portfolio

	HY 2022	HY 2021	Change
Group Revenue	**£1.32bn**	£0.99bn	33.6%
Group EBITDA	**£197.8m**	£128.2m	54.3%
Group Underlying[1] Operating Profit	**£90.5m**	£22.9m	295.3%
Group Underlying[1] Profit Before Tax	**£68.7m**	£0.1m	
Underlying basic[1] EPS	**6.2p**	(2.1p)	

Statutory

Group Operating Profit/(Loss)	**£42.3m**	(£26.1m)
Group Profit/(Loss) Before Tax	**£20.5m**	(£50.2m)
Group Profit/(Loss) After Tax	**£15.8m**	(£24.1m)
Basic EPS	**0.4p**	(5.8p)

Free cash flow[2]	**£63.8m**	£36.1m
Covenant Net Debt	**£946.8m**	£873.1m
Gearing	**3.1x**	5.6x

Strong revenue growth across the business

- Revenue increased by 34% to £1.3 billion, the highest in over a decade
- Momentum building across the business, with Q2 2022 stronger than Q1 2022

Well positioned for further growth

- Growing pipeline, with £2.1 billion of bidding and inorganic growth opportunities
- 16 new contracts won in the period, predominantly in North American Shuttle, Transit and ALSA totalling over £150 million in revenue over the lives of the contracts
- Entered Portugal with the successful mobilisation of Lisbon urban bus contract; Porto to mobilise in H1 2023

Profit and cash flow benefitting from operational leverage

- Underlying Operating Profit up nearly four-fold to £90.5 million; Group Underlying Operating Margin up to 7%
- Statutory Profit Before Tax up £70.7 million to £20.5 million
- Continued tight management of the cost base; fuel 100% hedged for 2022 and 75% for 2023; wage rises manageable across the Group
- 60% of Group revenue is contracted and subject to annual cost indexation; around half of this fully inflation-protected
- Pricing ahead of cost inflation on contract renewals in North American School Bus where wage inflation most acute; some margin pressure until all contracts renewed and driver vacancies filled
- Active revenue management in our coach businesses in UK and Spain; occupancy and yields rising and ahead of 2019 levels
- Delivered free cash flow of £63.8 million during the period; cash conversion of 70%

Driving decarbonisation at pace

- Fleet decarbonisation accelerating with plans approved for 1,500 ZEVs across the Group by 2024
- UK Bus on track to 50% ZEV by 2025 and 100% by 2030

Confident in prospects for full year

- Strong first half performance, recent contract wins and growing pipeline provides confidence in our full year guidance and beyond, although challenges from driver shortages in North America School Bus remain
- UK Coach recovery expected to build in second half; UK Division expected to return to full year profit
- Continue to anticipate reinstating a full year dividend in respect of FY 2022

Ignacio Garat, National Express Group Chief Executive said:

"I am pleased to see momentum building across the Group, with strong growth in revenue, profit and cash in the first half. Our Evolve strategy is delivering results and we are increasingly demonstrating our ability to rapidly mobilise safe, high quality operations on which our customers can rely. We won 16 new contracts in the half, which will contribute over £150 million over their lives, and there is more to come. Our pipeline of growth opportunities now stands at more than £2 billion in annualised revenue.

The path ahead will not be without challenges. We believe, however, that we are well positioned in an inflationary environment; resilient to slowing economic growth; and are taking all the steps we can to mitigate the industry-wide shortage of School Bus drivers in the US. Whilst mindful of these challenges we maintain our full year guidance and continue to anticipate reinstating a full year dividend in respect of FY 2022.

What we do is ever more critical for today's world, providing part of the solution to both the climate crisis and cost of living crisis, enabling people to swap their private car journeys for public transport. I am confident that we have the team, the strategy and customer relationships to succeed, and I remain very excited about our future"

Enquiries

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Website

The full release and supplementary data will be available on our website from 7:00am (London time) on 28 July 2022. The web address is www.nationalexpressgroup.com/investors/results

There will be a webcast presentation for investors and analysts at 9.00am on 28 July 2022. Details are available from Headland: nationalexpress@headlandconsultancy.com. The link to the webcast is shown below:

https://streamstudio.world-television.com/1355-2498-33046/en

Notes:

1. *To supplement IFRS reporting, we also present our results (including EBITDA) on an underlying basis to show the performance of the business before separately disclosed items. These are detailed on page 15 and principally comprise intangible amortisation for acquired businesses, certain costs arising as a direct consequence of the pandemic and onerous contract charges in respect of driver shortages in North America. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found on pages 19-20.*

2. *2021 free cash flow has been restated for the reclassification of £4.5m from payables to borrowings in respect of amounts under advance factoring arrangements as explained in our 2021 annual report.*

Notes

Legal Entity Identifier: 213800A8IQEMY8PA5X34
Classification: 1.2 (with reference to DTR6 Annex 1R)

Forward looking statements and other important information

This document contains forward-looking statements with respect to the financial condition, results and business of National Express Group PLC. By their nature, forward-looking statements involve risk and uncertainty and there may be subsequent variations to estimates. National Express Group PLC's actual future results may differ materially from the results expressed or implied in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, National Express does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise. Forward-looking statements can be made in writing but also may be made verbally by members of the management of the Group (including without limitation, during management presentations to financial analysts) in connection with this document.

Group Chief Executive's Statement

I am delighted to be reporting half year results which demonstrate the momentum in this business. Resurgent passenger demand has delivered very strong H1 revenue; and operational leverage, disciplined cost control and pricing power has enabled us to convert this to strong profitability and free cash flow.

Group revenue is up 34% to £1.3 billion which represents a record level of revenue, on a constant currency basis, for a half year since we exited UK Rail. We delivered strong growth across each of our businesses, but particularly so in our coach businesses in Spain and the UK as demand has rebounded strongly. We are starting to see the benefit from operational gearing with Underlying Operating Profit of £91 million ahead of the profit delivered for the whole of FY 2021 and up £68 million year on year as we return to scale. Underlying Operating Margin is almost 7%, up 450 basis points versus the same period last year, and well ahead of the 5.4% delivered in the second half of last year. Statutory profit before tax recovered from a loss of £50.2 million in the first half of last year to a profit of £20.5 million; an increase of £70.7 million. This improved profit performance has converted to cash, with the Group delivering free cash flow of £63.8 million in the period. There are significant challenges in respect of cost inflation and driver shortages, but we are navigating these.

We are making good progress against our Evolve strategy. We have a pipeline of opportunities representing more than £2 billion in annualised revenue and we are starting to convert them, winning 16 contracts in the year totalling over £150 million in lifetime revenue. The successful mobilisations in both Portugal and Germany in the period are increasingly differentiating us from the competition as we target new markets, and this reputation has taken us to the final stage of the Dubai tender.

Put simply, there is more to do, but this business has momentum:

- demand for travel is rebounding and the prospects for public transport are improving;
- there is an attractive growth pipeline and we are winning new contracts to drive growth; and
- we are working hard to deliver on Evolve; differentiating us in the eyes of our customers to win more of this growth.

Accelerating momentum driving record revenue

We are seeing a continuing recovery in demand across the Group with growth in passenger journeys of 29% across the Group in the first half. In addition to this, we are winning contracts in each of our businesses. With a strong and growing pipeline of bidding and inorganic opportunities, I am confident that we will see further growth over the second half of the year and beyond.

In North America, our Shuttle business has generated revenue up 28% both through organic growth and through continuing success in contract wins where we have won nine new contracts during the first half. School Bus also grew revenue by 8%, despite driver shortages preventing us from running around 10% of routes. Transit revenue is up 5% and will continue to build as we have won a new five plus two-year extension paratransit contract in Richmond, Virginia, worth over £67 million, which will start operating in December.

In ALSA, we saw growth across all business lines, with standout results in both in Long Haul and Morocco. Our Long Haul revenue grew by 172% on rebounding passenger demand; and in Morocco we have delivered record revenue and passenger numbers, partly due to the mobilisation of Casablanca, but also with strong organic growth across the rest of the cities. Our first contract in Portugal, in Lisbon, mobilised in June, with that contract worth €26 million in annualised revenue, for the next seven years. Our second contract, Porto, will start operations in the first half of 2023, worth €17 million in annualised revenue, also for seven years. In addition, we entered the paratransit market in Spain through the acquisition of Vitalia, in what is an attractive and growing market worth €1.4 billion. These are good examples of Evolve in action, adding both a new adjacent geography and a new segment to ALSA, both markets that I believe will offer a number of attractive growth opportunities for us from these initial steps.

In the UK, similar to what we are seeing in ALSA, our coach business is experiencing a very strong recovery in demand. UK Coach revenue is up 359% with airports reopening and surging demand for intercity travel. We expect the recovery in demand to continue over our key summer trading period and are continuing to ramp up capacity to meet this demand. Our bus operations are also seeing a continuing recovery in demand, with passenger journeys ahead of the industry average, and up 65% year on year.

In Germany, revenue grew 59% with the emergency award of two contracts at the start of the year delivering €100 million of annualised revenue.

Profit and cash flow benefitting from operational leverage, cost control and pricing power

Underlying Operating Profit has improved in every business across the Group, with the operational gearing impact from the strong revenue performance delivering an even greater recovery in profit and margin.

ALSA has delivered the strongest performance driven by resurgent demand for long haul and strong growth in Morocco, tripling the level of Underlying Operating Profit delivered in H1 2021 and growing Underlying Operating Margin to 11.3%, up 530 basis points year-on-year.

North America has also delivered an improved profit performance in the first half, with the utilisation of CERTS funding in the first half helping to offset the impact of ongoing industry-wide driver shortages in School Bus.

It is encouraging the see profit recovering in the UK. Whilst our UK Bus continues to perform slightly ahead of the rest of the market, we recorded a loss in the first half driven by our Coach business as the first quarter was heavily impacted by Omicron. The second quarter has built strongly with momentum accelerating month by month exiting the first half with June revenue growth of 306% and yields up 39% year on year. Put simply, we delivered good first half results, despite the UK performance in Q1, and its recovery provides a strong tailwind to the second half.

We are actively managing the challenges of cost inflation across the Group, both directly through disciplined control of our cost base and through ensuring we are optimising occupancy and yield. The rising yields in our coach businesses demonstrate our ability to flex pricing to rapidly adapt to changing travel patterns. Our UK Coach business delivered a 20% increase in yield year on year, whilst ALSA's Long Haul delivered a 19% increase in revenue per Km, a record result. Our contracted businesses typically benefit from a good level of protection against inflation, containing either annual fixed price or inflation-linked price increases, and in some cases a direct pass through of cost.

Cost inflation is most acute in our North American School Bus business where we are increasing driver wages by up to 12%, on average, to combat shortages. We expect to continue to recoup these increased costs as we renew contracts over the next two years, with the 2022/2023 school bid season achieving rate increases ahead of cost inflation. This, with a combination of inflation-based indexation and off-cycle negotiated uplifts on the contracts not yet due for renewal, mitigates the impact in the short-term, but we do expect North America margins to decline in 2023 before recovering subsequently once a greater proportion of contracts have been renewed at higher rates. Accordingly, we have recognised a provision for a small number of loss-making contracts.

Continued strategic progress

In 2021 we launched our Evolve strategy based on five compelling customer propositions, and we have made good progress in the first half of the year across each of our Divisions.

1. 'Reinvigorating public transport'- A prime example of this is the successful mobilisation of our first contract in Portugal which was delivered on time and ahead of other operators. We are also seeing progress in recently mobilised contracts, including in Rabat and Casablanca where financial and operational metrics are ahead of our expectations. All of this further enhances our reputation for reliability as we bid to operate contracts in new markets.
2. 'Multi-modal expansion' – In the UK, our Transport Solutions business has launched operations in the West Midlands, leveraging off existing infrastructure, strengthening our bidding capabilities in the region and beyond, with the UK private hire and corporate shuttle markets worth £3 billion.
3. 'Delivering operational transformation' – When the local Passenger Transport Authorities in Germany were looking for an operator to mobilise two failing contracts, they came to us. Our reputation for reliability and efficiency were driving factors in the emergency award, which will generate €200 million of additional revenue through to December 2023, while the successful mobilisation of those contracts at very short notice will strengthen our credentials for future bids.
4. 'Filling the transit gap' – Our Shuttle business in North America has won nine new contracts in the first half of the year while our Transport Solutions business in the UK has won four new contracts. With the ongoing rail dispute leading to significant disruption in the UK this summer, we are likely to see further short-term contract awards to provide bussing for stranded travellers.
5. 'Compound and consolidate' – Our recent acquisition of a paratransit business in Madrid not only provides a new market entry and modal solution offering for ALSA, but also enables us to leverage off our existing infrastructure across a number of cities and regions in Spain, helping to drive efficiencies.

The 16 new contract wins this half show how Evolve is helping to drive growth across the Group. I am really encouraged to see that our strong pipeline of bidding and inorganic opportunities continues to grow, with a total pipeline of more than £2 billion in annualised revenue coming to market over the next 18 months. For example, we are one of only two bidders left in the process for a 10-year contract to operate urban buses in Dubai worth £160 million revenue a year and which would represent another new market for us.

I am also pleased to report continuing progress in our goal to become 'the environmental leader' with plans approved for 1,500 ZEVs by 2024. In the UK funding has been secured for 124 hydrogen buses, and as the leader in Coventry, the first electric city, we will have 130 buses operating by the end of this year. Our UK Bus business is on track to be operating a 50% ZEV fleet by 2025 and 100% by 2030.

We are also making progress in North America where ZEV funding schemes are becoming more widely available, with a $5 billion Clean School Bus Program in the US and a $2.75 billion Zero Emission Transit Fund in Canada being prime examples. We are actively working with our customers to gain access to these funds, with a target to secure funding for 400 electric school buses. Building on our experience in the UK, we are working with partners to structure an ownership model which not only avoids up-front capital and defrays technology risk, but also enables a faster track to achieving our decarbonisation targets.

We are seeing early signs that electric buses are helping to drive modal shift, with both patronage and customer satisfaction higher on our ZEVs. What's more, we are also seeing greater operating efficiencies being delivered by our ZEVs than we had previously forecast, significantly improving the Total Cost of Ownership, now around 15% lower than a diesel bus.

We continue to develop our digital capabilities across the Group in order to deliver improved efficiencies, operating and safety standards, as well as enhancing customer experience. In North America we are making good progress with the roll out of Bytecurve, now in around 50% of our locations, enabling us to automate and optimise many processes such as daily scheduling and dispatch and driver attendance records, driving efficiencies and improving service for our customers. In the UK, we have implemented the latest technology in driver training with virtual reality driving simulation, enabling new drivers to learn about safety awareness, perception and performance before they go out on the road, significantly reducing risk while also enabling dynamic testing. In ALSA, a newly established AI team is partnering with IBM to develop and build models to assess common driver behaviours and risk profiles to inform future training needs. Also in ALSA, we continue to roll out the Mobility as a Service (MaaS) app, Mobi4U, now in 13 towns and cities in Spain and Morocco, and we are leveraging this experience in UK Bus where we are developing a MaaS app, in partnership with TfWM.

It's pleasing to see further improvements in safety, where our Fatalities Weighted Index per million miles score has improved by 50% year on year, while Morocco delivered a 28% improvement in at-fault accidents year on year, demonstrating the considerable improvements made in Rabat and Casablanca since we took over operations in those two cities – Rabat saw 41% reduction year on year, while Casablanca saw a 40% reduction. We are also seeing improving customer satisfaction scores with, for example, ALSA seeing a 5% improvement year on year in their CSI score, while UK Coach has seen a 7% improvement in the Net Promoter Score.

Confident in prospects with full year guidance maintained

In summary, I am pleased with what we have delivered in the first half, but there is more to come. We expect to see continued improvement in the second half of the year, particularly in the UK as demand for our Coach service continues to build back strongly.

Driver recruitment in North America School Bus remains the key factor in near-term performance. We are hopeful that the wage increase of up to 12%, on average, will deliver a significant increase in School Bus drivers for the new school year and with it an increase in services operated under normal conditions. We are working closely with our customers to ensure as smooth a start as possible to the new school year. The margin guidance previously communicated, of sequential improvement in margins from 2021 levels with a 2022 Underlying Operating Margin of around 7%, included the impact of investing in wage increase ahead of contract renewals and the impact of lost routes whilst we recruit drivers, and I remain confident that we will recoup this, at the latest, through the contract renewal cycle.

Overall we expect Group margin for the full year to be slightly ahead of the first half. This assumes that the wage investments we are making in North America School Bus are sufficient and that they enable us to recover around a third of the lost routes experienced in the first half. Clearly there is both upside and downside risk to this assumption, but we are well-positioned to navigate the challenge.

With a strong pipeline of growth opportunities worth over £2 billion in annualised revenue over the next 18 months and our successful track record for winning new contracts, I am confident that we will continue to win further new contracts in the coming year. Coupled with this, I believe that we will see an acceleration in modal shift driving growth particularly in our urban bus and shuttle businesses. It is worth remembering that in the UK, a 1% modal shift out of cars is estimated to drive more than a 25% increase in bus journeys.

The strong progress in revenue and profit in the first half of the year, combined with strong cash conversion provides confidence for the full year and we continue to anticipate reinstating the dividend for the full year 2022.

ALSA

	Half Year		Full Year
	2022	2021	2021
	m	m	m
Revenue	**£444.2**	£287.3	£718.4
Underlying Operating Profit	**£50.3**	£17.1	£56.6
Revenue	**€527.5**	€331.1	€835.8
Underlying Operating Profit	**€59.7**	€19.8	€65.9
Underlying Operating Margin	**11.3%**	6.0%	7.9%

Overview

ALSA has delivered very strong growth in both revenue and Underlying Operating Profit in the first half of the year, reflecting the continued improving trajectory in trading. Revenue grew by 59.8% to €527.5 million, with strong growth across all business lines but particularly in Long Haul and Morocco. Underlying Operating Profit of €59.7 million represents a €39.9 million improvement versus the same period last year, with Underlying Operating Margin improving by 530 basis points to 11.3%.

Revenue growth and passenger recovery

This significant increase in revenue has been driven by a strong recovery in passenger demand across all business lines, particularly in Long Haul which has seen revenue growth of 172% year-on-year and passenger journeys up 162%. Morocco also delivered strong growth with revenue growing by 25%, boosted by the mobilisation of Casablanca together with strong growth across the other cities in which we operate. Urban bus revenue grew by 38% in the first half, largely reflecting the acquisition of Rober in 2021, while Regional, where around 72% of contracts are revenue protected, also delivered strong revenue growth, up 22% versus last year with passenger demand up 57%.

We have a strong pipeline of bidding opportunities over the next 18 months, worth around €300 million. In the first half we also won two new contracts: a new urban bus contract in Alcantarilla, Murcia; and an urban bus contract in Geneva. We have also renewed an urban bus contract in Cartagena on improved terms, whilst in Asturias we successfully renegotiated contracts to a no demand risk basis. We will target further bidding opportunities over the coming year, particularly in Urban Bus and in our international markets, including Portugal, France and Switzerland.

Operating leverage driving profitability

Underlying Operating Profit and margin have both recovered very strongly, delivering nearly as much profit in the first half of the year as was delivered in the whole of FY 2021, whilst Underlying Operating Margin has improved by over 500 basis points. This growth in profit has been driven largely by revenue growth, with strong recovery in passenger demand in Long Haul where the occupancy rate is 50.3% in the first half, up over a third year on year, while yield is over 8% ahead. Our revenue management systems have driven significantly improved profitability on these routes, with this combination of occupancy and yield increases driving revenue per kilometre up 19.4% year on year, to a record level.

The majority of our contracts are inflation-linked and thus have a good level of protection against rising inflation, which should help to provide resilience and protect margin in the current environment.

Continued strategic progress

We made good progress in the first half of the year on a number of fronts.

Our reputation for reinvigorating public transport has been demonstrated once again with the successful mobilisation of a seven-year urban bus contract in Lisbon, which commenced operations in June. This represents our first contract in Portugal and was delivered on time and ahead of other operators mobilising contracts in the city. With this significant milestone achieved, we will look to bid for further contracts in Portugal, and to deliver another successful mobilisation with our second contract, Porto, due to start in H1 2023. This growing reputation for reinvigorating public transport in new markets should also provide strong credentials for entry into other new markets.

We have also entered another new market in the first half, with the acquisition of Vitalia, a paratransit business, which provides patient transport services in both the public and private sectors in Madrid and a number of other cities across Spain where we have existing operations. This acquisition, in line with our Evolve strategy, provides the opportunity to expand our multi-modal offering into a growing market, with the paratransit market in Spain worth €1.4 billion, whilst at the same time leveraging our existing operations across Spain.

We continue to make progress on our Environmental strategy, with both our new urban bus contracts in Lisbon and Geneva operating a number of ZEVs, and in the case of Geneva, almost all the fleet is ZEV. In total we are now operating 72 zero emission buses across ALSA, and have a number of ZEV trials in place with different OEMs, testing the latest battery and fuel cell technologies in order to improve operating efficiencies going forward.

Last year, as part of our drive to increase digitisation within ALSA, we launched Mobi4U, a Mobility as a Service (MaaS) app. This app can be used for travel on all types of mobility services in the local area, making it more convenient for customers to plan their journeys with real–time information on services, journey times and connections. In addition to rolling out the app in further cities and towns this year, we have introduced QR codes, making payment easier for customers.

We continue to work hard to improve the outputs from the Evolve strategy, as ultimately, these are the criteria that new customers will look at when deciding to either use our services or award contracts. It's pleasing to see evidence of progress through improved on-time performance, up 2.4% versus 2019, whilst our efforts to improve customer experience are being recognised, with our customer satisfaction score up 5.3% year-on-year. We received the 'Best Place to Work' certification award in Morocco in the first half. All of these measures help to demonstrate the way in which we reinvigorate public transport and provide strong credentials as we bid for new contracts.

Outlook

We expect to see further growth in the second half of the year with continuing recovery in demand in Long Haul, and growth in Morocco, boosted by the new contracts in Lisbon, Murcia and Geneva, and the acquisition of Vitalia. Our strong pipeline of bidding opportunities provides significant scope for future growth across each of our businesses

The Long Haul concession renewal process has yet to restart, with the authorities continuing to conduct a remapping of the network, with no intention to restart the process in the near term. As a result, industry expectations are for no impact from the Long Haul concession renewal process until late 2024 at the earliest.

North America

	Half Year		Full Year
	2022	2021	2021
	m	m	m
Revenue	**£518.7**	£451.9	£872.0
Underlying Operating Profit	**£57.4**	£41.5	£74.4
Revenue	**US$673.5**	US$627.8*	US$1,198.1*
Underlying Operating Profit	**US$74.6**	US$57.5*	US$102.1*
Underlying Operating Margin	**11.1%**	9.2%	8.5%

* Revenue and Underlying Operating Profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Overview

North America has delivered growth in both revenue and Underlying Operating Profit in the first half of the year, reflecting the continued improvement in trading. Revenue grew by 7.5% to $673.5 million driven by strong growth in both our School Bus and Shuttle operations. Underlying Operating Profit rose by 29.8% to $74.6 million, with Underlying Operating Margin improving by 190 basis points to 11.1%.

Revenue growth and service recovery

We continued to see recovery in revenue in School Bus and Shuttle, with Shuttle revenue now ahead of pre-pandemic levels, and growing by 28% year-on-year; service levels in Shuttle are now at 92% of pre-pandemic levels. When adjusting for exited contracts, Transit grew revenue by 5% with service levels now running at 83% versus 2019.

We have a very strong pipeline of bidding opportunities over the next 18 months, worth over $600 million, predominantly in the Shuttle and Transit markets, which are particularly attractive given their asset-light characteristics. We have already won 10 new contracts this year, worth around $80 million over the lives of those contracts; nine in Shuttle and one paratransit contract in Richmond, Virginia; most of which are asset-light. We will continue to bid for further contracts in the coming months.

Whilst we have seen revenue growth of 8% in School Bus in the first half, the rate of growth has been impacted by the ongoing industry-wide driver shortages, resulting in around 10% of contracted routes not being run.

Operating leverage driving profitability

The pace of growth in Underlying Operating Profit is being impacted by the driver shortages in School Bus. In order to address these shortages, we have increased driver wages by up to 12%, on average, in our School Bus operations for the school year 2022/23. For the c.40% of the portfolio that is renewed in 2022, the business is re-contracting at rates above cost inflation, evidencing the quality of our service offering and customer relationships. We expect to re-contract at least in line with wage inflation across the remainder of contracts as they renew, with a further c.30% of the portfolio up for renewal by the start of the 2023/24 school year. Investing ahead of these renewals will put short term pressure on School Bus margins in both 2022 and 2023 until the lost routes have been recovered. Accordingly, a number of contracts became loss-making in the period and a provision for onerous contracts has been recognised; the £19.7 million charge for which has been recorded in separately disclosed items. The impact of driver shortages in the first half was partially offset by the utilisation of the remaining amounts under the Coronavirus Economic Relief for Transportation Services (CERTS) grant as previously disclosed.

Ahead of contract renewals, we are negotiating with customers ahead for bespoke off-cycle support. So far, nearly one third of customers have agreed to provide some support.

We have continued to tightly manage the cost base, reducing functional and support costs to help mitigate the impact of driver shortages.

Contracts in both our Transit and Shuttle businesses have a good level of protection against cost increases either through fixed rate increases or through inflation-linked rises, and for over half of our Shuttle customers by revenue, there is a direct pass through of cost increases.

Continued strategic progress

We are making good progress with Operational Transformation through our drive to increase digitisation within our business through our Digital Integrated Optimisation Platform (DIOP). Components within this platform include Bytecurve, which has now been rolled out to around 50% of our locations, enabling us to automate and optimise many processes such as daily scheduling and dispatch and driver attendance records, driving efficiencies and improving service for our customers. On completion of the roll out of Bytecurve, we expect to achieve around $6 million in annualised cost savings and efficiencies, with over $1 million expected in 2022. We are also making progress with the roll-out of an automated online payroll and HR resources tool, ADP, which will drive efficiencies and savings across each of our businesses – full roll-out is anticipated by the end of this year.

The 10 new contract wins in Shuttle and Transit demonstrate our progress with 'Filling the Transit Gap'. It is encouraging that many of our Shuttle customers were recognised with '2022 Best Workplace for Commuters' and 'Best Universities for Commuters' awards, a national standard of excellence for providing exceptional commuter benefits. Not only will this help to drive growth with existing customers as they recognise the quality of service we provide, but should also provide strong credentials for future bidding with potential new customers.

Encouragingly, we are seeing ZEV funding schemes becoming more prevalent, with a $2.75 billion Zero Emission Transit Fund in Canada available for funding up to half of the vehicle and infrastructure costs, while in the US, the Clean School Bus Program will provide $5 billion for zero emission school buses. In addition there are also funding opportunities emerging across a growing number of States. We are actively working with our customers to assess how best to access this funding, with a target to secure funding for 400 electric school buses. We are engaging with our partner OEMs in order to secure volume pricing commitments for ZEVs which will significantly improve the TCO model economics for school bus ZEVs, while also working with various parties to develop ZEV ownership models to avoid the up-front capital expenditure and transfer technology risk and thus enable us to accelerate our transition to ZEVs. We currently operate over 100 ZEVs across North America.

'Driving Excellence' continues to deliver improving results. Notably in the first half, our focus on Safety performance has seen a 25% reduction in speeding events year-on-year. We are also matching our safety performance in 2021, with zero responsible accidents in the year that result in either fatalities or major injuries. We continue to improve operational KPIs, such as on-time performance, which drive efficiencies as well as underpinning our strategic ambitions to be the most reliable and have the most satisfied customers.

Outlook

Driver shortages in School bus have had a significant impact in the 2021/22 school year and it will be the level of success in attracting and retaining new drivers for the 2022/23 school year that will determine the pace of recovery in revenue and profitability in the short-term. Our central assumption is that we expect our wage increases to enable us to recruit enough drivers to fill about a third of the lost routes in the second half of 2022. Clearly, if we recruit a higher proportion for this school year, there will be upside to our forecasts and the reverse would be also be the case if the increase in wages is not sufficient to attract enough drivers.

We remain confident about growth and profitability over the medium term. However there is likely to be some margin impact in the near term due to the contracting cycle in School Bus where we expect to fully recoup the current higher wage rates through increased pricing on contract renewals over the next two years.

We expect to see continued growth in Shuttle where strong organic growth from our fast-growing customers will more than offset any impact from changes to working patterns. We also have a large pipeline of Transit opportunities, where we are steadily building our credentials.

UK

	Half Year		Full Year
	2022	2021	2021
	£m	£m	£m
Revenue	**237.3**	172.8	397.8
Underlying Operating Loss	**(12.8)**	(19.9)	(22.6)
Underlying Operating Margin	**(5.4)%**	(11.5)%	(5.7)%

Overview

The UK has delivered strong growth in revenue together with an improved underlying operating result in the first half of the year. Revenue grew by 37.3% to £237.3 million, driven predominantly by UK Coach. The Underlying Operating Loss of £12.8 million represents a £7.1 million improvement versus the same period last year. Performance in the first quarter was impacted by Omicron and has built back steadily since with Coach revenue up 55% in Q2 versus Q1. Whilst Q1 delivered an Underlying Operating Loss, Q2 delivered an Underlying Operating Profit of £8.2 million reflecting the positive momentum in trading, coupled with the impact of operational gearing.

Revenue growth and passenger recovery

UK Coach saw a rapid rise in revenue year-on-year from March onwards, with January and February impacted by the Omicron variant. Revenue grew by 359% in Coach, up even more strongly in our core coach operations and is now running at over 80% of 2019 levels. Our major intercity routes are back to 84% of patronage, with some already fully recovered and our airport volumes are currently at around 64% of pre-pandemic levels and rising. Both the extended Jubilee bank holiday weekend and the return of Glastonbury saw extremely high levels of demand for our services, where we carried 50,000 passengers for Glastonbury alone, with both events helping to drive revenue back to around 86% in June 2022 versus the same month in 2019. We continue to add capacity to meet demand and expect to be operating around 85% of pre-pandemic service levels over the summer, and close to 100% of 2019 levels by the end of the year.

Our Transport Solutions business also delivered strong growth in the first half, with revenue up by nearly 80%.

Our UK Bus operations have also seen an improving trajectory in passenger demand, with commercial passengers now running at 87% of pre-pandemic levels, ahead of the industry average. We have continued to receive government funding support through the Bus Recovery Grant, which has been extended through to October 2022. More importantly, we will benefit from longer term funding over the next three years: £162 million through the City Region Sustainable Transport Settlement (CRSTS); and £88 million through the Bus Services Improvement Plan (BSIP) which will double the length of priority bus lanes in the West Midlands as well underpinning our low fares strategy. Faster journey times and sustainably low fares should combine to drive modal shift and increased passenger volumes and the first of these 'Sprint' lanes opened in June, and is reducing journey times by 20%.

We have a strong pipeline of bidding opportunities over the next 18 months, worth around £160 million. Our Transport Solutions business has won four new contracts in the period, including the first DRT contract outside of the West Midlands, with Leicester City Council, together with our first ZEV Shuttle contract, providing shuttle services to the Harry Potter World studio tour. We will continue to bid for further contracts over the coming year, including for asset-light bus contracts in Manchester, as TfGM looks to franchise its bus service operations.

Operating leverage driving profitability

The underlying operating result and margin have both improved during the period, largely reflecting the operational leverage impact from the strong revenue growth in our coach operations. Occupancy levels are now approaching 70% while yields are up 9% versus 2019, and up 20% year-on-year, with active revenue management driving improved returns. UK Coach returned to profit by the period end and we expect the UK to return to profit for the full year.

There was a significant uplift in trading in Q2 versus Q1, particularly in Coach, with the UK delivering a swing in Underlying Operating Profit of £29 million between the quarters, demonstrating the benefits of operational leverage and active yield management. We expect to see further improvements in financial results with services ramping up over the summer period and where we will continue to deploy active yield management through our revenue management systems.

Cost inflation is currently modest in our bus operations, while in Coach the vast majority of costs are for third party operators with rates agreed annually. In Coach, we have the ability to flex pricing up and down through our revenue management systems. We also have the ability to increase fares in Bus, but our current strategy is to keep fares low in order to drive volume, and this will be supported through BSIP funding over the next three years.

Continued strategic progress

We have made good progress in the first half of the year, particularly with our Environmental strategy. Funding has been secured for a further 124 hydrogen buses, while the first tranche of Coventry's all-electric city buses have arrived, with 130 due to start operating by the year end. We are encouraged that we are achieving better operating efficiencies from our EVs than we had expected. Through our dedicated EV driver training programme, we are delivering significantly improved energy efficiency, with independent analysis from the DfT showing our operations are 37% better than the UK average for emissions efficiency, well ahead of OEM's expectations. Our ZEVs are also 39% more reliable than a comparable diesel bus, saving us almost 60% in expenditure on parts. This performance is improving the Total Cost of Ownership (TCO) economics with the TCO per 100 kilometres of an EV versus a diesel bus now around 15% lower.

On top of these greater operating efficiencies, we are seeing a 4% improvement in patronage when operating ZEVs vs. the same driver, operating the same route in a modern Euro VI 'Platinum' Bus as well as higher customer satisfaction.

We are also making progress in terms of multi-modal expansion, with our Transport Solutions business launching operations in the West Midlands, leveraging our existing infrastructure. This will significantly strengthen our bidding capabilities in the region and beyond as we look to build our exposure to the highly fragmented private hire and corporate shuttle markets across the UK, worth £3 billion in total. Meanwhile, our recent DRT contract win with Leicester City Council represents multi-modal expansion in the East Midlands.

We continue to focus on the operational improvement aspects of Evolve, with UK Coach's safety performance of particular note with vehicles collisions 35% lower than pre-pandemic levels, at a time when there has been a rapid ramp up in services. On-time performance has also improved, with a 2.1% improvement versus 2019 for services arriving at their final destination point. This is translating into an improved Net Promoter Score of 45, a 7% improvement year-on-year and we continue to achieve very positive customer reviews, with a Trust pilot scores of 4.5 out of 5.

Outlook

We expect further recovery in both revenue and profit in the second half of the year, driven predominantly by further recovery in UK Coach, and we expect the UK to return to profit in the full year.

We see further recovery in UK Bus passenger demand over the medium term with the investment in 'Sprint' lanes and cross-city routes funded through the CRSTS, helping to drive modal shift out of cars and on to public transport. The current cost of living crisis may accelerate this, with a recent survey from TfWM showing that 73% of people are using their cars less; 37% are using public transport more; and 48% are already modal shifting with a further 27% considering doing so.

Germany

	Half Year		Full Year
	2022	2021	2021
	m	m	m
Revenue	**£124.1**	£80.4	£182.1
Underlying Operating Profit/(Loss)	**£3.0**	(£7.6)	£5.0
Revenue	**€147.3**	€92.6	€211.8
Underlying Operating Profit/(Loss)	**€3.5**	(€8.8)	€5.8
Underlying Operating Margin	**2.4%**	(9.5%)	2.7%

Our German rail operations have delivered a strong performance in revenue, profit and margin during the first half of the year. Revenue in Germany is up 59.0% to €147.3 million, largely reflecting the emergency contract awards of two services at the start of the year. Underlying Operating profit of €3.5 million in the period, compared with an Underlying Operating Loss of €8.8 million in the prior year, with an Underlying Operating Margin of 2.4%. The return to profit reflects the phasing of subsidies in 2021 together with the two new emergency contracts. Furthermore, whilst our German operations as a whole are more profitable on an Underlying and statutory basis, the original RRX contract was designated as a loss-making contract in 2021 and a further onerous contract provision charge of £4.9 million was recorded in separately disclosed items in the period, reflecting the projected impact of higher energy costs on the profitability of the contract in future years.

We expect to deliver a strong result for the year, boosted by the two emergency contracts.

Group Chief Financial Officer's review

Summary Income Statement

	Six months to 30 June					
	Underlying result[1] 2022£m	**Separately disclosed items[1] 2022 £m**	**Total 2022 £m**	Underlying result 2021 £m	Separately disclosed items 2021 £m	Total 2021 £m
Revenue	**1,324.3**	**-**	**1,324.3**	992.4	-	992.4
Operating costs	**(1,233.8)**	**(48.2)**	**(1,282.0)**	(969.5)	(49.0)	(1,018.5)
Operating profit/(loss)	**90.5**	**(48.2)**	**42.3**	22.9	(49.0)	(26.1)
Share of results from associates	**(0.1)**	**-**	**(0.1)**	(0.1)	-	(0.1)
Net finance costs	**(21.7)**	**-**	**(21.7)**	(22.7)	(1.3)	(24.0)
Profit/(loss) before tax	**68.7**	**(48.2)**	**20.5**	(0.1)	(50.3)	(50.2)
Tax	**(16.7)**	**12.0**	**(4.7)**	-	26.1	26.1
Profit/(loss) for the year	**52.0**	**(36.2)**	**15.8**	0.1	(24.2)	(24.1)

1: To supplement IFRS reporting, we also present our results on an underlying basis which shows the performance of the business before separately disclosed items, principally comprising amortisation of intangibles for acquired businesses, certain costs arising as a direct consequence of the pandemic and onerous contract charges in respect of driver shortages in North America. Treatment as a separately disclosed item provides users of the accounts with additional useful information to assess the year-on-year trading performance of the Group. Further explanation in relation to these measures, together with cross-references to reconciliations to statutory equivalents where relevant, can be found on pages 19-20.

Reflecting a period of strong growth, despite mobility restrictions in Q1 due to the Omicron variant, Group revenue grew by 33.6% to £1,324.3 million (H1 2021: £992.4m); the highest constant currency first half performance since the Group exited UK Rail.

During the period the Group recognised £14.9 million in revenue in respect of the Bus Recovery Grant; this compares to £62.7 million recorded in the first six months of 2021 in respect of the previous funding arrangement, the Covid-19 Bus Services Support Grant (CBSSG). In addition, the Group recognised £8.4 million (H1 2021: £15.8m) and £3.4 million (H1 2021: £4.6m) for Covid-19 government compensation in ALSA and German Rail respectively. There was no revenue support provided by the Government for UK coach in either the current or prior year.

The Group recorded an Underlying Operating Profit for the period of £90.5 million (H1 2021: £22.9m); an increase of £67.6 million reflecting continued disciplined cost control; mitigation of cost inflation through price; and operational leverage as revenues grow. Underlying Operating Margin increased from 5.4% in the second half of 2021 to 6.8% in the first half of 2022, ahead of our expectations. Further margin progression is expected in the second half of 2022, with full year 2022 margin of around 7%.

After £48.2 million (H1 2021: £49.0m) of separately disclosed items, statutory operating profit was £42.3 million (H1 2021: £26.1m loss).

£1.0 million (H1 2021: £15.5m) was recorded in the period in respect of wage subsidy schemes in North America; this compared to £15.5 million in the UK and North America in the first half of 2021. £8.5 million was recognised in the UK in respect of funding to maintain a comprehensive bus network for the period running up to and including the Commonwealth Games, being held in Birmingham this summer. During the period the Group utilised the remaining amounts under the Coronavirus Economic Relief for Transportation Services (CERTS) grant in North America, resulting in a £38.7 million credit. This grant was received in cash in 2021 and the amount unutilised at 31 December 2021 was held on the balance sheet as deferred income and has subsequently been released in the period.

Underlying net finance costs decreased by £1.0 million to £21.7 million (H1 2021: £22.7m). The Group recorded an Underlying Profit Before Tax of £68.7 million (H1 2021: Loss £0.1m).

The underlying effective tax rate of 24.3% (H1 2021: 24.4%) resulted in an underlying tax charge of £16.7 million (H1 2021: £nil). The statutory tax charge was £4.7 million (H1 2021: £26.1m credit).

The statutory profit for the period, after the separately disclosed items explained below, was £15.8 million (H1 2021: £24.1m loss).

Separately disclosed items

Separately disclosed items of £48.2 million (H1 2021: £50.3m) were recorded as a net cost before tax in the Income Statement, of which £23.2 million (H1 2021: £34.3m) represented cash outflows in the period.

Separately disclosed items	**Income Statement Six months to 30 June 2022 £m**	Income Statement Six months to 30 June 2021 £m	**Cash Six months to 30 June 2022 £m**	Cash Six months to 30 June 2021 £m
Intangible amortisation for acquired businesses	**(18.7)**	(19.4)	**-**	-
Directly attributable gains and losses resulting from the Covid-19 pandemic	**(3.3)**	(15.4)	**(8.3)**	(22.0)
Re-measurement of the RRX onerous contract provision	**(4.9)**	(3.2)	**(4.7)**	-
North America driver shortages	**(19.7)**	-	**(2.7)**	-
Restructuring and other costs	**(1.6)**	(11.0)	**(7.5)**	(11.6)
Separately disclosed operating items	**(48.2)**	(49.0)	**(23.2)**	(33.6)
Interest charges directly resulting from the Covid-19 pandemic	**-**	(1.3)	**-**	(0.7)
Total (before tax)	**(48.2)**	(50.3)	**(23.2)**	(34.3)

Further detail is set out in note 5 to the Financial Statements.

Segmental performance

	Six months to 30 June					
	Underlying Operating Profit/(Loss) 2022 £m	**Separately disclosed items 2022 £m**	**Segment result 2022 £m**	Underlying Operating Profit/(Loss) 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m
ALSA	**50.3**	**(6.2)**	**44.1**	17.1	(15.8)	1.3
North America	**57.4**	**(34.6)**	**22.8**	41.5	(21.1)	20.4
UK	**(12.8)**	**(0.4)**	**(13.2)**	(19.9)	(6.5)	(26.4)
German Rail	**3.0**	**(5.4)**	**(2.4)**	(7.6)	(3.9)	(11.5)
Central functions	**(7.4)**	**(1.6)**	**(9.0)**	(8.2)	(1.7)	(9.9)
Operating profit/(loss)	**90.5**	**(48.2)**	**42.3**	22.9	(49.0)	(26.1)

ALSA's performance was particularly strong, growing Underlying Operating Profit by £33.2 million to £50.3 million. This reflected very strong revenue growth of 59.8%, driven by double-digit percentage growth across all business lines and long haul coach revenues more than doubling as passengers returned to travel.

North America Underlying Operating Profit increased by £15.9 million. The utilisation of the remaining CERTS grant more than offset the impact of driver shortages and the non-repeat of customer support received in the previous years in respect of schools that were closed due the pandemic.

In the UK, the coach business was significantly impacted in Q1 by mobility restrictions and reduced travel in response to the Omicron variant. As the restrictions lifted and customers regained confidence in travel, we saw a significant rebound in Q2. Consequently, the UK recorded an Underlying Operating Loss of £21.0 million in Q1, growing rapidly to a £8.2 million Underlying Operating Profit in Q2 and continuing to build strongly.

Cash management

Funds flow	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m
Underlying Operating Profit	**90.5**	22.9
Depreciation and other non-cash items	**107.3**	105.3
EBITDA	**197.8**	128.2
Net maintenance capital expenditure**	**(88.3)**	(56.7)
Working capital movement	**(24.9)**	(9.0)
Pension contributions above normal charge	**(3.6)**	(3.6)
Operating cash flow	**81.0**	58.9
Net interest paid	**(13.2)**	(17.6)
Tax paid	**(4.0)**	(5.2)
Free cash flow	**63.8**	36.1
Growth capital expenditure**	**(29.2)**	(74.9)
Acquisitions and disposals (net of cash acquired/disposed)	**(25.6)**	(46.9)
Separately disclosed items	**(23.2)**	(34.3)
Payment on hybrid instrument	**(21.3)**	(5.3)
Other, including foreign exchange	**(62.2)**	60.9
Net funds flow	**(97.7)**	(64.4)
Net Debt	**(1,167.5)**	(1,084.3)

* H1 2021 Net Debt is restated for the reclassification from payables to Net Debt of £79.9m amounts due under advance factoring arrangements as explained in our 2021 full year annual report.
** Net maintenance capital expenditure and growth capital expenditure are defined in the glossary of Alternative Performance Measures on page 19.

The Group generated EBITDA of £197.8 million in the period (H1 2021: £128.2m).

The £88.3 million of maintenance capital expenditure principally related to fleet replacement and was higher year-on-year, reflecting the actions taken during 2020 to reduce capital additions, which reduced the 2021 cash outflow. As a ratio of depreciation, maintenance capital expenditure was 0.8, as guided at the start of the year. At the period end there was £82.8 million (31 December 2021: £104.3m) owing to vehicle suppliers.

Working capital was a £24.9 million outflow (H1 2021: £9.0m outflow) in the period, reflecting the net of a) a £38.7 million outflow from the utilisation of the CERTS deferred income and b) inflows in respect of strong cash collection and timing of receipt of subsidies. We expect working capital to be a larger outflow for the full year as some of the timing benefits in H1 reverse. The diversified nature of the Group's revenue streams and the predominantly government-backed or blue-chip profile of the customer base helps mitigate any potential credit risk on receivables, but we continue to keep it under close review. Consistent with previous periods the Group makes use of selective, non-recourse factoring arrangements on receivables. The usage of these arrangements was £39.7 million (31 December 2021: £48.5m); these amounts are recognised as a deduction from receivables. Furthermore, as in previous years, the Group utilises advance payments for factoring of divisional subsidies. The amount outstanding at the end of the period was £49.8m (31 December 2021: £77.9m) and is included in Net Debt.

Net interest paid decreased by £4.4 million to £13.2 million (H1 2021: £17.6m), principally driven by the interest saving on the private placement facility that matured in August 2021 and timing of payments in respect of interest rate swaps.

The net impact of the factors outlined above was a free cash inflow of £63.8 million in the period (H1 2021: £36.1m). This represents strong free cash flow conversion of 70%.

Growth capital expenditure of £29.2 million predominantly related to vehicles to service the Casablanca contract in ALSA. Acquisitions were a £25.6 million outflow, principally comprising £18.2 million for the purchase of a further 10% of the share capital of WeDriveU (upon exercise of put options by the vendor) and £6.0 million for the acquisition of Vitalia in Spain.

A cash outflow of £23.2 million was recorded in respect of the items excluded from underlying results as explained above. £21.3m of coupon payments on the hybrid instrument were made in the period; the year-on-year increase due to it being the first full year coupon. Other cash outflows of £62.2 million principally reflect the movement in exchange rates and settlement of foreign exchange derivatives.

Net funds outflow for the period of £97.7 million (H1 2021: £64.4m) resulted in Net Debt of £1,167.5 million (H1 2021: £1,084.3m).

Please see page 20 for a reconciliation to the statutory cash flow statement.

Dividend

The Group's capital allocation policy aims to achieve a balance between reinvesting in the business for future growth and returns; reducing Net Debt to within our target range of 1.5x to 2.0x EBITDA; and paying a growing dividend to shareholders. As previously guided, in light of the exceptional economic circumstances and conditions attaching to our amended covenants, the Group will not be paying an interim dividend in respect of 2022. Looking ahead, reflecting the improving financial performance of the Group and the outlook for profit and cash for the year ahead, the Board intends to reinstate a dividend in respect of the full year 2022, at least 2 times covered. We anticipate paying the entire dividend in respect of FY 2022 based on, and following delivery of, the full year results; reverting to a customary split between interim and final dividends for subsequent years.

Treasury management

The Group maintains a disciplined approach to its financing and is committed to an investment grade credit rating.

In light of the impact of the pandemic on EBITDA generation, the Group had previously renegotiated its covenants. The gearing covenant applicable at 30 June 2022 and 31 December 2022 is at an amended limit of no greater than 5.0x. The usual covenant of 3.5x will apply again from the 30 June 2022 test onwards. The interest cover covenant has already reverted to the pre-amended minimum of 3.5x.

In return for these waivers and amendments to the covenants the Group has agreed to a quarterly £250 million minimum liquidity test and a bi-annual £1.6 billion maximum net debt test during the waiver period. All covenants are on a pre-IFRS 16 basis. In addition the Group has agreed to pay no dividend during the period of the amendments if gearing exceeds 3.5x or interest cover is below 3.5x. At 30 June 2022, Gearing was 3.1x (31 December 2021: 3.6x); back within pre-amended covenants for the first time since the pandemic began. Interest cover at the end of the period was 8.2x (31 December 2021: 6.3x).

At 30 June 2022, the Group had £1.9 billion of debt capital and committed facilities, with an average maturity of 4.6 years. At 30 June 2022, the Group's RCFs were undrawn and the Group had available a total of £0.8 billion in cash and undrawn committed facilities. The table below sets out the composition of these facilities.

Funding facilities	Facility £m	Utilised at 30 June 2022 £m	Headroom at 30 June 2022 £m	Maturity year
Core RCFs	495	-	495	2024-2025
2023 bond	400	400	-	2023
2028 bond	250	250	-	2028
Private placement	407	407	-	2027-2032
Divisional bank loans	134	134	-	various
Leases	225	225	-	various
Funding facilities excluding cash	1,911	1,416	495	
Net cash and cash equivalents		(301)	301	
Total		**1,115**	**796**	

No facilities expire within the next 12 months. In November 2023 the £400 million 2023 bond matures; preparations are underway for the replacement of this.

To ensure sufficient availability of liquidity, the Board requires the Group to maintain a minimum of £300 million in cash and undrawn committed facilities at all times. This does not include factoring facilities which allow the without-recourse sale of receivables. These arrangements provide the Group with more economic alternatives to early payment discounts for the management of working capital, and as such are not included in (or required for) liquidity forecasts.

At 30 June 2022, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. At 30 June 2022, the proportion of Group debt at floating rates was 19% (31 December 2021: 18%).

Return on capital employed

The return on capital employed at the end of the period was 5.9% (31 December 2021: 3.4%; 30 June 2021: 0.1%) representing a doubling in 6 months as operational leverage drives a strong improvement in Underlying Operating Profit. For the full year we expect further recovery to around 8%.

Group tax policy

We adopt a prudent approach to our tax affairs, aligned to business transactions and economic activity. We have a constructive and good working relationship with the tax authorities in the countries in which we operate and there are no outstanding tax audits in any of our main three markets of the UK, Spain and the USA. The Group's tax strategy is published on the Group website in accordance with UK tax law.

Pensions

Following the buy-out of the UK Group scheme during 2021, the group now operates only one main defined benefit scheme in the UK division (the WM Bus scheme). The deficit under IAS 19 at 30 June 2022 was £61.2 million (31 December 2021: £95.4m), with the decrease being principally driven by an increase in discount rates.

Fuel costs

Fuel cost represents approximately 8% of revenue. The Group is fully hedged for 2022 at an average price of 36.1p per litre; around 75% hedged for 2023 at an average price of 36.5p; and around 35% hedged for 2024 at an average price of 41.6p. The average hedged price of fuel over these periods therefore being slightly below that paid throughout 2021.

Going concern

The Financial Statements have been prepared on a going concern basis as the Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of not less than 12 months from the date of approval of the financial statements. Details of the Board's assessment of the Group's 'base case', 'reasonable worse case', and 'reverse stress tests' are detailed in note 1 to the Financial Statements on pages 28 to29.

Risks and uncertainties

In the 2021 annual report the Board sets out what it considers to be the principal risks and uncertainties. Having subsequently reviewed these again the Board considers them to remain relevant. The principal risks are summarised below:

- Pandemic: the risk that new virus mutations may delay the recovery or there may be lasting implications such as residual fear of travel; significantly less travel for shopping; or a material change in working patterns.
- Economic conditions: parts of the business may be adversely affected by economic conditions as discretionary travel in some areas of the business is historically correlated to GDP; and access to sufficient drivers is linked to the prevailing forces in the employment markets.
- Political, geopolitical and regulatory changes: can impact a regulated transport business through the operation of concessions; safety procedures; equipment specifications; employment requirements, and environmental procedures.
- Climate risk (physical): Widespread events such as extreme weather can interrupt operations and cause revenue loss even if the Group's assets are undamaged
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.
- Climate risk (transitional): Increasing popular, political and customer demand for ZEVs involves potentially material changes to operational infrastructure as well as financing to maintain and operate the assets.
- Competition and market dynamics: increased competition from other modes of transport and/or in terms of increased price competition.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs; lack of available management talent/leaderships skills which could inhibit growth; shortages in drivers and other key staff.
- Cyber security, IT failure and General Data Protection Regulations: loss of confidential data causing damage to brand reputation and incurring penalties; major IT failure causing severe or sustained disruption to the business.
- Safety, litigation and claims: a major safety or security-related incident could impact the Group both financially and reputationally.

- Credit/financing risk: Group liquidity could be impacted by a material increase in borrowing costs; and a material tightening of credit markets

Alternative performance measures

In the reporting of financial information, the Group has adopted various Alternative Performance Measures ("APMs"). APMs should be considered in addition to IFRS measurements. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance. The key APMs that the Group focuses on are as follows:

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
EBITDA	Operating profit[1]	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking Underlying Operating Profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. This is illustrated in the Group Chief Financial Officer's Report on page 14.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group's gearing ratio.
Gearing	No direct equivalent	The ratio of Covenant Net Debt to EBITDA over the last 12 months, after making the following adjustments to EBITDA: including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period; the reversal of IFRS 16 accounting; the exclusion of the profit or loss from associates; the exclusion of the profit or loss attributable to minority interest; and the add back of interest costs arising from the unwind of the discount on provisions.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
Free cash flow	Net cash generated from operating activities	The cash flow equivalent of Underlying Profit After Tax. A reconciliation of Underlying Operating Profit and net cash flow from operating activities to free cash flow is set out in the supporting tables below.	Free cash flow allows us and external parties to evaluate the cash generated by the Group's operations and is also a key performance measure for the Executive Directors' annual bonus structure and management remuneration.
Net maintenance capital expenditure	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations. It includes the capitalisation of leases initiated in the year in respect of existing business. A reconciliation of capital expenditure in the statutory cash flow statement to net maintenance capital expenditure (as presented in the Group Chief Financial Officer's Report) is set out in the supporting tables below.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group's profit.
Growth capital expenditure	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth. It includes the capitalisation of leases initiated in the year in respect of new business.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
Net Debt	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, 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). The components of Net Debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 14.	Net Debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.
Covenant Net Debt	Borrowings less cash and related hedges	Net Debt adjusted for certain items agreed with the Group's lenders as being excluded for the purposes of calculating Net Debt for covenant assessment. The adjustments principally comprise the exclusion of IFRS 16 liabilities, the exclusion of amounts owing under arrangements to factor advance subsidy payments, the add back of trapped cash, and an adjustment to retranslate any borrowing denominated in foreign currency to the average foreign currency exchange rates over the preceding 12 months.	Covenant Net Debt is the measure that is applicable in the covenant gearing test.
Underlying earnings	Profit after tax	Is the Underlying Profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column.	Underlying earnings is a key measure used in the calculation of Underlying earnings per share.

Underlying earnings per share	Basic earnings per share	Is Underlying earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled. A reconciliation of statutory profit to Underlying profit for the purpose of this calculation is provided within note 8 of the financial statements.	Underlying earnings per share is widely used by external stakeholders, particularly in the investment community.
Underlying Operating Profit	Operating profit[1]	Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column.	Underlying Operating Profit is a key performance measure for the Executive Directors' annual bonus structure and management remuneration. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
Underlying Operating Margin	Operating profit[1] divided by revenue	Underlying Operating Profit/(Loss) divided by revenue	Underlying Operating Margin is a measure used to assess and compare profitability. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders
Return on capital employed (ROCE)	Operating profit[1] and net assets	Underlying Operating Profit divided by average capital employed. Capital employed is net assets excluding Net Debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates. The calculation of ROCE is set out in the reconciliation tables below.	ROCE gives an indication of the Group's capital efficiency and is a key performance measure for the Executive Directors' remuneration.

[1] *Operating profit is presented on the Group income statement. It is not defined per IFRS, however is a generally accepted profit measure.*

Supporting reconciliations

Reconciliation of net cash flow from operating activities to free cash flow	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m
Net cash flow from operating activities	**92.9**	57.9
Remove: Cash payments in respect of IFRIC 12 asset purchases treated as working capital for statutory cash flow*	**25.7**	-
Remove: Cash expenditure in respect of separately disclosed items	**23.2**	34.3
Add: Net maintenance capital expenditure	**(88.3)**	(56.7)
Add: Other non-cash movements	**(0.2)**	(0.4)
Profit on disposal of fixed assets	**10.5**	1.0
Free cash flow	**63.8**	36.1

*During the year the Group made payments in respect of assets (principally vehicles) acquired to fulfil a contract in Morocco that is accounted for under the IFRIC12 financial asset model and for which the statutory cash flow for these purchases is accordingly presented as a movement in working capital, with the assets being recorded as contract assets on the balance sheet rather than in property, plant and equipment or intangible assets. In order to be consistent with the treatment of asset purchases on other contracts, these asset purchases are reclassified to capital expenditure for the purposes of the "funds flow" presented in the CFO report. The asset purchases in 2022 were in respect of a new contract and therefore have been reclassified to growth capital expenditure, consistent with other asset purchases for new business and consistent with previous years.

Reconciliation of capital expenditure in statutory cash flow to funds flow	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m
Purchase of property, plant and equipment	**(70.0)**	(116.6)
Proceeds from disposal of property, plant and equipment	**5.5**	2.1
Payments to acquire intangible assets	**(5.7)**	(6.0)
Proceeds from disposal of intangible assets	**4.1**	0.7
Net capital expenditure in statutory cash flow statement	**(66.1)**	(119.8)
Add: profit on disposal of fixed assets	**(10.5)**	(1.0)
Add: capitalisation of leases initiated in the period, less disposals	**(15.2)**	(10.8)
Add: cash payments in respect of IFRIC12 purchases (as explained above)	**(25.7)**	-
Net capital expenditure in the funds flow (presented in the Group Chief Financial Officer's Report)	**(117.5)**	(131.6)
Split as:		
Net maintenance capital expenditure	***(88.3)***	*(56.7)*
Growth capital expenditure	***(29.2)***	*(74.9)*

Reconciliation of ROCE	12 months to 30 June 2022 £m	12 months to 30 June 2021 £m
Group statutory operating profit	**32.2**	(317.8)
Add back: separately disclosed items	**122.4**	320.5
Return – Underlying Group Operating Profit	**154.6**	2.7
Average net assets	**1,544.4**	1,380.5
Remove: Average net debt	**1,125.9**	1,163.6
Remove: Average derivatives, excluding amounts within net debt	**(19.7)**	18.7
Foreign exchange adjustment	**(50.0)**	(4.7)
Average capital employed	**2,600.6**	2,558.1
Return on capital employed	**5.9%**	0.1%

Directors' Responsibilty Statement

The Directors confirm that, to the best of their knowledge:

the condensed financial statements of the Company have been prepared in accordance with IAS 34; and

the interim management report of the Company includes:

- a fair review of the important events during the first six months of the year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R; and
- a fair review of related party transactions and changes therein, as required by DTR 4.2.8R.

On behalf of the Board

Ignacio Garat
Chief Executive Officer

Chris Davies
Chief Financial Officer

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP INCOME STATEMENT
For the six months ended 30 June 2022

		Unaudited six months to 30 June						
	Note	**Underlying result 2022 £m**	**Separately disclosed Items (note 5) 2022 £m**	**Total 2022 £m**	Underlying result 2021 £m	Separately disclosed Items (note 5) 2021 £m	Total 2021 £m	Audited Year to 31 December Total 2021 £m
Revenue	3	**1,324.3**	**–**	**1,324.3**	992.4	–	992.4	2,170.3
Operating costs		**(1,233.8)**	**(48.2)**	**(1,282.0)**	(969.5)	(49.0)	(1,018.5)	(2,206.5)
Group operating profit/(loss)	3	**90.5**	**(48.2)**	**42.3**	22.9	(49.0)	(26.1)	(36.2)
Share of results from associates and joint ventures		**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)	(1.0)
Finance income	4	**1.3**	**–**	**1.3**	1.6	–	1.6	3.2
Finance costs	4	**(23.0)**	**–**	**(23.0)**	(24.3)	(1.3)	(25.6)	(50.9)
Profit/(loss) before tax		**68.7**	**(48.2)**	**20.5**	0.1	(50.3)	(50.2)	(84.9)
Tax (charge)/credit	6	**(16.7)**	**12.0**	**(4.7)**	–	26.1	26.1	7.0
Profit/(loss) for the period		**52.0**	**(36.2)**	**15.8**	0.1	(24.2)	(24.1)	(77.9)
Profit/(loss) attributable to equity shareholders		**48.5**	**(35.7)**	**12.8**	(2.7)	(22.5)	(25.2)	(81.6)
Profit/(loss) attributable to non-controlling interests		**3.5**	**(0.5)**	**3.0**	2.8	(1.7)	1.1	3.7
		52.0	**(36.2)**	**15.8**	0.1	(24.2)	(24.1)	(77.9)
Earnings per share:	8							
– basic earnings per share				**0.4p**			(5.8)p	(16.8)p
– diluted earnings per share				**0.4p**			(5.8)p	(16.8)p

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

	Unaudited six months to 30 June 2022 £m	Unaudited six months to 30 June 2021 £m	Audited year to 31 December 2021 £m
Profit/(loss) for the period	**15.8**	(24.1)	(77.9)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on defined benefit pension plans	**36.6**	35.1	41.9
Deferred tax charge on actuarial movements	**(9.2)**	(0.9)	(2.7)
Gains on equity instruments classified as fair value through Other Comprehensive Income	**0.4**	–	1.2
	27.8	34.2	40.4
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations	**130.7**	(51.6)	(55.7)
Exchange differences on retranslation of non-controlling interests	**2.1**	(1.2)	(1.3)
(Losses)/gains on net investment hedges	**(44.8)**	24.5	26.5
Gains on cash flow hedges	**96.1**	35.7	52.5
Cost of hedging	**(0.7)**	0.1	0.1
Hedging gains and losses reclassified to Income Statement	**(39.2)**	4.5	(3.3)
Tax on exchange differences	**0.1**	(1.4)	0.5
Deferred tax on cash flow hedges	**(14.3)**	(9.4)	(9.5)
	130.0	1.2	9.8
Comprehensive income for the period	**157.8**	35.4	50.2
Total comprehensive income/(expenditure) for the period	**173.6**	11.3	(27.7)
Total comprehensive income/(expenditure) attributable to:			
Equity shareholders	**168.5**	11.4	(30.1)
Non-controlling interests	**5.1**	(0.1)	2.4
	173.6	11.3	(27.7)

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP BALANCE SHEET
At 30 June 2022

	Note	**Unaudited 30 June 2022 £m**	(Restated) Unaudited 30 June 2021[1] £m	Audited 31 December 2021 £m
Non-current assets				
Intangible assets		**1,870.1**	1,790.4	1,778.5
Property, plant and equipment		**1,162.3**	1,166.2	1,129.6
Non-current financial assets		**47.2**	31.2	32.6
Deferred tax assets		**143.0**	142.7	150.6
Investments accounted for using the equity method		**13.8**	15.4	13.7
Trade and other receivables		**167.7**	134.0	147.1
Finance lease receivable		**11.6**	14.8	12.7
Defined benefit pension assets	12	**–**	11.7	3.8
Total non-current assets		**3,415.7**	3,306.4	3,268.6
Current assets				
Inventories		**32.6**	27.1	28.8
Trade and other receivables		**517.3**	426.8	428.3
Finance lease receivable		**4.5**	4.3	4.1
Derivative financial instruments	11	**78.0**	24.7	31.0
Current tax assets		**5.7**	13.5	3.3
Cash and cash equivalents	9	**341.9**	599.8	508.4
Total current assets		**980.0**	1,096.2	1,003.9
Assets classified as held for sale		**19.4**	18.0	18.6
Total assets		**4,415.1**	4,420.6	4,291.1
Non-current liabilities				
Borrowings		**(1,294.3)**	(1,319.3)	(1,294.3)
Derivative financial instruments	11	**(16.1)**	(7.2)	(11.1)
Deferred tax liability		**(44.2)**	(30.8)	(39.2)
Other non-current liabilities		**(141.3)**	(239.4)	(123.8)
Defined benefit pension liabilities	12	**(61.2)**	(107.7)	(99.2)
Provisions		**(68.0)**	(43.3)	(68.8)
Total non-current liabilities		**(1,625.1)**	(1,747.7)	(1,636.4)
Current liabilities				
Trade and other payables		**(798.4)**	(698.7)	(787.7)
Borrowings		**(202.2)**	(400.0)	(302.3)
Derivative financial instruments	11	**(81.5)**	(8.9)	(24.5)
Current tax liabilities		**(10.2)**	(5.7)	(3.0)
Provisions		**(91.8)**	(76.8)	(89.0)
Total current liabilities		**(1,184.1)**	(1,190.1)	(1,206.5)
Total liabilities		**(2,809.2)**	(2,937.8)	(2,842.9)
Net assets		**1,605.9**	1,482.8	1,448.2
Shareholders' equity				
Called up share capital		**30.7**	30.7	30.7
Share premium account		**533.6**	533.6	533.6
Own shares		**(4.0)**	(2.7)	(4.5)
Hybrid reserve		**502.2**	502.2	513.0
Other reserves		**508.4**	370.2	380.1
Retained earnings		**(8.7)**	10.0	(45.8)
Total shareholders' equity		**1,562.2**	1,444.0	1,407.1
Non-controlling interest in equity		**43.7**	38.8	41.1
Total equity		**1,605.9**	1,482.8	1,448.2

[1] Consistent with the 2021 Annual Report and Accounts prior year balances have been restated for changes in accounting policy and presentation of overdrafts (see note 1)

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022

	Share Capital £m	Share premium £m	Own Shares £m	Hybrid reserve £m	Other Reserves £m	Retained earnings £m	Total £m	Non-controlling Interests £m	Total £m
At 1 January 2022	**30.7**	**533.6**	**(4.5)**	**513.0**	**380.1**	**(45.8)**	**1,407.1**	**41.1**	**1,448.2**
Profit for the period	–	–	–	–	–	**12.8**	**12.8**	**3.0**	**15.8**
Comprehensive income for the period	–	–	–	–	**128.3**	**27.4**	**155.7**	**2.1**	**157.8**
Total comprehensive income	–	–	–	–	**128.3**	**40.2**	**168.5**	**5.1**	**173.6**
Shares purchased	–	–	**(0.2)**	–	–	–	**(0.2)**	–	**(0.2)**
Own shares released to equity employee share schemes	–	–	**0.7**	–	–	**(0.7)**	–	–	–
Accrued payments on hybrid instrument	–	–	–	**10.5**	–	**(10.5)**	–	–	–
Payments on hybrid instrument	–	–	–	**(21.3)**	–	–	**(21.3)**	–	**(21.3)**
Deferred tax on hybrid bond payments	–	–	–	–	–	**2.6**	**2.6**	–	**2.6**
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	**5.5**	**5.5**	**(5.5)**	–
Contributions from non-controlling interests	–	–	–	–	–	–	–	**3.0**	**3.0**
At 30 June 2022	**30.7**	**533.6**	**(4.0)**	**502.2**	**508.4**	**(8.7)**	**1,562.2**	**43.7**	**1,605.9**

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2021

	Share Capital £m	Share premium £m	Own Shares £m	Hybrid reserve £m	Other Reserves £m	Retained earnings £m	Total £m	Non-controlling Interests £m	Total £m
At 1 January 2021	30.7	533.6	(3.5)	497.6	367.8	9.6	1,435.8	40.2	1,476.0
(Loss)/profit for the period	–	–	–	–	–	(25.2)	(25.2)	1.1	(24.1)
Comprehensive income/(expenditure) for the period	–	–	–	–	2.4	34.2	36.6	(1.2)	35.4
Total comprehensive income/(expenditure)	–	–	–	–	2.4	9.0	11.4	(0.1)	11.3
Shares purchased	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
Own shares released to equity employee share schemes	–	–	1.0	–	–	(1.0)	–	–	–
Tax on share based payments	–	–	–	–	–	0.2	0.2	–	0.2
Transaction costs on issuance of hybrid instrument	–	–	–	(0.6)	–	–	(0.6)	–	(0.6)
Accrued payments on hybrid instrument	–	–	–	10.5	–	(10.5)	–	–	–
Payments on hybrid instrument	–	–	–	(5.3)	–	–	(5.3)	–	(5.3)
Deferred tax on hybrid bond payments	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Purchase of subsidiary shares from non-controlling interest	–	–	–	–	–	3.9	3.9	(4.3)	(0.4)
Other movements with non-controlling interests	–	–	–	–	–	–	–	3.0	3.0
At 30 June 2021 (unaudited)	30.7	533.6	(2.7)	502.2	370.2	10.0	1,444.0	38.8	1,482.8

NATIONAL EXPRESS GROUP PLC
CONDENSED GROUP STATEMENT OF CASH FLOWS
For the six months ended 30 June 2022

	Note	**Unaudited six months to 30 June 2022 £m**	(Restated) Unaudited six months to 30 June 2021[1] £m	Audited year to 31 December 2021 £m
Cash generated from operations	15	**109.9**	80.9	231.1
Tax paid		**(4.0)**	(5.2)	(19.2)
Interest paid		**(13.2)**	(18.6)	(45.0)
Interest received		**0.2**	0.8	4.0
Net cash flow from operating activities		**92.9**	57.9	170.9
Cash flows from investing activities				
Payments to acquire businesses, net of cash acquired	13	**(4.4)**	(21.0)	(20.8)
Deferred consideration for businesses acquired	13	**(1.3)**	(5.4)	(13.0)
Proceeds from disposal of business, net of cash disposed		**–**	(1.0)	(0.9)
Purchase of property, plant and equipment		**(70.0)**	(116.6)	(168.5)
Proceeds from disposal of property, plant and equipment		**5.5**	2.1	13.7
Payments to acquire intangible assets		**(5.7)**	(6.0)	(44.4)
Proceeds from disposal of intangible assets		**4.1**	0.7	0.7
Payments to settle net investment hedge derivative contracts		**(5.0)**	–	–
Receipts on settlement of net investment hedge derivative contracts		**2.9**	30.6	35.1
Receipts relating to associates and investments		**0.3**	–	0.9
Net cash flow from investing activities		**(73.6)**	(116.6)	(197.2)
Cash flows from financing activities				
Issuance of hybrid instrument[2]		**–**	(0.1)	(0.5)
Dividends paid to holders of hybrid instrument		**(21.3)**	(5.3)	(5.3)
Principal lease payments		**(37.7)**	(45.8)	(118.2)
Increase in borrowings		**72.3**	136.4	243.0
Repayment of borrowings		**(90.5)**	(69.2)	(220.1)
Payments to settle foreign exchange forward contracts		**(17.6)**	(6.6)	(11.9)
Receipts on settlement of foreign exchange forward contracts		**7.7**	17.0	20.7
Purchase of own shares		**(0.2)**	(0.2)	(2.5)
Acquisition of non-controlling interests[3]		**(18.2)**	(17.9)	(18.3)
Contribution from NCI		**3.0**	–	–
Dividends paid to non-controlling interests		**–**	(0.5)	(0.4)
Dividends paid to shareholders of the Company		**–**	–	–
Net cash flow from financing activities		**(102.5)**	7.8	(113.5)
Decrease in net cash and cash equivalents		**(83.2)**	(50.9)	(139.8)
Opening net cash and cash equivalents		**376.2**	520.5	520.5
Decrease in net cash and cash equivalents		**(83.2)**	(50.9)	(139.8)
Foreign exchange		**8.0**	(5.2)	(4.5)
Closing net cash and cash equivalents	9	**301.0**	464.4	376.2

[1] Consistent with the 2021 Annual Report and Accounts prior year balances have been restated for changes in accounting policies (see note 1)
[2] Net of transaction fees totalling £0.5m incurred during 2021
[3] Amounts in 2022 include £18.2m paid on exercise of 10% of the WeDriveU put liability and £17.5m in 2021

1. General information

Basis of preparation
The condensed interim Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with International Accounting Standards 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board. It should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2021, which were prepared in accordance with applicable law and International Financial Reporting Standards as issued by the International Accounting Standards Board.

These condensed interim Financial Statements for the six months ended 30 June 2022 do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2021 were approved by the board of directors on 9 March 2022 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Figures for the year ended 31 December 2021 have been extracted from the Group's Annual Report and Accounts for the year ended 2021. The interim results are unaudited but have been reviewed by the Group's auditor.

Going concern
The Financial Statements have been prepared on a going concern basis. In adopting this basis, the Directors have considered the Group's business activities, principal risks and uncertainties, exposure to macroeconomic conditions, financial position, liquidity and borrowing facilities.

The Group continues to maintain a strong liquidity position, with £0.8bn in cash and undrawn committed facilities available to it as of 30 June 2022 and total committed facilities of £2.0bn at this date. None of these facilities expire within the 12 month going concern assessment period, with the first such expiry in November 2023.

The Group has positive relationships and regular dialogue with its lenders. Certain of the Group's borrowings are subject to covenant tests on gearing and interest cover on a bi-annual basis. The group negotiated a series of waivers and amendments to these covenants as it navigated the impact of the Covid-19 pandemic, with the final remaining amendment relating to the December 2022 gearing covenant, which is relaxed to ≤5.0x. Thereafter the original gearing covenant will apply, reverting to ≤3.5x as at June 2023. The interest cover covenant has already reverted to pre-amendment levels, with ≥3.5x required at both December 2022 and June 2023.

The Group has continued to achieve a steady and sustained recovery in passenger demand to deliver record revenue (at constant currency) in the first six months of the year, whilst at the same time rebuilding profit. At the same time the Directors remain confident in the longer term outlook for the Group, underlined by the 16 new contract wins, an acquisition, and expansion into a new country achieved throughout the first half of 2022, and an ambition to selectively pursue further growth opportunities from a strong pipeline of over £2bn of annualised revenue opportunities. This growth ambition is strengthened by government policy which is highly supportive of public transport as part of the solution to climate change.

In the base case projections, which cover the period to August 2023, we assume an ongoing increase in passenger demand across the Group, in line with the strong trends seen in the year to date. The key points of note regarding the base case are as follows:

- In the UK, we expect patronage to surpass pre-pandemic levels by June 2023.
- In ALSA, we will grow revenue through recovery in the base business as demand for Long Haul and Regional services continues to grow, and through expansion into new contracts such as the Lisbon urban bus contract which began in June 2022 and the acquisition of Vitalia which completed in June 2022, representing our first entry into the Spanish paratransit market.
- In North America, we ended the 2021/22 school year with around 10% of routes being unable to be operated due to driver shortages; the base case assumes that we recover around a third of these in the second half of 2022 with the remaining two-thirds assumed to be recovered over the following 18 months. The remaining two-thirds are assumed to be recovered over the following year. The base case assumes school bus driver wage inflation of c.12%; it is currently tracking around 10%. Where contracts have been renewed, this wage inflation has been passed on in price increases.
- Around the Group, our base case takes account of latest expectations of wage and cost inflation, and our estimate of the extent to which we can pass these on in price. Wage inflation is most acute in North America School Bus; elsewhere it averages low-to-mid single digit percentage increases.
- Finally, the base case assumes far less reliance on government support, with much lower levels of Covid-related funding assumed than in 2020 and 2021 and the remaining amounts in the upcoming 12 months relating only to UK Bus and ALSA, the majority of which is funding from existing schemes.

1. General information continued

Although we continue to be affected by some knock-on effects of the pandemic such as driver shortages in North America, the immediate impact on the Group's operations from mobility restrictions and reticence to travel has subsided. While continuing to monitor the impact of the pandemic, the Directors no longer consider that this represents a significant threat to the Group within the going concern assessment period. Therefore, the reasonable worst case ("RWC") has instead been formed around the following three themes, all of which relate to the macroeconomic situation:

1. *Driver shortages:* we assume that labour shortages become deeper and broader, affecting the Group's ability to deliver services, losing between 2% and 5% of revenue across each division and reducing profitability.
2. *Reduced demand:* lower household disposable incomes due to high inflation and poor consumer confidence due to fears of a recession may affect customer demand in, in particular, discretionary services such as long haul coach and touristic services. We have also prudently assumed other services are also impacted on the basis of contract win/retention rates dropping due to public authorities cutting budgets.
3. *Inflation:* we assume that cost inflation is 3% higher than that already modelled, and that only around half of this is passed on to customers in the form of price increases or contractual margin protection mechanisms.

These downsides have been modelled for each division in turn, taking into account the current economic situation in each market, including the relative labour market and inflation dynamics between geographies, which has been corroborated against independent external forecasts.

In addition to these wider downside themes described above, we further assume failure to win certain new growth contracts, a shortfall in government funding, and higher interest rates on our variable borrowings as a result of central banks' efforts to curtail high inflation.

Consistent with prior assessments, against the RWC the Group has again assumed mitigations in the form of further reductions in expenditure, over and above those reflected in the base case, primarily around discretionary spending and back office cost savings, and curtailment of capital expenditure.

The Directors have reviewed the base case and RWC projections and in both scenarios the Group has a strong liquidity position over the next 12 months and significant headroom on all of its covenant tests.

In addition to the base case and RWC scenarios, the Directors have reviewed reverse stress tests, in which the Group has assessed the set of circumstances that would be necessary for the Group to either breach the limits of its borrowing facilities or breach any of the covenant tests.

In applying a reverse stress test to liquidity the Directors have concluded that the set of circumstances required to exhaust it are so extreme as to be considered clearly remote. As ever, covenants that include EBITDA as a component are more sensitive to reverse stress testing; the Directors have therefore conducted in-depth stress testing on all covenant tests at December 2022 and June 2023. In doing so, the Directors have considered all cost mitigations that would be within their control if faced with another short-term material EBITDA reduction and no lender support to amend or waive EBITDA-related covenants. Taking this into account the Directors concluded that the probability was remote that circumstances arise that cause covenants to be breached.

In conclusion, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Financial Statements. For this reason, they continue to adopt the going concern basis in preparing the interim Financial Statements for the period ended 30 June 2022.

Accounting policies

The accounting policies adopted in the preparation of the interim condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's 2021 Annual Report and Accounts, except for the adoption of new standards effective as of 1 January 2022.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed Consolidated Financial Statements of the Group.

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

1. General information continued

Presentation of advance subsidy factoring liabilities

Consistent with the Group's 2021 Annual Report and Accounts, the prior year comparatives within this report have been restated (as indicated in the table below) for the change in accounting policy with respect to advance subsidy factoring. Please refer to the Group's 2021 annual report for the full details regarding the change.

Balance Sheet	30 June 2021 (Reported)	30 June 2021 (Restated)
Trade and other payables (current)	(778.6)	(698.7)
Borrowings (current)	(184.7)	(264.6)
Net assets	**–**	**–**
Net debt	**(1,004.4)**	**(1,084.3)**

Statement of Cash Flows		
Increase/(decrease) in payables	1.7	(2.8)
Net cash flow from operating activities	**62.4**	**57.9**
Increase in borrowings	66.0	136.4
Repayment of borrowings	(3.3)	(69.2)
Net cash flow from financing activities	**(3.3)**	**7.8**
Decrease in net cash and cash equivalents	**(50.9)**	**(50.9)**

As this was a Balance Sheet reclassification, there is no impact to operating profit or earnings per share. Equally, the change has no impact on the Group's compliance with covenants as net debt for covenant purposes excludes non-recourse factoring arrangements.

Presentation of cash and cash equivalents and bank overdrafts

After the interim Financial Statements for the year period ended 30 June 2021 were issued it was determined that presentation of cash and cash equivalents and bank overdrafts did not meet the requirements for offsetting in accordance with 'IAS 32 Financial Instruments: Presentation'. This resulted in the incorrect presentation of the cash pooling arrangement on the balance sheet. The impact of this change is to increase both cash and cash equivalents and current borrowings as at 30 June 2021 by £135.4m on the Consolidated Balance Sheet. This has no impact on net assets, net debt or the Group's profit in any of the years impacted. Equally there is no change to the Statement of Cash Flows.

Use of judgements and estimates

The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the Group's Annual Report and Accounts for the year ended 2021, except for the following update:

Impairment of property, plant and equipment and intangibles

Determining whether assets are impaired requires an estimation of the value in use of the cash-generating units and requires the entity to estimate the future cash flows expected to arise, the growth rate to extrapolate cash flows into perpetuity and a suitable discount rate in order to calculate present value. At 31 December 2021 the reasonably possible range of assumption changes did not indicate there was a significant risk of a material impairment in the next 12 months. Given the level of headroom in ALSA, the recent volatility of inputs to the discount rate (particularly the beta, risk-free rate and equity risk premiums including country-specific risk premiums) and the risk of further rises to inflation and interest rates in the short-term, we now consider that there is a significant risk of a material impairment in the next 12 months, driven by our revised expectations of ~~a~~ reasonably possible changes in the discount rate in the short-term. The key assumptions used and their sensitivities are included in note 10.

Seasonality

The Group operates a diversified portfolio of bus, coach and rail businesses operating in international markets. The North American bus business typically earns higher operating profits for the first half of the year (i.e. the six months to 30 June) than for the second half. This is because of the timing of school terms and the summer holiday period. The UK and Spanish coach businesses typically earn lower operating profits for the first half of the year than the second half. This is because of the higher demand created by leisure travellers during the summer months. Therefore the Group's results have historically not been materially seasonal in nature.

The Covid-19 pandemic has, however, impacted these typical patterns. In 2021, revenue and profit in the second half of the year were higher than in the first half, reflecting lockdowns and mobility restrictions in the first half, and the easing of these in the second half as the vaccination program progressed. In 2022, the first half was impacted by further Covid variants and industry wide driver shortages in North America. Accordingly, and consistent with the outlook set out in the CFO report of this announcement, we expect the second half of 2022 to be stronger than the first half in terms of both revenue and operating profit.

2. Exchange rates

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

	Six months to 30 June 2022		Six months to 30 June 2021		Year to 31 December 2021	
	Closing rate	**Average rate**	Closing rate	Average rate	Closing rate	Average rate
US dollar	**1.22**	**1.30**	1.38	1.39	1.35	1.38
Canadian dollar	**1.57**	**1.65**	1.71	1.73	1.71	1.72
Euro	**1.16**	**1.19**	1.17	1.15	1.19	1.16

If the results for the six months to 30 June 2021 had been retranslated at the average exchange rates for the period to 30 June 2022, North America would have achieved an underlying operating profit of £44.3m on revenue of £482.8m compared to underlying operating profit of £41.5m on revenue of £451.9m as reported, and ALSA would have achieved an underlying operating profit of £16.6m on revenue of £277.9m, compared to underlying operating profit of £17.1m on revenue of £287.3m as reported.

3. Segmental analysis

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

Segmental performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Consolidated Financial Statements. Group financing activities and income taxes are managed on a group basis and are not allocated to reportable segments.

Central functions is not a reportable segment but has been included in the segmental analysis for transparency and to enable a reconciliation to the consolidated Group.

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

	Six months to 30 June 2022					
Analysis by class and reportable segment	**Contract revenues £m**	**Passenger revenues £m**	**Grants and subsidies £m**	**Private hire £m**	**Other revenues £m**	**Total £m**
UK	**20.3**	**163.7**	**36.0**	**9.6**	**7.7**	**237.3**
German Rail	–	**22.9**	**100.5**	–	**0.7**	**124.1**
ALSA	**86.8**	**233.8**	**82.5**	**21.3**	**19.8**	**444.2**
North America	**492.6**	–	–	**23.2**	**2.9**	**518.7**
Total	**599.7**	**420.4**	**219.0**	**54.1**	**31.1**	**1,324.3**
Analysis by major service type						
Passenger transport	**599.7**	**420.4**	**219.0**	**54.1**	**5.5**	**1,298.7**
Other products and services	–	–	–	–	**25.6**	**25.6**
Total	**599.7**	**420.4**	**219.0**	**54.1**	**31.1**	**1,324.3**

Included in grants and subsidies is £14.9m (2021: £62.7m) of revenue related grant support in response to Covid-19 in the UK. Amounts recognised during the six months to June 2022 are in respect of the Bus Recovery Grant (BRG), whereby funding has been allocated to operators according to revenue and mileage operated. Amounts recognised during 2021 were in respect of the Covid Bus Service Support Grant (CBSSG), which was replaced by BRG at 1 September 2021.

Also included in grants and subsidies is £3.4m (2021: £4.6m) additional subsidies in Germany in respect of the Federal Framework Regulation on Aid to Public Transport. Under this arrangement, additional subsidies may be claimed by public transport operators in Germany to compensate for the loss of passenger revenue due to Covid-19. Similarly, a further £8.4m (2021: £15.8m) was recognised in ALSA from Public Transport Authorities to compensate for revenue shortfalls due to Covid-19.

The grant income has been recognised in the same period in the Income Statement to match the period in which the related shortfall of revenue occurred and to the extent there is reasonable certainty that the Group has complied with the conditions.

3. Segmental analysis continued

Analysis by class and reportable segment	Contract revenues £m	Passenger revenues £m	Grants and subsidies £m	Private hire £m	Other revenues £m	Total £m
	Six months to 30 June 2021					
UK	17.7	60.1	83.8	7.6	3.6	172.8
German Rail	–	18.5	59.3	–	2.6	80.4
ALSA	76.1	120.7	65.3	16.3	8.9	287.3
North America	434.9	–	–	12.4	4.6	451.9
Total	528.7	199.3	208.4	36.3	19.7	992.4
Analysis by major service type:						
Passenger transport	528.7	199.3	208.4	36.3	8.5	981.2
Other products and services	–	–	–	–	11.2	11.2
Total	528.7	199.3	208.4	36.3	19.7	992.4

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

Operating profit is analysed by reportable segment as follows:

Analysis by class and reportable segment	**Underlying result 2022 £m**	**Separately disclosed items 2022 £m**	**Segment result 2022 £m**	Underlying result 2021 £m	Separately disclosed items 2021 £m	Segment result 2021 £m
	Six months to 30 June					
UK	**(12.8)**	**(0.4)**	**(13.2)**	(19.9)	(6.5)	(26.4)
German Rail	**3.0**	**(5.4)**	**(2.4)**	(7.6)	(3.9)	(11.5)
ALSA	**50.3**	**(6.2)**	**44.1**	17.1	(15.8)	1.3
North America	**57.4**	**(34.6)**	**22.8**	41.5	(21.1)	20.4
Central functions	**(7.4)**	**(1.6)**	**(9.0)**	(8.2)	(1.7)	(9.9)
Operating profit/(loss)	**90.5**	**(48.2)**	**42.3**	22.9	(49.0)	(26.1)
Share of results from associates and joint ventures			**(0.1)**			(0.1)
Net finance costs			**(21.7)**			(24.0)
Profit/(loss) before tax			**20.5**			(50.2)
Tax (charge)/credit			**(4.7)**			26.1
Profit/(loss) for the period			**15.8**			(24.1)

In addition to revenue related grants, government grants relating to expenses have also been recognised as a credit within operating expenses totalling £48.2m (2021: £15.5m) in response to the Covid-19 pandemic. The principle arrangements are the Coronavirus Economic Relief for Transportation Services (CERTS) scheme in North America, whereby £38.7m (2021: £nil) has been recognised during the six months to June 2022 and Commonwealth Games Funding of £8.5m (2021: £nil) in the UK. Both arrangements are designed to provide relief to companies in respect of costs for jobs retained, and to cover applicable overhead and operational expenses.

Amounts recognised during 2021 were principally in respect of Coronavirus Job Retention Scheme (CJRS) in the UK and the US CARES Act in North America, for which no amounts have been recognised during 2022.

4. Net finance costs

	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m	Year to 31 Dec 2021 £m
Bank and bond interest payable	**(15.0)**	(15.5)	(32.0)
Lease interest payable	**(4.1)**	(5.3)	(10.5)
Other interest payable	**(1.5)**	(1.4)	(2.7)
Unwind of discounting	**(1.4)**	(1.2)	(2.5)
Interest cost on defined benefit pension obligations	**(1.0)**	(0.9)	(1.8)
Finance costs before separately disclosed items	**(23.0)**	(24.3)	(49.5)
Separately disclosed items (see note 5)	**–**	(1.3)	(1.4)
Total finance costs	**(23.0)**	(25.6)	(50.9)
Lease interest income	**0.3**	0.3	0.7
Other financial income	**1.0**	1.3	2.5
Net finance costs	**(21.7)**	(24.0)	(47.7)

5. Separately disclosed items

In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results.

The Group's policy is to exclude items that are considered significant in nature and/or value, not in the normal course of business or are consistent with items that were treated as separately disclosed in prior periods.

Those items which relate to the ordinary course of the Group's operating activities remain within underlying results.

The total separately disclosed items before tax for the six months to 30 June 2022 is a net charge of £48.2m (2021: £50.3m). The items excluded from underlying profit are:

	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m	Year to 31 Dec 2021 £m
Intangible amortisation for acquired businesses (a)	**(18.7)**	(19.4)	(38.8)
Directly attributable gains and losses resulting from the Covid-19 pandemic (b)	**(3.3)**	(15.4)	(41.0)
Re-measurement of the Rhine-Ruhr onerous contract provision (c)[1]	**(4.9)**	(3.2)	(27.9)
North America driver shortages (d)	**(19.7)**	–	–
Other separately disclosed items (e)	**(1.6)**	(0.9)	(3.2)
Restructuring costs (f)	–	(10.1)	(12.3)
Separately disclosed operating items	**(48.2)**	(49.0)	(123.2)
Interest charges (g)	–	(1.3)	(1.4)
Total separately disclosed items	**(48.2)**	(50.3)	(124.6)

[1] Amounts in 2021 have been re-presented for consistency with the current year and year end presentation of separately disclosed items

a) Intangible amortisation for acquired businesses

Consistent with previous periods, the Group classifies the amortisation for acquired intangibles as a separately disclosed item by virtue of its size and nature. Its exclusion enables comparison and monitoring of divisional performance by the Group Executive Committee regardless of whether through acquisition or organic growth. Equally it improves comparability of the Group's results with those of peer companies.

b) Directly attributable gains and losses resulting from the Covid-19 pandemic

Consistent with what we signalled at December 2021, directly attributable gains and losses due to Covid-19 only includes changes in estimates to items previously recorded in separately disclosed items. The net expense of £3.3m (2021: £15.4m) relates to the re-measurement of onerous contract provisions and impairment charges.

During the period, the Group re-measured previously recognised onerous contracts, resulting in a net credit of £0.3m, reflecting some contracts performing better than expected and some less well. Other than those contracts mentioned in section (d) below no new onerous contracts were identified.

In addition to the Group's goodwill impairment test and the identification of assets relating to onerous contracts, the Group reviewed its non-current assets. This review identified an additional impairment charge of £3.6m in relation to previously impaired customer contract intangibles, where long term profitability is now forecast to be lower.

5. Separately disclosed items continued

c) Rhine-Ruhr Express onerous contract provision

At December 2021, the Group had an onerous contract provision of £21.8m remaining with respect to the RRX contract, having previously impaired all dedicated assets. At June 2022, the contract's profitability has been reassessed with a further charge of £4.9m recognised in the period. This reflects a further increase in long term energy costs, principally as a result of the war in Ukraine, partially offset by a reduction in personnel costs following the redeployment of drivers to the new emergency contract in Germany which commenced during the period.

d) North America driver shortages

During the period, the Group has identified a series of new onerous contracts in North America in relation to national driver shortages in the United States. Driver shortages began to mount last year following schools transitioning to remote learning during the pandemic, with many drivers being laid off. Whilst jobs were not available at schools, many drivers found new delivery jobs, have retired or have stopped working due to health concerns over the virus. Historically, at the beginning of a new school year the company may have a small number of unfulfilled positions, however the Group is now seeing unprecedented levels.

Consequently this has resulted in both an increase in wages (to retain and recruit) but also a reduction in service levels and/or an increase in penalties for non-fulfilment of services, and hence a reduction in profitability of certain school bus contracts. An exceptional expense of £15.1m has been recognised in relation to onerous contracts and a further £4.6m expense for the impairment of dedicated right of use assets on these contracts.

The total expense of £19.7m has been recorded within separately disclosed items based on its size and nature.

e) Other separately disclosed items

Other relates to transaction fees in respect of the Stagecoach deal that was aborted during the period. These one-off charges have been recorded in separately disclosed items consistent with the treatment in the prior year.

6. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2022 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2022. The underlying tax charge of £16.7m (2021 interim: £nil) represents an effective tax rate of 24.3% on the underlying result (2021 interim: 24.4%).

Tax credits on separately disclosed items of £12.0m (2021 interim: £26.1m credit) is made up of a £7.9m tax credit on tax deductible exceptional costs (2021 interim: £7.8m credit), a £1.0m exceptional tax charge (2021 interim: £13.4m credit) and a £5.1m tax credit on intangible amortisation (2021 interim: £4.9m credit).

The exceptional tax charge of £1.0m relates to withholding tax paid on the pension surplus received during the period. The 2021 exceptional tax credit of £13.4m related to the reassessment of the UK deferred tax asset due to the statutory enacted change in the tax rate from 19% to 25% due to happen in 2023. This was a one off tax credit that has been disclosed separately from tax on underlying profits by virtue of its size and nature.

The total tax charge of £4.7m (2021 interim: £26.1m credit) includes a deferred taxation credit of £3.8m (2021 interim: £23.7m credit). Deferred tax asset recoverability has been assessed using the strategic plan projections used for the going concern and impairment assessments.

7. Dividends paid and proposed

An interim dividend has not been proposed for the current period (2021 interim: £nil).

8. Earnings per share

	Six months to 30 June 2022	Six months to 30 June 2021	Year to 31 December 2021
Basic earnings per share	**0.4p**	(5.8)p	(16.8)p
Underlying basic earnings per share	**6.2p**	(2.1)p	0.1 p
Diluted earnings per share	**0.4p**	(5.8)p	(16.8)p
Underlying diluted earnings per share	**6.2p**	(2.1)p	0.1 p

8. Earnings per share continued

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders, a profit of £2.3m (2021 interim: £35.7m loss; 2021 full year: £102.8m loss) 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. Earnings attributable to equity shareholders is inclusive of amounts accruing to the holders of the hybrid instrument and is calculated as follows:

	Six months to 30 June 2022	Six months to 30 June 2021	Year to 31 December 2021
Profit/(loss) attributable to equity shareholders	**12.8**	(25.2)	(81.6)
Accrued payments on hybrid instrument	**(10.5)**	(10.5)	(21.2)
Earnings attributable to equity shareholders	**2.3**	(35.7)	(102.8)

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 2022	Six months to 30 June 2021	Year to 31 December 2021
Basic weighted average shares	**612,726,088**	613,309,998	613,117,132
Adjustment for dilutive potential ordinary shares[1]	**93,690**	–	345,497
Diluted weighted average shares	**612,819,778**	613,309,998	613,462,629

[1] At June 2021 potential ordinary shares had the effect of being anti-dilutive and therefore were excluded from the calculation

Underlying basic and diluted earnings per share have been calculated to show performance before separately disclosed items since, in the opinion of the Directors, they reflect the underlying performance of the business' operations more appropriately.

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

	Six months to 30 June 2022 £m	Six months to 30 June 2021 £m	Year to 31 December 2021 £m
Profit/(loss) attributable to equity shareholders	**2.3**	(35.7)	(102.8)
Separately disclosed items	**48.2**	50.3	124.6
Separately disclosed tax	**(12.0)**	(26.1)	(19.8)
Separately disclosed minority interest	**(0.5)**	(1.7)	(1.6)
Underlying profit/(loss) attributable to equity shareholders[1]	**38.0**	(13.2)	0.4

[1] Includes amounts accruing to the holders of the hybrid instrument

9. Cash and cash equivalents

	At 30 June 2022 £m	(Restated) At 30 June 2021[1] £m	At 31 December 2021 £m
Cash at bank and in hand	**117.3**	303.2	268.1
Overnight deposits	**0.4**	0.3	0.4
Other short term deposits	**224.2**	296.3	239.9
Cash and cash equivalents	**341.9**	599.8	508.4

[1] Restated to reflect a change in the presentation of cash and cash equivalents and bank overdrafts. See note 1 for further information.

Included within cash and cash equivalents are certain amounts which are subject to contractual or regulatory restrictions. These amounts held are not readily available for other purposes within the Group and total £13.1m (2021: £11.8m).

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the agreed short-term floating deposit rate. The fair value of cash and cash equivalents is equal to the carrying value.

9. Cash and cash equivalents continued

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents and bank overdrafts in notional cash pooling arrangements are presented net. Bank overdrafts form an integral part of the Group's cash management strategy as they arise from the Group's cash pooling arrangement with its bank. Net cash and cash equivalents comprise as follows:

	At 30 June 2022 £m	At 30 June 2021 £m	At 31 December 2021 £m
Cash at bank and in hand	**341.9**	599.8	508.4
Bank overdrafts	**(40.9)**	(135.4)	(132.2)
Net cash and cash equivalents	**301.0**	464.4	376.2

10. Impairment

During the current period the Group has performed an assessment for indicators of significant impairment. Whilst the volatility of inputs to the discount rate is a potential indicator of impairment, in combination with inflationary increases to the cash flows and other factors, the Group concluded overall that there was not an indicator of significant impairment at the 30 June 2022. Consequently a full impairment review was not performed.

In reviewing the inputs to the WACC, the key assumption driving the volatility in the discount rates was the "risk free rate" of return. Current market volatility has led to government bond rates fluctuating significantly in recent months, including on a day to day basis. For example, the minimum to maximum range on US 10 year government bonds in the month of June 2022 was 60 basis points. Ordinarily the risk free rate is based upon the spot rate of a blended average of 10 year government bond rates in the US, UK and Spain, however in considering whether there was an indicator of significant impairment we normalised the rate to be a five year average.

Given the level of headroom in ALSA at 31 December 2021 and the volatility of inputs to the discount rate described above, we now consider a reasonably possible change in assumptions within the next 12 months could lead to a material impairment in ALSA. As such the Directors consider impairment in ALSA to be a new key source of estimation uncertainty and have provided additional sensitivity disclosures below.

Consistent with previous years, goodwill has been allocated to individual cash-generating units for annual impairment testing on the basis of the Group's business operations. The carrying value by cash-generating unit is as follows:

	At 30 June 2022 £m	At 30 June 2021 £m	At 31 December 2021 £m
UK	**52.4**	52.6	52.4
North America	**742.4**	647.4	669.5
ALSA	**807.4**	805.9	784.8
	1,602.2	1,505.9	1,506.7

The key assumptions used for the ALSA cash-generating unit impairment assessment at 31 December 2021 are as follows, compared with the current indicative market assumption for discount rate and long-term growth rate at 30 June 2022 and 2021:

	Pre-tax discount rate applied to cash flow projections			Growth rate used to extrapolate cash flows into perpetuity		
	30 June 2022	30 June 2021	31 December 2021	**30 June 2022**	30 June 2021	31 December 2021
ALSA	**8.9%**	8.7%	7.8%	**3.1%**	3.0%	2.9%

Sensitivities to key and other assumptions

At 31 December 2021, the value in use of the ALSA division exceeded its carrying amount by £425.9m. If the indicative discount rate and growth rate at 30 June 2022 had been used in the 31 December 2021 impairment assessment, the value in use of the ALSA division would have exceeded its carrying amount by £150.9m. If the risk free rate input to the discount rate was based on the spot rate for 10 year government bonds at 30 June 2022 rather than a normalised five year average, this would have been equivalent to a 120 basis points increase in the indicative pre-tax discount rate which would have led to an impairment at 31 December 2021 of £69.9m in the ALSA division. However, this is before taking account of the impact of inflation, or any other updates, to cash flows or growth rates, which could have a compensating effect.

10. Impairment continued

In the December 2021 assessment, an increase in the pre-tax discount rate of 170 basis points would have reduced the value in use to be equal to the carrying amount. Management believe that it is reasonably possible that the pre-tax discount rate could increase by more than 170 basis points in the future. An increase of 200 basis points on the indicative discount rate at 30 June 2022 would have led to an impairment at 31 December of £191.8m in the ALSA division. Such an increase in the discount rate could transpire through a combination of: the government bond rates observed in June 2022 persisting over a longer period; further increases in the cost of debt; or volatility in the beta input.

Management have also performed sensitivity analysis to assess the impact that a combination of reasonably possible changes in the key assumptions would have had on the recoverable amount of the ALSA division at 31 December 2021. In combination, a 100 basis points reduction in the long-term growth rate and a 200 basis points increase in the pre-tax discount rate would have led to a £276m impairment in ALSA at 31 December 2021.

The Directors consider the assumptions used to be consistent with the historical performance of each cash-generating unit and to be realistically achievable in light of economic and industry measures and forecasts. The Directors have therefore concluded that goodwill is not impaired but note that reasonably possible changes to the discount rate, or a combination of reasonably possible changes to both the discount rate and long term growth rate, could lead to an impairment in the ALSA division in the future.

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 2022 the Group's portfolio of hedging instruments included fuel price derivatives, cross currency swaps, 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 cross currency swaps are in place to hedge the risk of changes in foreign exchange rates. The foreign exchange derivatives are in place to hedge the foreign exchange risk on translation of net assets denominated in foreign currency. In addition, the Group holds five £50.0m denominated interest rate derivatives to swap fixed interest on a £250m Sterling bond to a floating rate.

These derivative financial instruments are held in the balance sheet at fair value and are measured using level 2 inputs. The fair value is either determined by the third-party financial institution with which the Group holds the instrument, in line with the market value of similar financial instruments, or by the use of valuation techniques using market data. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, other than deferred contingent consideration and financial assets at fair value through Other Comprehensive Income. There has not been a significant change in the sensitivities disclosed in the 2021 Annual Report for level 3 items. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy and there are no non-recurring fair value measurements.

The Group applies relevant hedge accounting to the majority of its derivatives outstanding as at 30 June 2022. All designated hedge relationships were effective under IFRS 9.

At 30 June 2022 the Group was around 75% hedged for 2023, at an average price of 36.5p and around 35% hedged for 2024 at an average price of 41.6p. Hedged volumes are in line with the normal hedging programme at this stage. During the period there continued to be significant volatility in fuel prices primarily due to the war in Ukraine. The Group continues to monitor this situation and movements in fuel prices closely.

11. Derivative financial assets and liabilities continued

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

	At 30 June 2022 £m	At 30 June 2021 £m	At 31 December 2021 £m
Fuel derivatives	**26.1**	9.5	9.1
Cross currency swaps	**5.7**	9.1	9.6
Non-current derivative financial assets	**31.8**	18.6	18.7
Fuel derivatives	**63.7**	12.0	20.3
Interest rate derivatives	**–**	0.8	0.1
Cross currency swaps	**2.6**	2.3	2.4
Foreign exchange derivatives	**11.7**	9.6	8.2
Current derivative financial assets	**78.0**	24.7	31.0
Fuel derivatives	**(0.1)**	–	(0.2)
Cross currency swaps	**–**	(7.2)	(5.2)
Interest rate derivatives	**(16.0)**	–	(5.7)
Non-current derivative financial liabilities	**(16.1)**	(7.2)	(11.1)
Fuel derivatives	**(3.1)**	(1.2)	(0.5)
Cross currency swaps	**(33.7)**	–	(4.5)
Interest rate derivatives	**(1.5)**	–	(0.7)
Foreign exchange derivatives	**(43.2)**	(7.7)	(18.8)
Current derivative financial liabilities	**(81.5)**	(8.9)	(24.5)

12. Pensions and other post-employment benefits

The UK division operates a defined benefit scheme. The Group also provides certain additional unfunded post-employment benefits to employees in North America and ALSA, and maintains a small, legacy rail defined benefit scheme. The post-employment benefits for these schemes have been combined into the 'Other' category below.

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

The total pension operating cost for the six months to 30 June 2022 was £5.9m (2021 interim: £5.4m; 2021 full year: £10.9m), of which £3.0m (2021 interim: £3.0m; 2021 full year: £6.0m) relates to the defined contribution schemes.

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

	At 30 June 2022 £m	At 30 June 2021 £m	At 31 December 2021 £m
UK	**(58.9)**	(104.6)	(96.1)
Company	**–**	11.7	3.8
Other	**(2.3)**	(3.1)	(3.1)
Total	**(61.2)**	(96.0)	(95.4)

Following the buy-out of the Company scheme during 2021, the remaining assets at 31 December 2021 have been utilised in the period to cover the final expenses in completing its wind up, with the remaining surplus of £3.1m returned to the company.

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

	Six months ended 30 June 2022		Year ended 31 December 2021	
	UK	**Company[1]**	UK	Company
Rate of increase in salaries	**2.5%**	**–**	2.5%	–
Rate of increase in pensions	**2.6%**	**–**	2.8%	3.4%
Discount rate	**3.7%**	**–**	1.8%	2.0%
Inflation rate (RPI)	**3.2%**	**–**	3.4%	3.4%
Inflation rate (CPI)	**2.6%**	**–**	2.8%	2.8%

[1] Following the buy-out of the Company scheme no valuation was performed at 30 June 2022

The Directors regard the assumptions around pensions in payment, discount rate, inflation and mortality to be the key assumptions in the IAS 19 valuation. The following table provides an approximate sensitivity analysis of a reasonably possible change to these assumptions:

	Six months ended 30 June 2022		Year ended 31 December 2021	
	UK	**Company**[1]	UK	Company
Effect of a 0.5% increase in pensions in payment	**(19.8)**	**–**	(30.4)	–
Effect of a 0.5% increase in the discount rate	**22.4**	**–**	36.1	–
Effect of a 0.5% increase in inflation	**(22.0)**	**–**	(34.8)	–
Effect of a 1 year increase in mortality rates	**(10.3)**	**–**	(18.0)	–

[1] Following the buy-out of the Company scheme, the scheme is no longer sensitive to changes in assumptions and this disclosure will be removed in future periods

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. Aside from the matching insurance contracts held in the UK scheme, no allowance has been made for any change in assets that might arise under any of the scenarios set out above.

13. Business Combinations

(a) Acquisitions – ALSA

During the period, the ALSA division acquired 100% control of Vitalia, a provider of paratransit services in Madrid, Spain.

The provisional fair values, along with final fair value adjustments in respect of the acquisition of Transportes Rober group acquired during 2021, are presented in aggregate below:

	£m
Intangible assets	**4.7**
Property, plant and equipment	**0.7**
Trade and other receivables	**1.5**
Cash and cash equivalents	**0.4**
Borrowings	**(1.6)**
Trade and other payables	**(1.7)**
Deferred tax liability	**(1.0)**
Net assets acquired	**3.0**
Goodwill	**3.2**
Total consideration	**6.2**
Represented by:	
Cash consideration	**4.8**
Deferred consideration	**1.4**
	6.2

Given the proximity of the acquisition to the period end, and as permitted by IFRS 3 Business Combinations, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis. The fair value adjustments will be finalised within 12 months of the acquisition date, principally in relation to the valuation of intangible assets and provisions acquired.

Trade and other receivables had a fair value and a gross contracted value of £1.5m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £3.2m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and increased scale in our operations in ALSA, along with growth benefits associated with entry into the paratransit sector. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £1.4m. The Group is required to pay contingent consideration upon pre-determined revenue thresholds being met up to 2023 and other post-closing conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £1.4m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

13. Business Combinations continued

The acquired business contributed £0.9m of revenue and £0.1m profit to the Group's result for the period between acquisition and the balance sheet date. Had the acquisition been completed on the first day of the financial year, the Group's revenue would have been £1,333.0m and the Group's statutory operating profit would have been £42.6m.

(b) Acquisitions – further information

Deferred consideration of £0.8m was paid in the period relating to acquisitions in the ALSA in earlier years. Total cash outflow in the period from acquisitions in the ALSA division was £5.2m, comprising consideration for current year acquisitions of £4.8m and deferred consideration of £0.8m, less cash acquired in the businesses of £0.4m.

In North America deferred consideration of £0.5m was paid in the period relating to acquisitions in earlier years.

Transaction costs of £0.1m were incurred in the period to 30 June 2022 (2021 interim: £0.1m).

During the period to 30 June 2022, the movement in the Group's carrying value of goodwill principally relates to the acquisition of Vitalia and foreign exchange.

14. Net debt

	At 1 January 2022 £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	At 30 June 2022 £m
Components of financing activities						
Bank and other loans[1]	**(189.6)**	**18.3**	**(1.0)**	**(10.5)**	**(0.1)**	**(182.9)**
Bonds	**(640.9)**	**–**	**–**	**–**	**11.0**	**(629.9)**
Fair value of interest rate derivatives	**(6.3)**	**–**	**–**	**–**	**(11.0)**	**(17.3)**
Fair value of fx forward contracts	**(9.9)**	**9.9**	**–**	**(25.7)**	**–**	**(25.7)**
Cross currency swaps	**2.6**	**(0.7)**	**–**	**(27.1)**	**–**	**(25.2)**
Net lease liabilities[2]	**(218.9)**	**37.7**	**(0.6)**	**(12.1)**	**(15.2)**	**(209.1)**
Other debt payable	**(393.9)**	**–**	**–**	**(11.6)**	**(0.2)**	**(405.7)**
Total components of financing facilities	**(1,456.9)**	**65.2**	**(1.6)**	**(87.0)**	**(15.5)**	**(1,495.8)**
Cash	**268.1**	**(158.9)**	**0.4**	**7.7**	**–**	**117.3**
Overnight deposits	**0.4**	**–**	**–**	**–**	**–**	**0.4**
Other short-term deposits	**239.9**	**(16.0)**	**–**	**0.3**	**–**	**224.2**
Bank overdrafts	**(132.2)**	**91.3**	**–**	**–**	**–**	**(40.9)**
Net cash and cash equivalents	**376.2**	**(83.6)**	**0.4**	**8.0**	**–**	**301.0**
Other debt receivables	**1.0**	**0.6**	**–**	**–**	**–**	**1.6**
Remove: fair value of fx forward contracts	**9.9**	**(9.9)**	**–**	**25.7**	**–**	**25.7**
Net debt[3]	**(1,069.8)**	**(27.7)**	**(1.2)**	**(53.3)**	**(15.5)**	**(1,167.5)**

[1]Net of arrangement fees totalling £1.3m on bank and other loans

[2] Includes finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

[3] Excludes accrued interest on long-term borrowings

14. Net debt continued

	(Restated) At 1 January 2021[4] £m	Cash flow £m	Acquisitions £m	Foreign Exchange £m	Other movements £m	(Restated) At 30 June 2021[4] £m
Components of financing activities						
Bank and other loans[1,4]	(101.8)	(66.3)	(2.0)	3.6	(0.3)	(166.8)
Bonds	(647.0)	–	–	–	(0.2)	(647.2)
Fair value of interest rate derivatives	1.0	–	–	–	(0.8)	0.2
Fair value of fx forward contracts	4.6	(10.4)	–	3.4	–	(2.4)
Cross currency swaps	(5.7)	–	–	7.5	–	1.8
Net lease liabilities[2]	(311.3)	45.8	–	3.0	(10.6)	(273.1)
Other debt payable	(476.8)	–	–	12.3	0.7	(463.8)
Total components of financing facilities	(1,537.0)	(30.9)	(2.0)	29.8	(11.2)	(1,551.3)
Cash	241.2	66.6	0.2	(4.8)	–	303.2
Overnight deposits	49.7	(49.4)	–	–	–	0.3
Other short-term deposits	338.9	(42.2)	–	(0.4)	–	296.3
Bank overdrafts[5]	(109.3)	(26.1)	–	–	–	(135.4)
Net cash and cash equivalents	520.5	(51.1)	0.2	(5.2)	–	464.4
Other debt receivables	1.2	(0.9)	–	(0.1)	–	0.2
Remove: fair value of fx forward contracts	(4.6)	10.4	–	(3.4)	–	2.4
Net debt[3]	(1,019.9)	(72.5)	(1.8)	21.1	(11.2)	(1,084.3)

[1] Net of arrangement fees totalling £1.9m on bank and other loans

[2] Includes finance lease receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

[3] Excludes accrued interest on long-term borrowings

[4] Consistent with the 2021 Annual Report and Accounts prior year balances have been restated for changes in accounting policy and presentation of overdrafts (see note 1)

Borrowings include non-current interest bearing loans and borrowings of £1,294.3m (2021 interim: £1,319.3m; 2021 full year: £1,294.3m).

Other non-cash movements represent lease additions and disposals of £15.2m (2021 interim: £10.6m) and a £0.4m (2021 interim: £0.6m) reduction from the amortisation of loan and bond arrangement fees and £0.2m (2021 interim: £nil) hedging ineffectiveness recognised in the Income Statement. An £11.2m decrease in the fair value of the hedging derivatives is offset by an £11.2m fair value increase in bonds.

15. Cash flow statement

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

	Six months to 30 June 2022 £m	(Restated)[1] Six months to 30 June 2021 £m	Year to 31 December 2021 £m
Net cash inflow from operating activities			
Profit/(loss) profit before tax	**20.5**	(50.2)	(84.9)
Net finance costs	**21.7**	24.0	47.7
Share of results from associates and joint ventures	**0.1**	0.1	1.0
Depreciation of property, plant and equipment	**100.4**	99.4	199.7
Intangible asset amortisation	**26.8**	26.7	54.2
Amortisation of fixed asset grants	**(1.2)**	(1.4)	(3.2)
Separately disclosed operating items[2]	**29.5**	29.6	84.4
Gain on disposal property, plant and equipment	**(6.5)**	(0.3)	(8.0)
Gain on disposal of intangible assets	**(4.0)**	(0.7)	(0.6)
Share-based payments	**–**	–	1.0
Increase in inventories	**(1.9)**	(0.3)	(1.9)
Increase in receivables	**(93.5)**	(0.5)	(85.3)
Increase/(decrease) in payables	**48.8**	(2.8)	53.2
(Decrease)/increase in provisions	**(7.6)**	(9.1)	17.1
Cash flows relating to separately disclosed operating items	**(23.2)**	(33.6)	(43.3)
Cash generated from operations	**109.9**	80.9	231.1

[1] Consistent with the 2021 Annual Report and Accounts prior year balances have been restated for changes in accounting policy (see note 1)

[2] Excludes amortisation from acquired intangibles which is included within 'intangible asset amortisation'

16. Commitments and contingencies

Capital commitments
Capital commitments contracted but not provided at 30 June 2022 were £109.3m (2021 full year: £97.0m).

Contingent liabilities
Guarantees
The Group has guaranteed credit facilities totalling £2.1m (2021 full year: £3.7m) relating to certain joint ventures.

Bonds and letters of credit
In the ordinary course of business, the Group is required to issue counter-indemnities in support of its operations. As at 30 June 2022, the Group has performance bonds in respect of businesses in the US of £118.6m (2021 full year: £113.7m), in Spain of £89.4m (2021 full year: £88.1m), in Germany of £29.4m (2021 full year: £30.0m) and in the Middle East of £6.5m (2021 full year: £6.0m). Letters of credit have been issued to support insurance retentions of £179.7m (2021 full year: £145.0m).

Legal
Through the ordinary course of our operations, the Group is party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Group's results, cash flows or financial position.

17. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's 2021 Annual Report and there have been no transactions which have materially affected the financial position or performance of the Group in the six months to 30 June 2022.

Independent Review Report to National Express Group PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the Condensed Group Income Statement, the Condensed Group Statement of Comprehensive Income, the Condensed Group Balance Sheet, the Condensed Group Statement of changes in Equity, Condensed Group Statement of Cash Flows and the related notes 1 to 17.

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 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and 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.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
28 July 2022