Annual Report 2017

Investing for excellence and growth

Investing for excellence and growth

Our customers are at the heart of what we do at National Express. Whether they are fare paying passengers, transport authorities or school boards, the mission is the same: to relentlessly meet their expectations.

As a leading international transport company, we provide a crucial service by conveniently and safely connecting people to jobs, education, shopping and leisure in an environmentally responsible way, through value fares.

Read more, **p3**

We operate across three business divisions

ALSA
Page 24

North America
Page 26

UK
Pages 28

Unless otherwise stated, all operating profit, margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The normalised result is defined as being the IFRS result excluding intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows users of the financial statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 5 to the Financial Statements.

In addition, unless otherwise stated, all pre-tax results and margin data refer to the Group's continuing operations. Further details of discontinued operations can be found in note 11 to the Financial Statements.

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

All definitions of alternative performance measures used throughout the Annual Report are included on page 202.

Cover image: One of our newest ALSA long-distance coaches passes the Puerta de Alcalá in Madrid City Centre

Visit our Group website to read our latest news, access investor information and find out more about how we operate.

www.nationalexpressgroup.com

Strong performance across the business

Group revenue (£m)
2,321.2

ROCE (%)
11.9

Statutory operating profit (£m)
197.9

Normalised operating profit (£m)
241.5

Statutory earnings per share (p)
25.7

Free cash flow (£m)
146.4

Dividend per share (p)
13.51

Gearing (x)
2.3

Summary of results 2017

	IFRS basis		Normalised basis	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Revenue	**2,321.2**	2,093.7	**2,321.2**	2,093.7
Operating profit	**197.9**	183.7	**241.5**	217.5
Profit before tax	**156.4**	134.8	**200.0**	168.6
Profit for the year	**134.3**	120.0	**152.0**	137.2
Profit after tax from continuing operations	**128.4**	114.9	**152.0**	137.2
Basic earnings per share (pence)	**25.7**	23.0	**29.1**	26.3
Free cash flow	**146.4**	138.6		
Net debt	**887.9**	878.0		
Full year proposed dividend	**13.51**	12.28		

Delivering shareholder value

Sir John Armitt CBE
Chairman

Dear fellow Shareholder

Introduction and overview

I am delighted that National Express has again delivered another year of such strong growth. With revenue and profit both increasing markedly and being converted to strong free cash flow, I firmly believe that under Dean's leadership we have established a sustainable model of growth. Equally, I am repeatedly struck by the passion, commitment and expertise of our staff across the Group in delivering the quality of services our customers rightly demand day-in, day-out.

It is particularly pleasing that these Group results have been delivered through growth across all of our internationally diversified business. North America and ALSA have both had particularly strong years delivering significant headline growth. The performance of our UK bus and coach businesses to turnaround their significant challenges of the first half of 2017, was impressive.

Our strategy of focusing on operational excellence, investing in technology and disciplined acquisition and growth in new markets has now been delivering for a number of years. As Dean makes clear in his report, while we have made important strides in each of these areas already, there are also significant opportunities to pursue. As a Board we are focused on working with and challenging the executive team to realise them.

Governance highlights

The Board is committed to ensuring that high standards of good governance, values and behaviours are in place and consistently applied in the boardroom and throughout the Group. That is why:

- the effective stewardship and governance of the Group remains a high priority for the Board, which comes up in many aspects of its work; and
- our Values, which are embedded across the business, represent the way we live and breathe our culture.

Read more, **p42**

Progress made with opportunities ahead

Our credentials as an industry-leading operator are strengthened every year. Our achievement of the highest safety awards, attainment of the highest European Foundation for Quality Management five-star rating in three businesses and consistently high customer satisfaction scores are testament to a focus on the fundamentals of a transport business that is geared for ongoing success.

Equally, however, when one stands back it is clear that we are in both a period of significant technological change and also an era when the potential application of these myriad innovations is presenting challenge, yes, but also exciting opportunities. This is now perhaps one of the most pressing challenges for a business like National Express: how we focus our investment and resources in the area of technological innovation to deliver the greatest benefit for our customers and shareholders.

From our industry-leading on-demand scheduling technology at Ecolane, through our pioneering use of smart Lytx DriveCam safety cameras, to our sophisticated customer pricing and payment methods (such as Revenue Management Systems) National Express has sought to invest to embrace the opportunities at an early stage. With the promising results from these – and other – investments, the Board and executive team both believe we are at the start of something exciting here.

Our disciplined acquisition strategy also continues to prove successful, as both high quality new businesses generating returns of at least 15% are brought into the Group, but also opening additional new growth avenues. As Dean again sets out in his report, the emerging urban growth model in Geneva and in major cities in North America has been driven by our recent acquisitions.

Our determination to continue to grow our existing businesses through the excellence and technology agendas, and these new avenues for expansion, provide us with confidence and optimism for future growth.

Dividend

It is with this in mind that the Board has again recommended a 10% increase in the final dividend, bringing the full year dividend to 13.51p. Subject to shareholder approval, this will be paid on 21 May 2018 to shareholders on the register on 27 April 2018.

Finally, I would like to thank Dean and everyone at National Express for their continued hard work and commitment to the business and its core values.

Sir John Armitt CBE
Chairman
1 March 2018

A strategy rooted in our Vision and Values generating shareholder value

Our Vision

Our Vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

Our Values

Underpinning this Vision we have a common set of values across the business

Excellence
We constantly strive to be excellent in all that we do

Safety
We only do what is safe and stop any unsafe behaviour

Customers
We place them at the heart of our business and relentlessly meet their expectations

People
We develop the talents, reward the exceptional performance and respect the rights of all our employees

Community
We are active in the communities we serve to generate economic, social and environmental value

p30

How we generate and preserve value

Our business model
What we do and how it generates value for our shareholders

p6

Strategy and priorities
Our priorities and how we plan to deliver them

p10

Our KPIs
How we measure our progress and delivery

p12

The environment we operate in

Capitalising on opportunities
The trends and factors impacting development of our industry

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Principal risks and uncertainties
The risks faced by National Express Group and how we manage them

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Environmental, social and employee issues
How we work with our principal stakeholders

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Our performance in 2017

Group Chief Executive's review
An analysis of our strategy, performance and results in 2017

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Group Finance Director's review
A review of the key factors impacting our financial performance

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Divisional performance reviews
A review of performance by our principal segments – ALSA, North America and the UK

p24-29

Capitalising on opportunities

The megatrends are shaping demand for travel and public transport and the opportunities ahead.

Economic environment

The propensity to travel is generally affected by levels of economic activity, as represented by GDP growth. Although levels of transportation and mobility remain relatively stable through the economic cycle, periods of GDP growth generate additional volume demand and pricing benefit.

Opportunity
North America continues to grow, while the Spanish economy has strengthened over the last couple of years, with levels of tourism also very strong – demand for public transport is likely to improve further as the economy grows and employment levels continue to rise.

Our response
We continue to look for opportunities to grow our businesses in North America and ALSA, both by organic means and through bolt-on acquisitions in complementary or adjacent markets. In 2017, we made nine acquisitions: three in North America, three in Spain and three in Switzerland.

Deregulation, liberalisation and outsourcing

Our markets are created when state provision of public transport is transferred to the private sector. There are different models for this, with examples ranging from the deregulated markets of our UK bus and coach operations, through the concessions and franchises of Spain, Morocco and German rail, to the school bus and transit contracts of North America.

This is supported by a trend towards market liberalisation, such as European Union directives focused on opening up bus and rail networks. In addition, selective countries around the world are opening up their markets to foreign operators in order to raise standards in their domestic public transport markets. Cost saving is increasingly a factor too, through recognition of the superior efficiency of privately operated services.

Opportunity
The current size of the European public transport market is estimated to be approximately €150 billion*. Liberalisation of the German and Spanish rail and Nordic rail and bus markets present opportunities for growth. (*OECD data.)

Our response
We continue to look for opportunities around the world where we can add value through our expertise and focus on operational excellence, while achieving attractive returns.

Urbanisation and demographic changes

Our services benefit from increasing urbanisation around the world, in particular driving demand for bus operations. Existing towns and cities are expanding, in addition to the creation of new centres of population. In 2014, 54% of the world's population lived in urban centres and this is projected to grow to 66% by 2050, while 73% of the population in Europe and 82% of the population in North America already live in urban centres. These trends are driving the requirement for additional transportation services, both within and between locations. In addition, population growth in the UK, Europe and North America will drive further demand for public transport services.

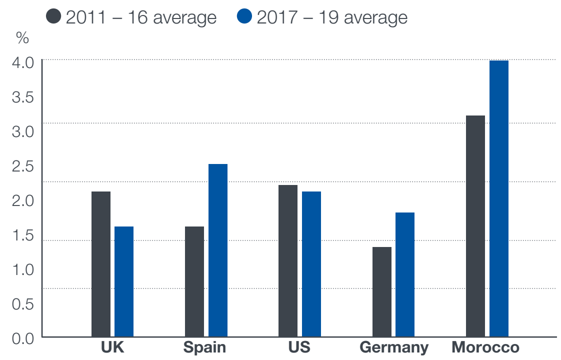
Opportunity
The growth in the urban populations* of the US, UK and Spain are forecast to increase by 10%, 8% and 2% respectively over the next decade, driving the need for further public transport services, while the combination of an ageing and increasingly social and ethnically diverse population will drive the need for new products and services to meet changing customer needs in all of our markets. (*The World Bank DataBank – Population estimates and projections.)

Our response
We are growing our presence in urban areas in North America and Europe and in additional services such as Charter services, transit and occasional services. We are also targeting further urban contracts in Spain and Morocco.

Link to strategic priorities

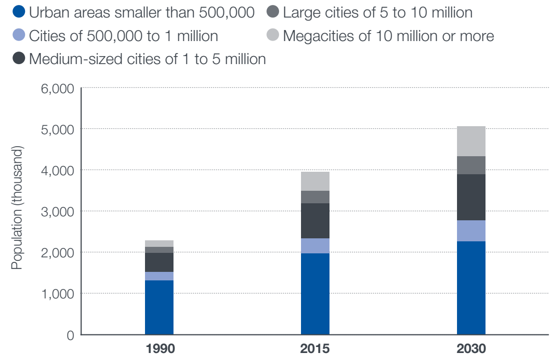
Economic environment	Deregulation, liberalisation and outsourcing	Urbanisation and demographic changes
Growing our business through acquisitions and market diversification, **p11**	Growing our business through acquisitions and market diversification, **p11**	Growing our business through acquisitions and market diversification, **p11**

Average GDP growth



Source: IMF

Global urban population growth is propelled by the growth of cities of all sizes



Source: United Nations – World Urbanisation Prospects 2014.

Modal shift

Modal shift is the move by individuals from one form of transport to another. For National Express, the relevant move is from the private car to bus, coach and rail travel. The biggest reason for this is an increase in the cost of motoring, such as higher fuel prices and cost of insurance, and the increasing use of mobile devices, such as tablets and smartphones, while travelling, although other factors such as environmental concerns and congestion can also be important.

Opportunity
New low-price entrants into the market over the last few years, such as Uber and BlaBlaCar, are resulting in fewer drivers' licences and lower car ownership amongst millennials, with demand for public transport and coaches likely to increase over time in both the UK and Spain.

Our response
We look to offer our customers easy to use, safe, reliable and great value services where we will continue to look to launch new products and services to meet our customers' needs and aspirations.

Delivering operational excellence, **p10**

Environment and congestion

Environmental concerns continue to have an influence on customer behaviour. Bus, coach and rail services are significantly more environmentally friendly forms of transport than the private car or air travel, reducing both the level of carbon emissions per person travelling and travel congestion. Society as a whole and individuals are becoming increasingly concerned about the effect of emissions on the environment and are explicitly choosing public transport as an alternative.

Opportunity
Improved access to city centre locations, such as priority bus lanes for environmentally friendly transport and lower congestion. Move to electric and hybrid buses to lower emissions.

Our response
We work hard with our Alliance partners, Transport for West Midlands and the Metro Mayor, to deliver more environmentally friendly transport, easing congestion with faster journey times from priority bus lanes and lowering emissions with Euro six compliant buses. We are also investing in hybrid and electric buses in the UK, Spain and US.

Delivering operational excellence, **p10**

Technology

Technology and innovation are playing their part, with travel apps providing real-time information as well as customised targeted offers helping to generate incremental demand for journeys on public transport. Digital platforms are increasingly providing customers with end to end journey planning, ticketing tools and additional services which are delivering greater convenience and speedier boarding for passengers, with innovations such as contactless payment, mobile ticketing and seat reservations.

Technology can also be used to provide more efficient planning and real-time scheduling for transport services.

Opportunity
The proliferation of real-time travel information and mobile devices improves the customer experience, making public transport increasingly more attractive compared with the car, while the proliferation of smartcards, m-ticketing and contactless payment not only provides greater convenience for customers but helps to build stronger customer relationships.

Our response
We continue to develop new apps with additional functionality and content, while introducing further innovative and convenient payment methods such as contactless payment and m-ticketing in our UK bus operations and online seat reservations in our coach operations.

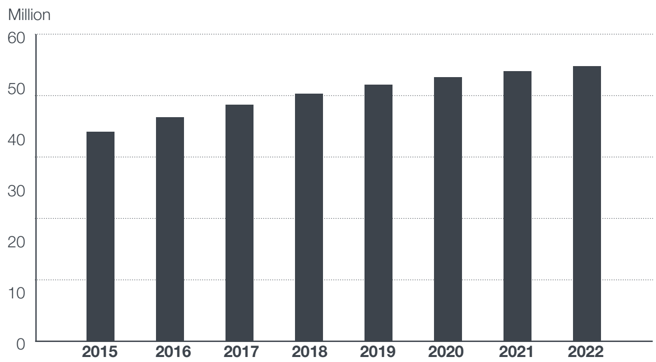
We are already deploying real-time dynamic scheduling and route planning in our North America transit business and are looking to extend this to other parts of our business.

Deployment of technology, **p11**

Average speed during peak travel times on urban roads (in England in year to June 2017)

Source: DfT

Forecast trend in Smartphone usage in the UK



Source: Statista 2017

Our business model
What we do

National Express operates safe, reliable, convenient and good value public transportation services. We do this in both regulated and unregulated markets, and provide services to our customers who are private individuals, companies, school boards or public authorities.

We own and lease buses, coaches and trains which we use to deliver local, regional, national and international transportation services. In our UK coach operations, we also outsource certain services to select partner operators. Irrespective of the operator, all vehicles are driven and maintained to our global standards, either on a network of services scheduled by National Express, or delivered point to point on private hire. In Spain, Morocco, North America and Germany, services are run typically under an exclusive concession or franchise of fixed duration granted by a competent body (eg government, school board) and after a competitive bid process. In the UK, coach services are unregulated while for UK bus services, contracting differs by geography.

1.1 billion
Number of kilometres travelled

882 million
Number of passenger journeys

21,185
Number of school bus routes operated in North America

29,000
Number of vehicles operated

Revenue breakdown by business line

Student transportation (North America school bus)
Revenue
£770m
2016: £710m

Urban Bus (UK bus, North America transit, ALSA urban bus)
Revenue
£670m
2016: £600m

Regional/long haul coach
(ALSA Regional and long haul, UK coach)
Revenue
£620m
2016: £580m

Charter and other (North America, ALSA and UK)
Revenue
£180m
2016: £145m

Rail (German Rail)
Revenue
£80m
2016: £60m

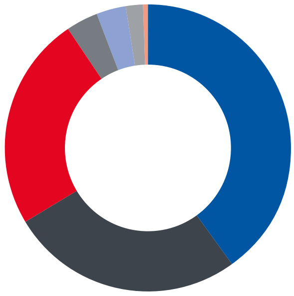
Note: Data above rounded to nearest £5m

Where we operate

National Express operates transportation services in eight countries (UK, USA, Canada, Spain, Morocco, Switzerland, Germany and Bahrain) with some international coach services to other European countries.

We hold the largest market share for long haul coach transport in both Spain and the UK, and are the second largest school bus provider in North America. We also operate urban bus and transit operations in the USA, Canada, Morocco, Spain and the UK. In 2017, we disposed of our final UK rail franchise, c2c, to Trenitalia. Our sole rail operations are now in Germany.

Revenue (£m)



USA	934.1
Spain	610.5
UK	561.5
Canada	83.1
Germany	79.0
Morocco	45.7
Switzerland	7.3
Total	**2,321.2**

Our primary markets

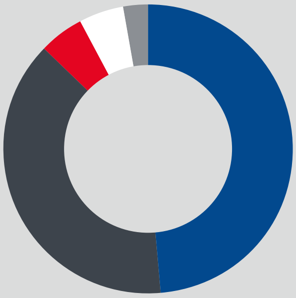
1. USA
2. Canada
3. UK
4. Germany
5. Switzerland
6. Spain
7. Morocco
8. Bahrain

Markets colour-coded to business line as set out on page 6

We employ 47,000 people worldwide.

Our business model
How we create value

Sources of revenue (£m)



Contract revenue	1,134
Ticket sales	891
Charter and private hire	121
Concessions and subsidies	112
Other	63
Total	**2,321.2**

Growing revenue

National Express generates revenue principally from two sources. First, multi-year contracts with school boards or local authorities make up 49% of revenue, the majority of which are in North America. Revenue is generated either on a per mile/kilometre basis, or per route travelled. Second, a further 38% of revenue is earned through individual ticket sales to the public, with National Express marketing the product and taking revenue risk. This revenue is derived from bus or coach journeys in the UK, Spain and Morocco, and rail journeys in Germany. Concession revenue from local authorities in the UK, Spain and Germany delivers 5% of Group revenue with charter/private hire contributing a further 5%. The remaining 3% is from other revenue streams such as on board entertainment, SMS alerts, booking fees and advertising.

There are many factors contributing to the Group's strong organic revenue growth. In recent years, our increasingly sophisticated use of Revenue Management Systems (RMS) has been a notable factor. RMS enables us to segment our offer through a better understanding of customer needs and purchasing behaviour to drive revenue through differential pricing depending on time of journey, ticket type, buying channel etc.

Converting it to profit

National Express maintains industry-leading margins through a relentless focus on operational excellence in all we do. The direct, variable costs of providing transport services across the Group depend on a number of factors, but sophisticated network optimisation is a key factor. Through continuously reviewing and improving network designs and routing, we can optimise peak vehicle requirements and increase loading factors, reducing the cost of delivering a high quality service to our customers. Our diversity and scale is an important factor in managing indirect costs, enabling us to optimise cost and quality across the Group's supply base.

Delivering cash flow

National Express has a track record of generating significant cash flow from its operations. The Group has delivered over £750 million of free cash flow over the last five years and is extremely disciplined in its management of working capital and the conversion of operating profit into free cash. Maintenance capital expenditure is maintained at a level of around 1.1 to 1.2 times depreciation, efficiently retaining an appropriately aged fleet to meet customer requirements.

Funding returns and reinvestment

By generating cash returns and by managing our net debt to between 2.0 and 2.5x EBITDA, we ensure debt levels and interest costs can be supported by the profits generated by the base business. This allows National Express to do two things. First, we can reinvest cash back into the operations to grow the business. We have invested £365m both organically and inorganically since 2013. This has strengthened our market leading positions in coach in the UK and in Spain; built-out key geographic positions, such as in New York state in school bus; and enabled us to expand into promising adjacent markets such as paratransit in Chicago or urban bus in Morocco. Second, we can deliver consistent, competitive returns to shareholders. Over the last five years the Company has returned £280 million through dividends, growing dividend per share by 35%.

"The Group has delivered over £750 million in free cash flow since 2013."

£365m

We have invested £365m both organically and inorganically over the last five years

£327m

Including this year's proposed final dividend, over the last five years the Company has returned £327m through dividends

How we maintain competitive advantage

National Express is the best value operator in price sensitive transportation markets, combining the benefits of scale and diversity with deep understanding of the local markets in which we operate. This international-local balance drives a number of competitive advantages:

We engage our customers through clear marketing and branding

We invest in our consumer brands to ensure the value in our products is understood by our customers. The National Express and ALSA brands are household names and stand for safety, consistency, reliability and affordability. We promote these values in our brands to help drive purchasing decisions.

We prioritise safe operations

The Group operates consistent, world-class safety policies in all markets, supported by leading edge technology. Our focus on Driving Out Harm supports our primary goal – to get customers to their destination safely.

We operate at scale

We seek leadership positions in the markets in which we operate. In the UK and Spain, our long haul coach operations are market leaders. In urban bus and transit, we are focusing on growing urban markets around the world – for example in 2017 we grew in London, New York, Chicago, Madrid and Geneva.

We enforce consistent global policies and processes

Our global Master Driver and Master Technician programmes drive a consistently high standard of capability across our markets. Consistency and standardisation in turn allow costs to be optimised to enable us to offer best value to our customers.

We deploy new technologies rapidly across the Group

The Group consistently applies technology to improve our customer offering (eg deploying free wifi on our premium bus services in the West Midlands, development of VUER in our UK coach business, development of mobile apps, web interfaces and customer portals); to grow the business (eg RMS in our coach businesses in the UK and Spain, and on-demand scheduling through our Ecolane tool in North America); and to drive operational excellence (eg the global roll-out of Lytx DriveCam in support of our global safety policies).

We operate a balanced and resilient portfolio

Because of the contract nature of a material portion of our business, less than 50% of our revenues vary based on passenger demand, and we are therefore less exposed to changes in travel patterns caused by economic cycles. In addition, the nature of some of our main contracts (eg in school bus transportation) means that we are less of a target for technological disruption (from unregulated technology-based companies who target market share growth at a loss) than others who participate in only B2C markets. Our diversification means that no one contract accounts for more than 4% of revenue. All of this helps us to generate cash consistently, allowing us to invest prudently over the medium to long term, and to minimise our financial risk.

Strategy and priorities

Driving our business forward through our three strategic priorities

	Delivering operational excellence
Definition	**We aim to be the safest, most reliable, convenient and best value transport provider in the modes we operate**
Performance	– All eligible businesses, ALSA and our UK bus and coach operations, now have EFQM* five-star ratings – Both our UK bus and coach operations re-awarded the prestigious British Safety Council Sword of Honour – Improved customer satisfaction in our UK businesses and in ALSA – 19% underlying improvement in FWI index** – Strong retention rate of 96% in our North America school bus business – Another record year for passenger numbers at ALSA – Launched World Class Maintenance and safety initiatives across each of our businesses
Future outlook	– Target further passenger growth in the ALSA and our UK bus and coach operations through our digital initiatives – Launch new products and services including new routes, new express and charter services and new ticketing options – We will continue to leverage our customer reputation to win new business in North America – Delivering Excellence programme will continue to embed best practices across the Group including world class safety performance – Continue implementation of our World Class Driver programmes across each of our businesses, raising driving and safety standards further
Measuring our progress	We believe passenger growth and improvements in safety standards through a reduction in safety-related incidents are key indicators of whether we are driving high safety and service standards and which will ultimately help deliver further growth in revenue, cash and profit. See KPIs, **p12-13** FWI** / Passenger journeys
Mitigating Risks	See Risk, **p38-40** 02 03 05 06 08 10 12 13

* European Foundation for Quality Management – recognises operational excellence and awards ratings to businesses based on a number of criteria, including quality of leadership and strategic direction together with development and improvement of people, partnerships and processes in order to deliver value-adding products and services to their customers

** Fatalities and Weighted Injuries Index

Deployment of technology

We utilise technology to raise customer and safety standards, drive efficiencies in our business and facilitate growth

- New mobile websites and ticketing apps are driving higher online transactions, conversion rates and lowering costs – eg ALSA has seen a 10% increase in sales through digital channels
- Contactless pay launched across the UK business, providing faster, more convenient methods of payment
- Our real-time revenue management systems in ALSA and our UK coach operations are growing revenue through both improved yield and passenger growth
- Lytx DriveCam technology is now fully implemented in our UK bus and coach operations and North America transit, delivering a reduction in the number of collisions and associated costs

- Further optimisation and automation of our RMS systems in Spain and our UK coach operations to drive growth in revenue, profit and incremental demand, as well as higher fleet utilisation
- Further roll-out of Lytx DriveCam across our ALSA and North America school bus businesses, strengthening driver standards and reducing collisions
- Enhanced CRM systems driving greater customer insight, to deliver greater personalisation and improved service
- Further enhancements to websites, apps and ticketless payment systems, helping to drive revenue and reduce costs
- Technology to support our World Class Driver programmes such as driver fatigue detection

A rising proportion of sales transacted through our digital channels demonstrates that our customers value more convenient and faster ways to pay. At the same time, the transfer of transactions away from traditional ticket offices and third party sales agents to digital channels is driving operational efficiencies and reducing costs.

See KPIs, **p12-13**

Percentage of sales through digital channels

See Risk, **p38-40**

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Growing our business through acquisitions and market diversification

We continue to look to grow our unique portfolio of international bus, coach and rail businesses through selective bolt-on acquisitions and diversification into complementary markets

- We have acquired nine bolt-on acquisitions in the year:
  - three in North America: the significant acquisition of a Chicago paratransit operator, securing entry into the second largest paratransit market in North America; and the acquisition of two school bus and charter businesses in Cincinatti and Rochester, New York
  - six in ALSA: two urban transport companies in Madrid and Granada; three businesses in the Geneva area including two additional businesses in the Swiss ski transfer market; and a charter transport services company in Madrid

- Further selective bolt-on acquisitions principally in North America and Spain where we can extend our offering into new regional markets and cities or build further scale in existing markets and cities, also enabling us to drive incremental revenue and profit through the provision of additional commercial services such as charter services, while also making greater use of our fleet
- We see a strong pipeline of future opportunities, both in bidding and in M&A, as the liberalisation agenda continues across the world
- We will seek investments in assets that present a platform for future growth, and will consider JV arrangements with the right partners

We maintain a disciplined approach to investing and target project returns well above our cost of capital, typically targeting returns of 15% or above. Across the business as a whole, disciplined allocation of capital is measured through a focus on ROCE, a key element of executive remuneration.

See KPIs, **p12-13**

ROCE

See Risk, **p38-40**

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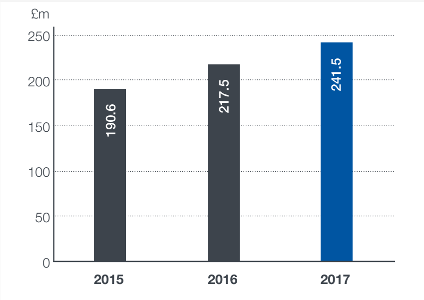
Measuring our progress

Financial

Normalised operating profit

2017: £241.5m



Relevance to strategy
Key measure of the overall performance of the business.

KPI definition
Group normalised operating profit from continuing operations.

Performance
- Further progress in Group normalised operating profit, driven by strong performances in our overseas businesses
- Growth being delivered both organically and through bolt-on acquisitions
- Normalised operating profit up 6.0% in constant currency, and up 11.0% on a reported basis

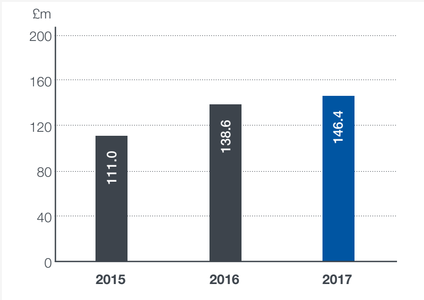
Why we measure
We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our shareholders.

Remuneration linkage
Normalised Group operating profit is one of three bonus inputs within the Executive Directors' annual bonus structure.

Read more in remuneration, **p68**

Free cash flow

2017: £146.4m



Relevance to strategy
Strong cash generation provides the funding to invest in initiatives to drive our strategy.

KPI definition
Free cash flow is the cash flow available after deducting net interest and tax from operating cash flow. See reconciliation on page 21.

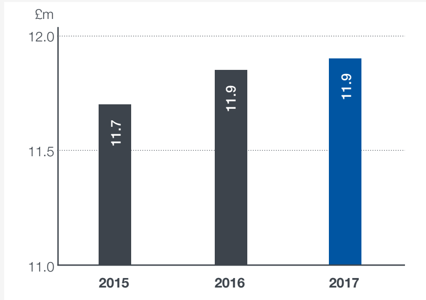
Performance
- Normalised operating cash flow of £212 million, up £10 million on 2016
- Generated £146 million of free cash, £8 million higher than last year
- Generated over £750 million of free cash flow in the last five years

Why we measure
To ensure that we are running the business efficiently, converting profit to cash to enable investment into the business and returns to shareholders.

Remuneration linkage
Free cash flow is one of three bonus inputs within the Executive Directors' annual bonus structure.

Return on capital employed

2017: 11.9%



Relevance to strategy
Demonstrates how efficiently the Group is deploying its capital resources and generating operating profit.

KPI definition
Return on capital employed (ROCE) is normalised operating profit, divided by average net assets excluding net debt and derivative financial instruments, translated at average exchange rates. See reconciliation on page 21.

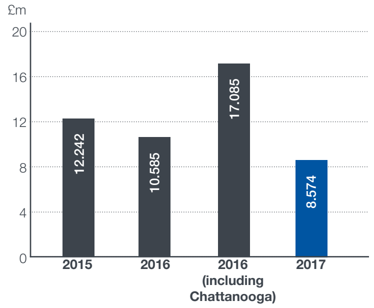
Performance
- ROCE stable at 11.9%
- Invested £165 million of net maintenance capital, predominantly in replacing our fleet in our existing operations
- Invested £13 million in growth capital expenditure to support growth in digital and e-commerce initiatives, fleet upgrades on newly acquired businesses and mobilisation costs in German Rail
- Strong returns generated by our recent acquisitions in North America, Spain and Switzerland, with acquisitions delivering ROIC of at least 15%

Why we measure
A focus on ROCE ensures that we maintain a disciplined approach to capital investment, and continue to invest in those areas in which we can deliver the best returns. This ensures that we maximise returns to shareholders for the capital they invest.

Remuneration linkage
ROCE is one of the performance conditions for the National Express Long-Term Incentive Plan.

Non-financial

Safety – Fatalities and Weighted Injuries (FWI)
2017: 8.574



Relevance to strategy
Safety is of paramount importance to a public transport operator and is a core measure of our strategic priority: Delivering operational excellence.

KPI definition
The Fatalities and Weighted Injuries Index weights injuries by severity to give an overall standard based score.

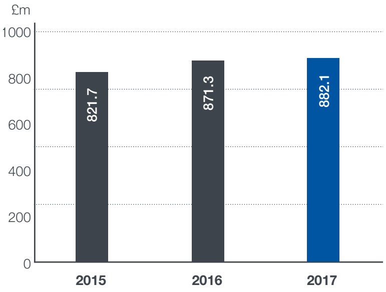
Performance
- In 2017 we saw a 50% reduction in the FWI score compared to the previous year, which included the Chattanooga incident, with significant improvement in North America and ALSA
- This represents a 19% reduction on an underlying basis compared to 2016
- 74% improvement in safety performance since the introduction of Driving Out Harm in 2010 (when adjusting for increased mileage)

Why we measure
Safety is at the heart of our Vision and Values and is our priority for both our customers and employees.

High safety standards also help to drive sustainable growth through customer loyalty and new business wins.

Remuneration linkage
Improvement in FWI is one of three bonus inputs within the Executive Directors' annual bonus structure.

Passenger journeys
2017: 882m



Relevance to strategy
Growth in passenger journeys is a leading indicator for growing our business and a core measure of our strategic priority: Delivering operational excellence.

KPI definition
Passenger numbers as measured by the aggregate of passenger journeys across our five operating divisions.

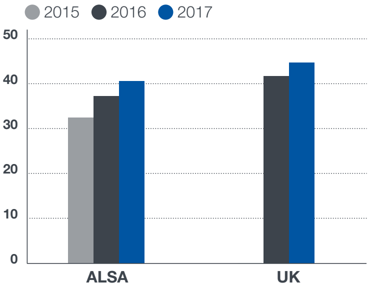
Our numbers for North America are estimated as our School Bus services are non-ticketed.

Performance
- A record number of passengers carried in 2017, with 882 million passengers travelling on our services, up 1.2% in the year
- Growth in passengers across each of our businesses
- Strong performance in ALSA, with a record 314 million passengers carried, up 2% in both Spain and Morocco

Why we measure
Passenger journeys are reflective of underlying demand for travel. National Express is targeting increased passenger ridership as a longer-term driver of sustainable value.

Remuneration linkage
Non-financial targets within the Executive Directors' annual bonus structure typically include a component of personal objectives relating to operational performance metrics.

Percentage of sales through digital platforms
2017: ALSA 40.4% UK: 44.5%



Relevance to strategy
Deployment of technology is one of our strategic priorities and a key driver for growing our business and reducing costs.

KPI definition
Sales transacted through digital channels, including websites, mobile apps and ticket machines, as a percentage of total sales.

Performance
- Continued strong growth in ALSA with sales transacted through digital channels up 9% to 40.4% and up 55% over the last three years
- With launch of new mobile ticketing app, already 10% of our UK bus commercial revenues coming from digital sales
- Contactless and on-board ticketing launched in our UK coach operations helping to drive further growth in sales through digital channels to 66% in 2017

Why we measure
We aim to provide our customers with more convenient and faster ways to pay.

National Express is targeting increased sales through digital channels, not only to provide more convenient methods of payment and to increase customer loyalty, but also to reduce costs and fraud.

Remuneration linkage
Non-financial targets within the Executive Directors' annual bonus structure typically include a component of personal objectives relating to operational performance metrics.

Our strategy is delivering results

Dean Finch
Group Chief Executive

Introduction

National Express has delivered perhaps its strongest ever set of results in 2017, with good growth across all of our internationally diversified portfolio. We have achieved particularly strong performances in both North America and ALSA. Our performance in the second half of 2017 in the UK has reversed the declines seen in the first six months, to deliver annual growth in both our bus and coach businesses.

I believe that we are seeing the benefit of our focus on operational excellence, technology investment and disciplined acquisition in these results. North America's combination of customer focus, contract retention and successful acquisitions has driven a record result. ALSA has also delivered a very strong performance, propelled by its increasingly sophisticated real time Revenue Management System (RMS). Both our UK bus and coach businesses have used sophisticated pricing techniques and efficiency programmes to drive second half performances that have more than reversed their first half challenges.

These divisional performances are reflected in the strength of our Group results. We again delivered a record statutory profit of £134.3 million (up nearly 12% on last year's record). Free cash flow also increased to £146.4 million (2016: £138.6m) and our gearing reduced to 2.3 times EBITDA. With this strong performance we are proposing a 10% increase in the final dividend. Our consistent delivery is also reflected in the fact that over the last five years we have generated over £750 million of free cash flow and, including this year's proposed final dividend, returned over £325 million to shareholders.

While I am pleased our international portfolio and strategic focuses have driven another year of growth, I am firmly focused on the future. We have significant opportunities still to capture to drive organic growth as well as new avenues for further expansion emerging.

With the Group out of UK rail we have removed both significant financial commitments and political distraction and are able to concentrate on growing our bus and coach presence in our existing, interesting adjacent and targeted new, markets.

We have moved deliberately away from a business model where our prosperity was significantly determined by the instabilities of UK rail. Indeed, a key attraction of our internationally diversified portfolio is that it has a significantly reduced exposure to any one country's political or regulatory movement.

Our largest contract is worth less than four percent of our Group earnings; we are less dependent on the success or failure of a specific contract. So, rather than spending tens of millions of pounds on rail bids where we may win, say, one in four competitions – which were also won on increasingly eye-watering terms, with vanishingly thin returns – we have decided to invest our strengthening resources on improving the quality, safety and efficiency of our operations as well as on attractive acquisition opportunities. We have expanded in and into large, wealthy cities and also launched successfully in three new markets (Germany, Bahrain and Switzerland) in recent years. These three new market entries have all been profitable in their first full year of operations.

Our strategy therefore remains focused on three key pillars:

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

I will now set out how we are already delivering against each of these pillars and outline some of the emerging opportunities for further benefits to come.

" "

National Express has delivered perhaps its strongest ever set of results in 2017, with good growth across all of our internationally diversified portfolio.

Strategy

Operational Excellence

We aim to give our customers safe, punctual and frequent transport services at excellent prices. During 2017, we gave our customers lower fares and improved services. We also invested to improve the safety of our services and their ease of use through enhancements including the provision of better real time information, mobile journey planning tools, contactless ticketing and faster services with better end to end connections.

This relentless focus on improving our service to customers and our fares, coupled with constantly improving the efficiency of our operations, was rewarded with an increase in the number of passengers we carried and with improving customer satisfaction. Across the Group we have carried over 882 million passengers, up 1.2% on a continuing basis, on 2016. Our value for money scores were already high and are rising, for example: UK coach's score was over 87%, up 0.5% year-on-year; and, ALSA's 72% was up 6% year-on-year.

Our businesses have again demonstrated their industry-leading customer service credentials in the year. ALSA has achieved a record customer satisfaction score of 7.4 out of 10 (up 4.8% year-on-year) and also won the IZO 'Best Customer Experience for the Transport Industry' award, the largest satisfaction survey conducted in Spain. Our UK bus business achieved a record-equalling customer satisfaction score of 87% in the independent Transport Focus survey (also up 1% year-on-year). Our UK coach business' customer satisfaction score was also up, three percent to 86%, with the independent Temkin Group Net Promoter Score index ranking National Express fourth in its select group of companies. North America again delivered another year of customer satisfaction above 90%, coming in at 91.2%.

We are also seeing the benefits in the safety performances of our business. Safety is our top priority and we established our Driving Out Harm programme in 2010 with the deliberately ambitious objective of removing all harm caused by our businesses. I am delighted that since Driving Out Harm's inception, we have reduced harm, as measured by our industry-leading Fatalities and Weighted Injuries (FWI) index, by 74% per million miles operated.

We are also receiving significant external recognition for our safety programmes and performance. Both UK bus and coach received five-star British Safety Council scores, and their highest honour, the Sword of Honour: bus' score of 97.4% was the highest in the transport industry; coach also received a ROSPA Gold Award. ALSA received two awards from MAPFE: the 'International Road Safety' and 'Best Initiative in the Prevention of Accidents' awards. And our North American school bus business has again received the highest possible safety rating from the Federal Motor Carrier Administration. Safety will remain our Group's – and my personal – top priority as long as I am Chief Executive. I will say more about our technology investments that are a crucial part of our plan for further improvement in the next section.

We also continue to forge and leverage strong partnerships with local authorities to tackle key operational and customer service challenges. For example, through a joint bid with Transport for West Midlands, our bus business has recently secured Department for Transport investment for new bus lanes on the important Harborne to Birmingham city centre route. We have introduced our state-of-the-art Platinum buses to this route, with the aspiration of repeating the significant increases in passengers we have seen where previous schemes (such as Lode Lane in Solihull) have combined journey time savings with new, premium vehicles. It is precisely this strong partnership approach that we are looking to further enhance by working closely together to make sure the 2022 Commonwealth Games in Birmingham are a success and deliver significant transport improvements before the games begin.

Investment in technology

We are in a period of significant technological change. The seemingly constant stream of innovations presents many opportunities for customer-focused businesses such as ours. We are working on innovative new transport technologies, with ALSA developing autonomous, electric vehicle projects in Madrid, for example. Beyond this, our task is to focus on the improved outcomes that can be delivered through the right technologies, rather than chasing every innovation that appears on the market. I believe new technology presents a real opportunity to drive organic growth, improve standards and realise cost efficiencies. We have therefore focused our interest in three principal areas.

First, improving our service to customers. Our RMS is a significant example of this. This allows us to provide real-time pricing that becomes increasingly sophisticated through time as it builds up a 'memory' of historic customer behaviour and applies it to the current market. This has allowed our UK coach services to respond to the reduction in travel demand after the terrorist attacks in 2017, with a prompt, targeted lowering of ticket prices to sustain passenger numbers. That our UK coach business carried more passengers in 2017 than 2016, despite the significant challenges it faced, is testament to the benefit of this real-time and granular pricing. Overall, our UK coach services saw an underlying revenue benefit of two percent from RMS, with seat occupancy rates also up two percent – also demonstrating the efficiency benefit of the technology. Our Spanish long haul services which have RMS installed also saw revenue increase by 3.9% and seat occupancy rates up over two percent.

Investing in technology to improve safety standards

We are committed to investing in technology to improve standards and secure efficiencies. One area where we have shown particular leadership is through the installation and use of smart safety cameras on our vehicles. Lytx DriveCam, pictured below, is an industry-leading system that allows the recording of accidents or incidents worthy of subsequent review. This technology is being rolled out across our businesses and is already fully installed in the UK. The videos allow us to improve safety and driving standards through tailored training and also provide crucial evidence for insurance claims, helping us significantly reduce the costs of accidents where it is installed.

"New technology presents a real opportunity to drive organic growth, improve standards and realise cost efficiencies."

In 2018, we expect RMS to underpin further organic growth and deliver a one percent underlying benefit in both UK coach and ALSA. We also continue to see significant growth in digital sales channels across our businesses. It is by far the most significant means of payment for UK coach, with 66% of revenue coming through digital channels (up 3% year-on-year). ALSA saw significant growth in digital channels in 2017 of over 9%, with more than 40% of all its sales now through digital. On ALSA's long haul coach services, 44% of all sales are through digital channels. UK bus is also experiencing a rapid rise in the number of passengers using digital channels, with 10% of all passengers now travelling on m-tickets. This growth in m-ticket use has almost entirely occurred during 2017 and this trend is accelerating in 2018.

We are investing to accelerate this shift. We have introduced new contactless ticket machines to our UK buses, allowing a wide range of digital and contactless ticket types to be used. These machines enable the daily capping of prices and allow us to move decisively away from the use of exact cash fares to travel. Our customers in Coventry started using these new machines in January and they will be fully operational across the whole of the West Midlands in April, making it the single largest contactless network outside of London. We will be complementing this with the launch of a much-improved app in March that will allow real-time tracking of buses, among other customer-friendly features.

We have also invested to make UK coach's digital presence easier, quicker and more responsive to use. An upgrade to our UK coach website has significantly reduced the number of clicks necessary (and therefore time taken) to purchase a ticket, with online sales conversion rates increasing 3% during the year. We have also piloted a successful seat reservation system which will be rolled out network-wide in 2018. These innovations and investments have: helped raise its rating in the App Store to 4.5 stars (up from 2.5 stars at the start of 2017); seen www.nationalexpressgroup.com significantly improve its Google search optimisation scores so it is now the best ranked land transport website in the UK; and also been recognised with the Best Technology Award at the UK Coach Awards for the customer entertainment system, VUER.

Our North America business is also accelerating its use of technology to make it more responsive to customer demands. During 2017 we launched new apps in transit and school bus, and through our market-leading software company Ecolane, for paratransit customers. The Ecolane app allows users to book and view trips in real time and also proactively alerts them when their vehicle is on its way. We have also – uniquely within the industry – installed an online complaints management system in all of our school bus depots.

German Rail and Bahrain continue to use market-leading technologies to enhance their services to customers. In Germany, our 'NX-Scout' WhatsApp group, which provides up-to-date travel information for customers, has the equivalent of around 15% of daily passengers signed up. In Bahrain, the local app has seen a 50% increase in downloads during 2017, and the 'GO Card' smartcard is used in between 45% and 50% of journeys.

The second area where technology is also playing a very important role in our determination to continue to improve our performance is safety. In 2017, we saw significant progress in our roll-out of the industry-leading Lytx DriveCam smart safety cameras that allow incidents to be recorded and analysed. This provides the opportunity for both tailored driver training and fuller evidence to be used in insurance claims. The cameras are now installed: across all our UK fleet; in 6,351 vehicles in North America, with a target of around another 10,000 by the end of the year; and in 150 vehicles in ALSA, with a target of over 1,000 (around 45% of the Spanish fleet) by the end of the year.

There are very encouraging results of reductions in 'event severity', the number of incidents and insurance costs where the smart safety cameras have been in place the longest. In North America, for example, we started rolling Lytx DriveCam out in 2014 and it is now installed in 46 locations. The results so far show that when comparing the costs of claims from preventable street accidents for the 12 months prior to fitment against post-installation, there has been a 30% reduction. So with the significant further roll out programme in 2018, we expect to reap further driving standards, safety and cost benefits over the coming years.

Alongside the investment in the smart safety cameras we have begun a comprehensive programme addressing speed management across the Group. Technology is already playing a crucial role in identifying issues and allowing targeted management interventions. It will be augmented in 2018 with a comprehensive internal communications campaign to reinforce the crucial importance of speed management. We will have the near universal roll-out of this technology by the end of 2018.

We are also investing in technology which improves our third principal area: business and cost efficiency. Two North American pilots are providing particularly interesting opportunities. First, a new budget management system which provides, to a very granular level, detailed cost management for local management use but also central review. Second, a business management system will systematise good customer and operational practice across our business supporting local management and also enhancing central oversight. In a continent-wide business where customer relationships are key, striking the right balance between local flexibility and central control is a crucial challenge for running an effective and efficient business.

These two emerging tools are providing encouraging early results and exciting opportunities for the future. By using the business management system we have been able to revise our fleet management system and in so doing have identified over 750 buses we believe can be more effectively deployed in 2018. This will have direct benefits in terms of a significant reduction in new capital requirements. This system is being extended to cover our maintenance processes and we expect to again generate improved efficiency in our systems generally and also allow for greater claims on parts warranties, specifically.

Acquisitions and new opportunities

With our strong and sustainable cash flows, we have targeted new acquisitions in recent years to deliver growth as well as add quality new businesses to our portfolio. In 2017, we continued to do this in a disciplined manner, with targeted returns above 15%. We made a further nine acquisitions in the year, with North America remaining the focus of our capital allocation, but ALSA also adding six new businesses.

The acquisitions we made in recent years continue to perform strongly and we have a strong pipeline of further opportunities that we are actively pursuing in both North America and through ALSA. Through the appointment of James Stamp as Group Commercial Director – previously KPMG's UK Head of Transport and Global Head of Aviation – and other hires in his team, we have strengthened our Group support to the divisions in their acquisition and new market identification.

Our ALSA acquisitions include three that build on our successful Swiss ski market entry through AlpyBus and strengthen our presence in the Geneva area. We are developing Geneva as an emerging growth 'hub' with expansion into local school bus and discretionary transport alongside the growing transfer business; AlpyBus itself grew significantly in 2017. ALSA made another three acquisitions in the year that add new bus operations in Madrid and Granada as well as 'Maitours', which provides: staff transfers for a large local airline and national bank headquarters; an urban transport contract in Azuqueca, Guadalajara; and school bus services in Madrid.

We made three acquisitions in North America during 2017, adding over 800 vehicles across the school bus, paratransit, transit and special education sectors. These acquisitions included Cook-DuPage Transportation, providing entry into the US's largest paratransit market (Chicago). Paratransit is a fast-growing market and this acquisition therefore strengthens our credentials in this important sector.

By using our presence – helped by recent acquisitions – in large city markets to operate services across, for example, school bus, transit, paratransit, charter and employee shuttle, we can offer competitive pricing and operational resilience as we benefit from the synergies between the different operations. With a greater local concentration we can also develop strong local relationships. Across the Group, our best markets are often those where we successfully combine service excellence, competitive pricing and strong relationships. We believe, therefore, that developing and expanding this approach provides an interesting opportunity for new growth.

Our North American acquisitions have also brought new thinking into our business and we believe one area where we will benefit in particular is in charter. Learning from the way a recently acquired business had developed and grown its own local charter revenue, we see the opportunity for significant nationwide growth. We estimate the national charter market to be worth more than $1.5 billion a year. In 2017, for example, National Express only captured around three percent of this market, demonstrating the opportunity for growth.

We have continued to target new growth opportunities through selected bidding. ALSA has recently submitted a joint venture bid to operate a bus contract in Rabat, to consolidate our position in Morocco. We plan to submit further German rail bids this year to augment our presence in North Rhine Westphalia.

I am very proud of our industry-leading work in the community. We launched the National Express Foundation in 2012 and in that time have supported over 14,200 youngsters in the West Midlands, East London, South Essex and Medway. This support has helped local community groups working with disadvantaged young people as well as those who would otherwise not be able to access further or higher education because of financial challenges, attend college or university. This year National Express Group will provide £300,000 to the foundation to further its good work.

Equally, our leadership on the Living Wage has been a source of pride. Our UK bus operations have been a Living Wage Foundation accredited employer for 2 years and the feedback from staff has been very positive. Our UK coach business is currently securing the accreditation; it has introduced the Living Wage Foundation living wage to directly employed staff and will shortly roll this out to contractors' employees.

I was very sad to hear of the untimely passing of John Devaney in January this year. John served as National Express' Chairman between April 2009 and January 2013. John also served as Executive Chairman for a period during this time, including leading the challenging rights issue that rescued the business. John brought a wealth of experience to his time at National Express and I always found him a helpful source of both support and challenge, essential for any Chief Executive. Both personally, and on behalf of National Express, I would like to offer my sincerest condolences to John's family and friends.

Outlook

We expect to deliver growth in every business again in 2018, as our strategy continues to generate strong shareholder value.

We will remain focused on operational excellence and technology investment to deliver high quality services to customers at good value prices. Our businesses are increasingly sophisticated, using technology to get ever closer to our customers and drive through efficiencies in our operations, whether RMS, Lytx DriveCam or contactless ticketing. We are confident therefore that we will deliver organic growth in each business in 2018 and complement this with a strong acquisition pipeline of opportunities with returns of at least 15%, across ALSA and North America. We are actively working on further acquisitions.

Our strong and sustainable cash flow – we believe our free cash flow in 2018 will be broadly similar to 2017 – combined with £20 million of fuel cost savings and the benefit of acquisitions made at the end of 2017, give us strong tailwinds. These have recently been strengthened by US tax reform, which will see our Group effective tax rate reduced to the low 20s, in percentage points.

I look forward to 2018 with both excitement and optimism. I am ably supported by a strong, dynamic management team that operates National Express' many businesses with relentless focus and efficiency. The technological tools now available to the business give us the granularity and transparency to control and manage the business in a way that I think could be transformational over time. The strength and resilience of the business proved to be very impressive in 2017 and will continue to underpin our future in the years to come. Our strong cash generation coupled with our numerous growth opportunities give me confidence as we once again look ahead to deliver growth in revenue, profits and returns in the years ahead.

Dean Finch

Dean Finch
Group Chief Executive
1 March 2018

Recognising exceptional driving performance

Our People Value is to develop the talents, reward the exceptional performance and respect the rights of all our employees. Our Master and Advanced Driver programme is a prime example of this. If drivers have two consecutive years of excellent service and performance (including, for example, no preventable accidents or customer complaints and excellent driving assessments) they become an Advanced Driver. Three consecutive years of this exceptional performance achieves Master Driver status. These drivers are presented with their awards at a ceremony (that families are encouraged to attend) and receive a distinctive tie and free membership of the Institute for Advanced Motorists, providing potential insurance benefits. We now have 903 Advanced Drivers and 728 Master Drivers across the Group and this increasingly popular programme continues to grow.

Master Drivers receive a distinctive tie to recognise their achievement

I look forward to 2018 with both excitement and optimism. I am ably supported by a strong, dynamic management team that operates National Express' many businesses with relentless focus and efficiency.

Delivering further significant growth in profit and cash

Chris Davies
Group Finance Director

Dear shareholders

I am delighted to be writing to you for the first time as Group Finance Director of National Express. The strength of the financial performance delivered in 2017, and outlined below, demonstrates the Group's strong and stable financial position.

Presentation of results

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

Changes to reporting segments

Following the strategic exit from UK rail operations in February 2017, the UK business was restructured with UK Bus and UK Coach combined under a single UK management structure to drive cost reductions and facilitate better, clearer decision making. To align external reporting with internal decision making structures, we are presenting the UK as a single operating segment. We will continue to disclose revenue separately for our UK bus and coach operations on the Group website www.nationalexpressgroup.com, in order to provide an understanding of drivers of performance in the UK division.

Statutory profit

The Group again delivered a record statutory profit after tax amounting to £128.4 million (2016: £114.9m) driving basic earnings per share of 25.7 pence (2016: 23.0p), an increase of 11.7%.

> **The strength of the financial performance delivered in 2017 demonstrates the Group's strong and stable financial position.**

Statutory profit	**2017 £m**	2016* £m
Normalised profit before tax	**200.0**	168.6
UK restructuring	**(5.6)**	–
Intangible amortisation on acquired businesses	**(38.0)**	(33.8)
Statutory profit before tax	**156.4**	134.8
Tax charge	**(28.0)**	(19.9)
Statutory profit after tax from continuing operations	**128.4**	114.9
Profit from discontinued operations	**5.9**	5.1
Statutory profit for the period	**134.3**	120.0

* Restated in relation to the exit from UK rail

The exit from our UK rail operations with the strategic disposal of the Group's final UK rail franchise, c2c, in February 2017, led to a reorganisation of the UK management structure and a one-off cash inflow of £27.5 million. The aggregated impact of the UK rail exit including the c2c disposal and the consequent UK restructuring has been a small profit after tax, which has been excluded from normalised results. The gross profit on the sale of the c2c franchise and the discontinuation of other direct UK rail costs (£5.9m after tax) is separated on the income statement from the associated costs of restructuring the UK business (£5.6m). Further detail can be found in note 11 to the financial statements.

Revenue

	£m
2016 revenue	2,094
Currency translation	94
2016 revenue at constant currency	2,188
Organic growth	54
Acquisitions	79
2017 revenue	2,321

Group revenue for the period was £2,321.2 million (2016: £2,093.7m), an overall increase of 6.1% on a constant currency basis (up 10.9% on a reported basis with £94 million of foreign currency gains on translation). Revenue growth of £54 million from our existing businesses, representing organic growth of 2.5%, was boosted by a further £79 million from acquisitions, principally in North America and Spain.

Revenue growth has been delivered across the business with performance particularly strong in our overseas businesses. North America delivered 10.1% growth in constant currency, with growth being driven by the full year benefit of acquisitions completed in 2016, augmented by the three new bolt-on acquisitions made in the second half of 2017. Organic growth benefitted from another successful bidding season in which we achieved an average price increase of 2.4% across the entire portfolio and 3.0% on those contracts up for bid and renewal. ALSA also delivered a strong performance, with revenue growth of 3.6% on a constant currency basis. This growth was driven predominantly in Spain, most notably on our Spanish long distance routes where our revenue management system contributed 3.9% to revenue growth on our long haul services. This was augmented by six bolt-on acquisitions made in the year.

We delivered a robust performance in our UK business, despite softer market conditions, with revenue growth of 0.6% and an improving trajectory in the second half of the year. This is the result of a number of decisive management actions taken in the first half of the year which drove an improved performance in the second half. Our UK bus operations grew revenue by 0.3% in the second half following the successful introduction of a number of low fare zones, reversing the declines seen in the first half of the year. For the year as a whole, bus revenue declined 0.5% with concessionary revenue down 1.3%, while commercial revenue was broadly flat despite a 1.5% reduction in mileage. Our UK coach operations delivered revenue growth of 1.8%, where our Revenue Management System helped drive passenger and revenue growth to overcome a reduced propensity to travel over the summer following a number of terror events. We delivered particularly strong performance in the final quarter of the year.

German Rail delivered revenue growth of 20.4% on a constant currency basis and up 28.9% on a reported basis to £79.0m. This growth was boosted by the clarification of our revenue position which included latest passenger count data, allowing us to recognise all revenue earned. The 2017 results therefore include an element of catch up from prior years that we were not able to recognise before this year.

Normalised profit	£m
2016 normalised operating profit (as reported)	218
Currency translation	10
2016 normalised operating profit at constant currency	228
Growth	24
Acquisitions	11
Terrorism impact	(7)
Cost inflation	(41)
Cost efficiency	25
Fuel price benefit	5
Other	(3)
2017 normalised operating profit	242

Group normalised operating profit increased by 6.0% to £241.5 million on a constant currency basis, up 11.0% on a reported basis (2016: £217.5m). The Group delivered a strong performance from its existing businesses with a £24 million contribution representing growth of 10.5%. This was supplemented by a strong contribution from the full year benefit of acquisitions completed in 2016 together with the acquisitions made in the second half of 2017.

These results include cost inflation of £41 million, most notably in the form of driver wage inflation in North America. We have retained our disciplined approach to cost management and through a programme of efficiency measures across the Group, including the £10 million of efficiencies delivered through the reorganisation of our UK business, we have generated total cost efficiencies of £25 million.

We also saw a £5 million benefit from lower fuel prices year-on-year as a direct result of our hedging policy.

We have benefitted from £10 million of currency translation during the course of the year, driven by the weakening of Sterling following the result of the 'Brexit' referendum. This benefit was mostly delivered in the first half of the year with year-on-year currency translation broadly flat in the second half as we cycle post-Brexit Sterling levels in the prior year.

Segmental profit performance

	2017 Local currency	2016 Local currency	**2017 £m**	2016 £m
ALSA	**108.3**	103.7	**94.9**	84.7
North America	**121.6**	114.1	**94.3**	84.0
UK			**70.9**	67.3
German Rail	**5.9**	(1.8)	**5.2**	(1.5)
Central functions			**(23.8)**	(17.0)
Group normalised operating profit			**241.5**	217.5

We have delivered profit growth across each of our businesses, with the strongest performance in our North America business, where normalised operating profit increased by 6.6% on a constant currency basis and by 12.3% on a normalised reported basis. Organic growth was boosted by acquisitions made in 2016 and 2017, with those acquisitions made in 2016 achieving returns of at least 15%.

In ALSA, normalised operating profit increased by 4.4% on a constant currency basis, driven by a combination of organic growth, and the benefit of acquisitions made in 2016 and 2017, together with cost efficiencies and lower fuel costs. Reported normalised operating profit increased by 12.0%.

Our UK business delivered normalised operating profit growth of 5.3% with the flow through of management actions on revenue supplemented by a programme of cost saving and efficiency initiatives which delivered £10 million of savings.

Our German Rail operations delivered a strong normalised operating profit contribution of €5.9 million (2016: loss €1.8m), which was boosted as discussed above by the element of catch up on revenue not previously recognised.

Central costs have increased by £6.8 million, reflecting strategic investment in a number of Group-wide initiatives together with a new International Development Team. Central costs also include the amounts expensed for unsuccessful bidding in the Middle East and Singapore.

Summary income statement

	2017 £m	2016* £m
Revenue	**2,321.2**	2,093.7
Operating costs	**(2,079.7)**	(1,876.2)
Normalised operating profit	**241.5**	217.5
Share of results from associates	**(3.5)**	1.1
Net finance costs	**(38.0)**	(50.0)
Normalised profit before tax	**200.0**	168.6
Tax	**(48.0)**	(31.4)
Normalised profit after tax	**152.0**	137.2

* Restated in relation to the exit from UK rail

Group normalised operating profit margin was stable at 10.4% (2016: 10.4%) as margin growth in the UK and ALSA offset a small decline in North America driven by significant inflationary pressure on drivers' wages.

Net finance costs decreased by £12.0 million to £38.0 million (2016: £50.0m), reflecting lower interest costs following the successful bond refinancing in November 2016 and continued optimisation of the Group's funding base as noted below.

We recorded a loss of £3.5 million (2016: profit of £1.1m) from associates, reflecting the write down of our investment in a minority stake in Deutsche Touring Group, a German partner in Eurolines, which entered into administration in the early part of this year.

Normalised profit before tax of £200.0 million grew 11.7% on a constant currency basis, up 18.6% on a reported basis (2016: £168.6 million).

The normalised tax charge from continuing operations was £48.0 million (2016: £31.4m), a normalised effective tax rate of 24.0% (2016: 18.6%). The increase in the normalised effective tax rate is largely the result of a mix of profits, with a greater proportion of profits coming from the US where federal corporate income tax rates have been higher relative to the UK and Spain. This was also accompanied by changes in BEPS legislation relating to corporate tax interest deductibility.

On 22 December 2017, the US Tax Cuts and Jobs Act was signed into law representing the most significant change to the US tax system in the last 30 years, reducing US federal corporate income tax from 35% to 21% from 2018. This resulted in a £7.5 million net tax credit on the revaluation of deferred tax liabilities.

Looking forward, we anticipate that the Group's effective normalised tax rate will be in the low 20s percentage range, assuming no further reform in any of our major markets.

Normalised basic earnings per share were 29.1 pence (2016: 26.3p), an increase of 10.6%.

Return on Capital Employed (ROCE)

ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. ROCE is 11.9% (2016: 11.9%), demonstrating our disciplined approach to capital allocation and balance sheet management.

Reconciliation of ROCE	2017 £m
Group statutory operating profit	197.9
Intangible amortisation for acquired businesses	38.0
UK restructuring costs	5.6
Return – Normalised Group operating profit	241.5
Average net assets	1,146.0
Remove: Average net debt	883.0
Remove: Average derivatives, excluding amounts within net debt	2.6
Foreign exchange adjustment	(10.4)
Average capital employed	2,021.2
Return on capital employed	11.9%

“”

This constitutes a strong 61% free cash flow conversion creating a solid platform for investing in growth and paying dividends.

Cash management

Free cash flow	2017 £m	2016* £m
Continuing normalised operating profit	241.5	217.5
Trading profit from discontinued operations	–	6.4
	241.5	223.9
Depreciation and other non-cash items	135.5	120.7
EBITDA	377.0	344.6
Net maintenance capital expenditure	(165.2)	(134.7)
Working capital movement	4.8	(3.1)
Pension contributions above normal charge	(5.0)	(5.5)
Operating cash flow	211.6	201.3
Payments to associates and minorities	–	(1.5)
Net interest paid	(50.6)	(47.6)
Tax paid	(14.6)	(13.6)
Free cash flow	146.4	138.6

* Restated in relation to the exit from UK rail

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

Free cash flow improved by £7.8 million to £146.4 million (2016: £138.6m) driven by the growth in EBITDA which was offset by net maintenance capital expenditure, £30.5 million higher than the prior year. The majority of the maintenance capital investment has been in fleet replacement predominantly in ALSA and North America. Continued focus and discipline in the management of working capital resulted in an inflow of £4.8 million (2016: outflow £3.1m). This constitutes a strong 61% free cash flow conversion creating a solid platform for investing in growth and paying dividends.

Reconciliation of free cash flow to net cash flow from operating activities	2017 £m
Free cash flow	146.4
Add: Operating cash flows from discontinued operations (note 11)	(14.8)
Add: Cash outflows from exceptional items in prior years	(2.5)
Remove: Net maintenance capital expenditure	165.2
Remove: Movements in arrangement fees (note 37)	1.2
Net cash flow from operating activities	295.5

Net funds flow	**2017 £m**	2016 £m
Free cash flow	**146.4**	138.6
Net growth capital expenditure	**(13.2)**	(27.0)
Net inflow from discontinued operations	**27.5**	–
Acquisitions	**(101.5)**	(88.8)
Dividends	**(64.7)**	(58.9)
Other, including foreign exchange	**(4.4)**	(96.4)
Net funds flow	**(9.9)**	(132.5)
Net debt	**(887.9)**	(878.0)

Growth capital expenditure during the period of £13.2 million included investment in digital and e-commerce initiatives in the UK, capital expenditure on fleet upgrades in newly acquired businesses and new contracts won in North America, and costs associated with the mobilisation of our RRX rail contract in Germany.

Cash inflow from discontinued operations of £27.5 million is the result of the exit of the UK rail business and is broken out below.

Net inflow from discontinued operations	£m
Proceeds from disposal	71.8
Cash in the business	(14.9)
Outflow relating to costs of disposal	(14.1)
Net cash inflow from c2c disposal	42.8
Outflow relating to discontinued operations	(15.3)
Net cash inflow	27.5

We have continued our strategy of making selective bolt-on acquisitions where the returns and strategic fit justify the investment, and we completed nine such investments in the year, three in our North American division and six in ALSA. Total cash consideration for these acquisitions, net of cash and debt held, was £52.5 million with a further £75.0 million of consideration deferred into future years. £49.0 million of deferred consideration relating to acquisitions completed in prior years was settled in 2017, resulting in a total net funds outflow in the period of £101.5 million. We continue to deliver strong performances from our acquisitions, delivering returns on invested capital of at least 15% in the first full year after acquisition.

Net funds flow for the period was an outflow of £9.9 million (2016: outflow £132.5m), resulting in year-end net debt of £887.9 million.

Dividend

National Express' dividend policy, agreed in 2015, is for dividend cover at normalised earnings per share of at least two times. In considering the level of the dividend to declare, the Board considers three principal factors, in addition to level of cover:

1. Available distributable reserves

2. In-year free cash flow generation

3. Company gearing and indebtedness

With £290 million of distributable reserves, strong free cash flow of £146.4 million and gearing reduced to 2.3 times, and in line with the interim dividend, the Board has proposed a 10% increase in the final dividend to 9.25p, to give a full year dividend of 13.51p at 2.2 times cover.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy targets a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA at a ratio of 2.0x to 2.5x in the medium-term. The Group continues to maintain investment grade ratings with both Moody's and Fitch.

The Group's key accounting debt ratios at 31 December 2017 were as follows:

- Gearing ratio: 2.3 times EBITDA (31 Dec 2016: 2.5x; bank covenant not to exceed 3.5x);
- Interest cover ratio: EBITDA 10.2 times interest (31 Dec 2016: 6.6x; bank covenant not to be less than 3.5x).

To underpin delivery of its strategy, the Group has a strong funding platform across a diversified range of funding sources with a balanced maturity profile. Through 2017, the Group has put in place a number of new facilities, further diversifying the sources of funding and providing additional liquidity until 2020 in a low interest rate environment. In July 2017, the Group entered into a $130 million term loan maturing in April 2018. In November 2017, the Group issued a €250 million 2.5 year Floating Rate Note (FRN) maturing in 2020 with a coupon of Euribor +40bps, representing the Group's debut issuance in the Eurobond market. In December 2017, the Group entered into an additional unsecured revolving credit facility (RCF) totalling £32 million. This new facility is on the same terms as the Group's £512 million of bank facilities and matures in November 2021.

At 31 December 2017, the Group had £1.7 billion of debt capital and committed facilities, comprised of the $130 million term loan maturing in April 2018, a £225 million Sterling bond and the €250 million FRN both maturing in 2020; a private placement of €78 million maturing in 2021; £544 million of RCF maturing in 2021; a £400 million Sterling bond maturing in 2023 and £173 million of finance leases. At 31 December 2017, the Group's RCF was undrawn with £858 million in cash and undrawn committed facilities available.

At 31 December 2017, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in foreign currency profit translation with corresponding movements in the Sterling value of debt. These corresponded to 1.9x EBITDA earned in the US, held in US Dollars, and 2.4x EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that, at 31 December 2017, the proportion of Group debt at floating rates was 43% (2016: 24%).

Group tax policy

We pursue a cautious approach to our tax affairs which are aligned to business transactions and economic activity. We have a constructive and good working relationship with the various 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 US.

The Group's tax strategy has been published on the Group website in accordance with recent UK tax law.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2017 was £94.5 million (Dec 2016: £88.2m).

During the year, the principal UK Rail defined benefit scheme was transferred to Trenitalia as part of the disposal of NXET Trains Limited on 10 February 2017. In addition, with effect from 30 June 2017, the assets and liabilities of the Tayside Transport Fund (a defined benefit pension scheme for certain past and present employees of Tayside Public Transport Company Limited, a subsidiary of the UK Bus division) were transferred into the Tayside Pension Fund (a fund administered by Dundee City Council).

The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan, which remains open to accrual for existing active members only. We have completed the triennial valuation of both schemes and expect that the overall level of deficit contributions will remain at around £10 million in total per annum until 2020.

The IAS 19 valuations for the principal schemes at 31 December 2017 were as follows:

- WM Bus: £133.8 million deficit (2016: £128.5m deficit);
- UK Group scheme: £43.2 million surplus (2016: £44.5m surplus)

Fuel costs

The Group consumes approximately 225 million litres of fuel each year for which it is at risk (ie there is no direct fuel escalator in the contract or concession price). Fuel costs represented a total cost to the Group in 2017 of £178 million (approximately 8% of related revenue), at an average fuel component cost (ie excluding delivery and taxes) of 44.4 pence per litre. The Group has adopted a forward fuel buying policy in order to secure a degree of certainty in its planning. This policy is to hedge fully a minimum of 15 months addressable consumption against movements in price of the underlying commodity, together with at least 50% of the next nine months' consumption in the contract businesses. Currently, the Group is 100% fixed for 2018 at an average price of 34.3 pence per litre, 75% fixed for 2019 at an average price of 33.8p and 42% fixed for 2020 at 32.9p. Based on this, year-on-year fuel costs for the same mileage will be around £20 million less in 2018.

Where businesses have the freedom to price services, this hedge provides sufficient protection to recover fuel price increases through the fare basket. In contract businesses, where price escalation may be restricted by a formula independent of fuel costs, extended cover may be taken, subject to availability and liquidity in the hedging market.

Impact of new accounting standards – IFRS 9, 15 and 16

Three new accounting standards are to be introduced, two of which came into effect on 1 January 2018 (IFRS 9 and IFRS 15), with the third, IFRS 16, coming into effect on 1 January 2019.

IFRS 9 'Financial Instruments' addresses accounting for our financial assets and financial liabilities. As part of this, it introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its existing financial assets and liabilities accounting and expects to make a number of transitional adjustments, including an increase in the impairment provision for trade and other receivables.

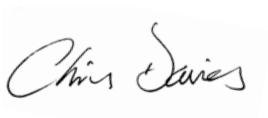
IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when control of a good or service transfers to a customer. We have reviewed a sample of contracts from across the Group and do not envisage a material impact from the adoption of this standard.

IFRS 16 'Leases' will primarily effect the accounting for the Group's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The new standard will be adopted on 1 January 2019. An assessment of the impact is ongoing and we will formally conclude on this in 2018.

See note 2 of the financial statements in the Annual Report 2017 for further detail of the new accounting standards.

Summary

The strong financial performance delivered in 2017, coupled with the additional financing facilities and continued prudent balance sheet management, further augment the Group's robust financial position. We remain confident about the prospects for the year ahead.



Chris Davies
Group Finance Director
1 March 2018

"With £290 million of distributable reserves, strong free cash flow of £146.4 million and gearing reduced to 2.3 times, and in line with the interim dividend, the Board has proposed a 10% increase in the final dividend to give a full year dividend of 13.51p at 2.2 times covered."

RMS driving strong performance

Francisco Iglesias
Chief Executive, ALSA

Bus and Coach
ALSA

ALSA is the leading company in the Spanish road passenger transport sector, and was acquired by National Express in 2005.

With over 100 years' experience, it operates long-distance, regional and urban bus and coach services across Spain and in Morocco and Switzerland. Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

Revenue
£663.5m
2016: £597.3m

Normalised operating profit
£94.9m
2016: £84.7m

Market overview

ALSA holds the market-leading position in the regulated and highly segmented bus and intercity coach market in Spain and also operates in four cities in Morocco. Three levels of government regulation apply in Spain: national (long-distance coach), regional (regional coach) and city (urban bus). Each concession is exclusive to the operator, based on compliance with the public service obligation. Intercity competition comes from state-backed rail and low-cost airlines. Bus and coach concessions are awarded through competitive public tender, typically every ten years.

- 176 concessions: 125 intercity coach concessions, 35 urban bus contracts, 16 others
- Concessional renewal process restarting
- New contract wins in Spain
- Revenue management generating passenger and revenue growth in Spain
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities
- Building scale and services in Switzerland
- Further bolt-on acquisition opportunities

Market size
€3.9bn

Concessions
176

Year ended 31 December	**2017 m**	2016 m
Revenue	**£663.5**	£597.3
Normalised operating profit	**£94.9**	£84.7

Revenue	**€757.4**	€731.2
Normalised operating profit	**€108.3**	€103.7
Normalised operating margin	**14.3%**	14.2%

ALSA has delivered another strong performance, growing normalised operating profit to €108.3 million (up 4.4% in constant currency), increasing its margin and carrying more passengers (313.8 million, up 2.1%) while at the same time improving its customer satisfaction score (up 4.8% year-on-year).

Technology investment has again underpinned these results, with our sophisticated, real-time Revenue Management System (RMS) particularly important. We will continue to invest in RMS as it becomes more sophisticated through time, and complement this with the roll out of Lytx DriveCam, speed monitoring and further customer service improvements.

Concession renewal is a key challenge over the next few years, but with our technology investment and industry-leading customer service, the announced scoring methodology changes which place greater emphasis on quality over price, means we are well-placed. The main concession renewal process has been further delayed and we now do not expect any profit impact in 2018 at all, and a minimal impact in 2019. However, we anticipate the renewal process will resume shortly, with some smaller contracts due for re-bid first and a larger contract delayed at least until later this year. While we expect margins will be compressed as new franchises begin, we believe that ALSA is very well placed to compete effectively through the concession renewal process and grow revenues and earnings through the medium and long term.

ALSA is also an increasingly diversified business. There are already clear benefits from the acquisitions made in 2016, with AlpyBus in particular performing very well, and they are opening new growth markets for us. We have augmented these opportunities with further acquisitions in 2017 and again see a strong pipeline of further opportunities to come.

	€m
2016 normalised operating profit	104
Growth	9
Acquisitions	2
Other cost inflation	(13)
Cost efficiencies	6
2017 normalised operating profit	108

Operational excellence

Already widely recognised as the industry leader, ALSA consolidated its reputation with a number of important awards to complement its record customer satisfaction score. Among other awards in 2017, ALSA received: IZO's 'Best Customer Experience for the Transport Sector'; and the 'International Safety Award' and 'Best Initiative in the Prevention of Accidents' from the MAPFRE Foundation. ALSA's Spanish operations also received a five-star accreditation from the European Foundation for Quality Management.

Our excellence has also importantly been recognised in concession renewals during 2017. ALSA won the Madrid-Guadalajara contract on quality, not price: scoring 34 out of 35 on quality while finishing third on price. This is both pleasing in itself and significant given the transport ministry's announced changes to the concession renewal methodology that emphasises quality over price.

ALSA also reversed Morocco's revenue decline in the first half of the year by – among other actions – offering innovative new fares and products, to deliver growth in the year as a whole.

Deployment of technology

RMS is allowing ALSA to target its pricing to the market in a much more granular and accurate manner. On the long haul routes where it is operational we have seen revenues increase by 3.9%, passenger numbers grow by 1.9% and average ticket prices increase by 1.9%, in 2017. It has also helped drive efficiency, with occupancy rates across ALSA up two percent. ALSA project that RMS will also deliver incremental revenue growth of around one percent in 2018.

ALSA also continues to grow significantly its proportion of sales made through digital channels – they now account for over 40% of sales (up over 9% year-on-year). Continuing to draw on best practice across the Group, ALSA has invested further in targeted, digital marketing and also launched a number of foreign language apps to serve the in-bound tourist market.

ALSA is also using technology to drive up standards and has started installing DriveCam smart safety cameras, aiming to have over 1,000 (around 45% of the Spanish fleet) by the end of 2018. Additionally, by the end of March, all their vehicles will have speed monitoring technology installed, supporting a Group-wide campaign to reduce its incidence and enhance driving standards and training.

ALSA successfully piloted a new service – ALSACab – in Madrid where a customer buying a bus ticket through digital channels could also order a cab trip to complete their journey. The pilot has been successful with the service already expanded to Santander and ALSA looking to launch it in other cities soon.

Creating new opportunities

ALSA has also benefited from the acquisitions made in 2016, during 2017. AlpyBus is in particular performing very well and three further acquisitions have been made to augment this and extend our operations in the Geneva area. This has included both new business acquired in the ski-transfer market and also in school bus and discretionary travel, as we seek to develop a larger presence in this market.

A further three acquisitions were made in 2017, adding new services in Madrid and Granada to our expanding portfolio. Our strategy remains the same: remain disciplined and target returns above 15%. We saw a number of new contracts start in 2017: an up to seven year bus and sightseeing train contract in Tenerife; new urban bus services in Lorca, Murcia; and bus rapid transit services and sightseeing tours in Marrakech, Morocco.

ALSA has recently established a joint venture – which also involves our UK coach business as well as Ouibus – to offer new international services across selected European countries. They have also submitted a bid with a local joint venture partner for a 400 bus contract in Rabat, to consolidate our presence in Morocco.

We will continue to look to drive organic revenue growth in 2018, as RMS and our marketing become ever-more sophisticated. There remain good opportunities to complement this through further acquisitions and growth in Morocco and Geneva. While we do not expect any impact on profits in 2018 and only a marginal effect in 2019 from the concession renewal process, it is very likely to put pressure on margins as it progresses. However, through our increasingly sophisticated pricing and market diversification, we believe we are well placed to compete strongly for our own – and other contract – renewals and can manage the pressure on margins to grow revenue and earnings in the medium and long term.

Record year – acquisitions performing well

Matt Ashley
Chief Executive, North America

School Bus and Transit North America

Our business in North America has two areas of activity: student transportation and transit services.

We operate in 38 US states and three Canadian provinces.

The student transportation business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students, and is the second largest private operator in North America.

Our transit business operates a growing number of transit and paratransit services across the USA.

Revenue
£1,017.2m
2016: £877.2m

Normalised operating profit
£94.3m
2016: £84.0m

Market overview

National Express is the second largest player in the North American school bus market with a 13% share of the outsourced market. Just over a third of the market is outsourced with recent increases in outsource conversion being driven by pressure on public funding. This trend is likely to continue as school district budgets remain constrained. Typically customers are local school boards where local relationships are key and service delivery is very important.

National Express also operates in the North American public transit market and is the fourth largest player with around 4% market share. One third of the transit market is outsourced and there is an increasing demand for accessible public transportation services, for fixed route, paratransit and employee shuttle services.

- Bolt-on acquisition opportunities in school bus and transit
- New business growth from winning contracts in school bidding season and through new transit contracts

School Bus market size
$24bn

Operates
22,800
school buses

Transit market size
$25bn

Operates
2,000
vehicles

Year ended 31 December	2017 m	2016 m
Revenue	£1,017.2	£877.2
Normalised operating profit	£94.3	£84.0

Revenue	US$1,311.1	US$1,191.3*
Normalised operating profit	US$121.6	US$114.1*
Normalised operating margin	9.3%	9.6%

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

Overview of 2017

North America is now a fundamentally different business to five years ago. It is consistently delivering growth by embedding a culture of customer service, efficiency and technological investment across the business. As well as identifying and integrating high-return businesses, it is opening new avenues of growth. We see significant opportunity for growth in charter markets, and are developing a new model in major cities where we operate a number of different local services.

	$m
2016 normalised operating profit	114
Exchange movement (CAD to USD)	–
2016 normalised operating profit at constant currency	114
Net impact of revenue growth	15
Cost inflation	(21)
Cost efficiencies	10
Weather	(2)
Merger and acquisitions	13
M&A incentives	(5)
Operating days	(2)
2017 normalised operating profit	122

The terrible accident in Chattanooga in November 2016 is a tragedy that still weighs very heavily on us all. We have sought to learn any appropriate lessons and as described in this section, have accelerated enhanced safety measures such as Lytx DriveCam and speed monitoring. We continue to co-operate with all the relevant authorities, including the ongoing National Transportation Safety Board investigation. We have donated to local community groups and funded a new home being built through Habitat for Humanity. We continue to provide support to the families affected by the tragedy. Last year, we had our local school bus contract renewed and received the Federal Motor Carrier Administration's highest safety rating for our national operations.

Operational excellence

The benefits of our approach so far are reflected in another record year of normalised operating profit (up 6.6% to $121.6 million) and a revenue increase of 10.1% to $1.31 billion (both in constant currency). Our North American business has delivered industry-leading margins for a number of years and has had to absorb the ongoing pressure from driver wages for some time now. In 2017, driver wage inflation increased to five percent, leading to a reduction in our normalised operating margin to 9.3% (2016: 9.6%).

We managed to contain this margin reduction through cost discipline across the business, including $10 million of cost savings, and our prudent bidding. We maintained strong retention rates (96% of those school bus contracts we wanted to retain) and achieved an average of three percent price increases on renewal or retention, or above two percent across the whole portfolio. Our focus on service and strong local relationships, with customer satisfaction scores again above 90%, has helped deliver these results.

This was augmented by our continued 'up or out' strategy, to ensure that we focused on only retaining contracts that are delivering acceptable returns. We relinquished contracts amounting to 190 buses in 2017 – and also exited our first transit contract for this reason as well in the year – and will maintain this discipline in 2018. So far, early bidding this year has been very positive, with our most successful January for contract retention and new business wins in four years, and above inflation price increases secured.

Change in school bus numbers – 2017 bid season	Number of buses
Regretted losses	(856)
Exited per 'up or out' strategy	(190)
Acquisition	625
New business wins	797
Organic growth	15
Change in buses operated for 2016/17 school year	391

Deployment of technology

Technology investment is playing an increasingly important role in our determination to drive efficiency, improve standards and deliver growth.

Our investment in DriveCam smart safety cameras is continuing apace, with 6,351 vehicles already fitted in North America, and a target of around another 10,000 installed by the end of the year. We are already recording a significant reduction in the cost of preventable accidents after DriveCam has been installed. Over 90% of our vehicles also have the necessary technology installed to enable enhanced speed management to take place. This is an increasingly important area of our safety management, with a high profile internal campaign being launched shortly.

We are also investing in new business management systems to drive improved standards and efficiency. A new budget management system and a business management system both allow very detailed analysis for local management use but also central review. Fundamentally, we are aspiring to use these new technologies and systems to industrialise service excellence and cost efficiency across the business, with enhanced central management oversight and assurance married with good local management and customer relationships. This will not only deliver more, happier customers but also support a relentless pursuit of safety and service improvement, organic growth and cost efficiency.

We started rolling DriveCam out in 2014 and it is now installed in 46 locations. The results so far show that when comparing the costs of claims from preventable street accidents for the 12 months prior to fitment against post-installation, there has been a 30% reduction. The business management system has already been used to revise our fleet management systems and has helped identify over 750 buses that can be deployed more effectively. This alone will provide meaningful capital savings.

We continue to grow our Ecolane acquisition, a market leader in on-demand scheduling technology. In 2017, Ecolane installed the United States' first cloud-based state-wide paratransit software, in Pennsylvania and won 24 new contracts in its specialist field in 2017. Ecolane is also increasingly becoming a key credential in our other North American bids and we are exploring its broader application across the Group.

Creating new opportunities

North America remains a very attractive market for further acquisitions. The market is very fragmented – with over 1,000 private school bus businesses in the US alone – and we have a strong pipeline of opportunities. There are very few active buyers in the market and we continue to avoid becoming involved in an auction for a business.

In line with this strategy we acquired another three businesses in North America last year, all in the last six months. These were: a significant paratransit operator in Chicago, the US' largest paratransit market; a school bus and charter operator in Cincinnati, Ohio; and a school bus business (specialising in special education services) in Rochester, New York. Together they amount to over 800 additional vehicles and we continue to target at least 15% returns from these new acquisitions.

Our transit business grew 60% in 2017, with annualised revenues now around $300 million. This is significant growth for a business that has only been in place for five years. We won five new contracts in 2017, at a win rate of 33%, and have already secured our first contract win of 2018.

We see the opportunity for significant nationwide growth in the charter market. We estimate there to be at least a $1.5 billion annualised market available and National Express only captured around 3% of it in 2017.

We have now developed credentials in a number of sectors within North American transport. Drawing on the lessons of our most successful markets, we are building opur presence in the largest cities. By running a mix of school bus, transit, paratransit, charter and employee shuttle services, we have the opportunity to more effectively offer competitive pricing and operational excellence, alongside developing strong local relationships, and generate new growth centres in North America. So while we will continue to pursue acquisitions in North America, we also see exciting growth opportunities in these emerging new models.

While the bid season still has some months yet to run, I am pleased that the early indications suggest that competitors are being disciplined in their bidding. Our focus in 2018 will be to recover the wage inflation we suffered in 2017 through a combination of disciplined bidding, overhead reductions and further cost efficiencies.

Management actions drive positive second half

Tom Stables
Managing Director, UK and Germany

Bus and Coach UK

National Express operates both bus and coach services in the UK. In Bus, National Express is the market leader in the West Midlands – the largest urban bus market outside of London. We also run urban bus services in the cities of Coventry and Dundee. In Coach, we are the largest operator of scheduled coach services in the UK, operating high frequency services linking more than 900 destinations across the country. The Kings Ferry and Clarkes of London are long-established providers of private hire and commuter coach travel services in the South East.

Revenue
£561.5m
2016: £557.9m

Normalised operating profit
£70.9m
2016: £67.3m

Market overview – Bus

The largest five operators represent around 70% of the UK deregulated bus market, with the remainder of the market made up of a large number of private operators. Active competition comes from national and local bus operators, as well as private car and rail. Economic regeneration and environmentally driven public transport present growth opportunities over the car.

– Increase passenger volumes through investment in vehicles, technology and people through delivering high quality services

Market overview – Coach

Our Coach business has the only nationwide network of services, with other competitors tending to focus on specific regions or corridors. Selective competition comes from rail, particularly on discounted fares, and from large bus operators and localised services. Drivers for demand include the level of fare discount to rail, cost of private motoring and environmental friendliness. Customer satisfaction is also an important driver for longer-term loyalty through consistent service and high customer safety standards.

– Revenue growth through competitive pricing, better distribution channels and greater understanding of customers and their needs

Market size – Bus
£4.8bn
(UK excluding London) – Operates 1,655 buses, focused in the West Midlands and Dundee

Market size – Coach
£300m
of contested revenues in the scheduled coach market

Year ended 31 December	**2017 £m**	2016* £m
Revenue	**561.5**	557.9
Normalised operating profit	**70.9**	67.3
Normalised operating margin	**12.6%**	12.1%

* Restated following the reclassification of Midland Metro as discontinued

Overview

Following our exit from UK rail in 2017, we restructured management across our remaining bus and coach businesses, combining the senior functions to operate as a combined team. We therefore present our UK operations together for the first time, as a new combined division. We have also included the separate bus and coach data in this transition year.

In the UK we employed sophisticated pricing, network efficiency and disciplined cost management to reverse the declines we reported at the 2017 half year results. In a challenging year, the division grew normalised operating profits 5.3% in the year, with the combined margin improving to 12.6% (2016: 12.1%).

These headline figures can obscure the detail of the particularly impressive recovery in both our UK bus and coach businesses as management action addressed the challenges they faced:

– Bus: West Midlands like-for-like commercial passengers declined by 0.7% in the first half of the year; in the second half of the year they bounced back to record 0.7% growth;
– In Coach, the year-on-year revenues for each quarter were: 1.9% up (Q1); 2.3% down (Q2); 0.8% down (Q3); and, 2.3% up (Q4) (Q1 and Q2 have been normalised for Easter).

During the year, we concluded an asset sale and leaseback transaction, monetising the value in one of our coach depots and booking a profit of £2.5m.

	£m
2016 normalised operating profit	67
Growth/new routes	3
Property disposal	3
Terrorism	(7)
Cost inflation	(11)
Cost efficiencies	12
Fuel	4
2017 normalised operating profit	71

Operational excellence

Within their distinct markets, our bus and coach businesses have focused on their services and pricing to attract new paying passengers and drive growth – the essence of our operational excellence strategy.

Bus

Year ended 31 December	**2017 £m**	2016* £m
Revenue (external)	**273.8**	275.1
Normalised operating profit	**36.7**	34.0
Normalised operating margin	**13.4%**	12.4%

* Restated in relation to the exit from UK rail

Our first two West Midlands Low Fare Zones (LFZ) have successfully driven bus passenger (4%) and revenue growth (1.5%). In 2017 our LFZs covered around 28% of our commercial patronage and continue to be successful in 2018. Our bus business has delivered broadly flat revenue overall, while running 1.5% fewer commercial miles. This translates to an improved revenue per mile in the West Midlands of 1.6% and overall normalised operating margin growth of 100 basis points.

We have also worked with the Mayor of the West Midlands and Transport for West Midlands to establish a credible plan to tackle congestion and promote bus prioritisation. Demonstrating the importance of strong relationships, we are delighted that our joint bid to the Department for Transport for bus lanes on the key Harborne to Birmingham city centre route was successful. We have already started operating our state-of-the-art Platinum buses on this route, with the prioritisation work due to start shortly. Our experience shows that where we have introduced Platinum buses and faster routes before, such as Lode Lane, we have seen double digit patronage growth.

Coach

Year ended 31 December	**2017 £m**	2016 £m
Revenue	**287.7**	282.8
Normalised operating profit	**34.2**	33.3
Normalised operating margin	**11.9%**	11.8%

Our coach operations used RMS to drive core revenues and increase passenger numbers. Our sophisticated real-time pricing generated an incremental two percent of revenue growth in 2017 and helped increase core passenger numbers by nearly one percent. New routes, especially to airports, generated an additional one percent of revenue growth and when combined with the RMS benefits, helped offset the revenue decline attributable to terrorism (-3%).

The coach business also focused on the efficiency of their operation and removed 3 million route miles from the network. Combined with the benefit of RMS already noted, this increased coach occupancy rates by two percent and drove revenue per mile up by 5.5% during 2017. We believe there is more opportunity to come, with RMS likely to generate a further incremental revenue benefit of one percent in 2018 and additional network optimisation opportunities to pursue.

Both our UK bus and coach operations have received significant external operational excellence recognition in 2017: both hold five-star British Safety Council ratings, as well as the Sword of Honour, the safety council's highest accolade; both recorded improved customer satisfaction scores – 87% in bus, up 1% year-on-year; 86% in coach, up 3% year-on-year; and, both hold five-star European Foundation for Quality Management awards.

Deployment of technology

The importance of RMS to our coach operations has already been covered; the importance of new technology in enabling us to innovate further in our bus pricing is becoming increasingly apparent. As we look to build on the success of the LFZs, we roll out new ticketing products in bus. From near zero usage at the start of the year, 10% of all journeys on our bus services are now by m-ticket. We have introduced the latest contactless ticketing machines to our bus fleet. Customers in Coventry are already using and benefiting from them, with daily capping a key feature. These machines will be fully operational across the West Midlands in April, making it the single largest contactless network outside of London. This crucial technology not only responds to a customer demand, but also enables us to offer new, targeted pricing through a range of payment methods rather than the exact change fare that frustrates passengers.

Our coach website – www.nationalexpressgroup.com – and customer app now provide 66% of all sales revenue (up 3% year-on-year). We therefore invested in 2017 to make them easier and quicker to use. The benefit is seen in both the improved online conversion rates, up 1.5 percentage points to 18.5% and an App Store rating of 4.5 (up from 2.5 at the start of the year).

We have also invested in technology to improve our safety performance. All our vehicles in the UK are fitted with Lytx DriveCam smart safety cameras. All of our UK fleet is fitted with GPS technology allowing detailed speed management and monitoring. Alongside enhanced management and training programmes, we anticipate these technologies will deliver both improved driving performance and cost savings through reduced accidents.

Creating new opportunities

With the investment in improved sales channels and on-board ticketing, alongside a continued focus on efficiency and customer service, we anticipate organic revenue growth in the UK during 2018.

During 2017 we set a new record for the most revenue raised and passengers carried in a day on our coach services: Boxing Day saw revenue exceed £1.3 million and around 75,000 passengers carried. Our Glastonbury Festival services also secured their highest ever revenues. We also won a contract to transport Amazon employees to and from work and have signed new partnerships with, amongst others, The Jockey Club and BoomTown Fair Festival.

Our acquisition of Clarkes has performed well, achieved the targeted synergies and demonstrated a resilience to the impact of the terrorist attacks in London. We anticipate this will continue to grow our presence in Kent and Medway commuter services as well as the in-bound tourist and discretionary travel markets. We have also taken the opportunity to exit operations during 2017 – Hotel Hoppa and the Eurolines network – that were underperforming. We made a small profit on the sale of Hotel Hoppa and have entered a new joint venture with ALSA and Ouibus to provide coach services across selected European locations.

In 2018, we expect that our sophisticated approach to pricing will drive further revenue growth. We expect RMS to provide an incremental revenue benefit of one percent in coach. And by moving away from a traditional annual (largely cash) fare increase in UK bus, to more agile and targeted pricing – including fare cuts – we also expect to generate revenue growth. This is being complemented in both bus and coach by investment in technology to make our ticketing portals and services easier to access and also encourage loyalty and frequency of use among existing customers. We are optimistic about our prospects in the UK for 2018.

Germany

Our German rail services continue to perform strongly. 2017 saw a significant increase in revenue (20.4%) and normalised operating profit (€7.7 million) in part due to a recognition of revenues we were unable to include in the 2016 accounts. They have been profitable from their first full year of operation and we believe will continue to deliver typical rail margins in the future.

Our Rhine Münster Express services grew passengers by nearly one percent in 2017 despite significant track maintenance disruption. We continue to focus on delivering improved customer service and operational performance and launched 'NX-Scout' during 2017. 'NX-Scout' is a WhatsApp group which provides up-to-date travel information for customers, and has the equivalent of around 15% of daily passengers already signed up.

Our mobilisation for our Rhine Ruhr Express contracts is well advanced, ahead of the first services staring in June 2019. We will continue to submit further bids this year as we look to build our presence in Germany.

Our Vision and Values drive our ambition

Our Vision and Values

Our Vision and Values have been in place for a number of years now and guide how we operate. They are a fundamental statement of who we are as a business and as our Chief Executive repeatedly reminds us: are crucial to our future success.

Our Vision is to earn the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value.

Our Values guide how we deliver this Vision.

Our values

Excellence
We constantly strive to be excellent in all that we do

Safety
We only do what is safe and stop any unsafe behaviour

Customers
We place them at the heart of our business and relentlessly meet their expectations

People
We develop the talents, reward the exceptional performance and respect the rights of all our employees

Community
We are active in the communities we serve to generate economic, social and environmental value

Our Low Fare Zones in our UK bus business have bucked national trends and radically cut some fares and generated significant passenger growth where they have been implemented.

Excellence

As a business we recognise that our ability to please our existing customers and attract new ones, is dependent upon us delivering the services they want at prices they can afford.

Although we have invested in a number of acquisitions in recent years, we remain focused on driving organic growth within our business. We will only do this by attracting more passengers and customers by running the services they want at prices they value, in an efficient way. In short, by achieving operational excellence, day-in, day-out.

This is why we have an Excellence value and it requires us to 'constantly strive to be excellent in all that we do.'

These are not just words: the business' commitment to excellence and industry-leading performance is reflected in the investment and initiatives outlined under the other Values. It is also evident in the fact that we carried more passengers in our UK coach and ALSA operations in 2017, driven by our Revenue Management Systems that allow sophisticated and targeted pricing for passengers in real-time. Equally, our Low Fare Zones in our UK bus business have bucked national trends and radically cut some fares and generated significant passenger growth where they have been implemented.

Indeed, overall in 2017 we carried over 882 million passengers, up 1.2% on a continuing basis, on 2016.

This nimble and granular approach is entirely in line with our Vision of earning the lifetime loyalty of our customers by consistently delivering frequent, high performing public transport services which offer excellent value. It is also at the heart of our excellence value and we believe the way that we will drive growth and improve returns for shareholders.

It is pleasing therefore that our excellence was also recognised by outside bodies and organisations. Among many awards, Kings Ferry won the Large Fleet Operator of the Year award at the UK Coach Awards. Our customer service and safety awards are set out below. And our UK bus, coach and ALSA's Spanish operations now hold a five-star European Foundation for Quality Management accreditation, one of the world's leading excellence accreditation bodies.

Last year we introduced our Delivering Excellence programme. We are now able to report on a full year of the programme. Delivering Excellence is designed to help fully embed a culture of excellence across the Group by drawing on examples of best practice both within our existing businesses and also adopting them from external organisations. It also combines as a development opportunity for high-potential managers with them spending up to six months to interrogate specific business practices and make recommendations for improvement.

In 2017, the Delivering Excellence teams conducted detailed reviews of driver recruitment, training, management and utilisation. These reviews have resulted in the introduction of new Group-wide standard operating excellence procedures and also generated savings for each business' 2018 budget. This programme will continue in 2018 with new intakes of high-potential managers and new projects.

Our Values and policies support our stakeholder engagement

See Risk, p38-40

Stakeholder area	Policies/activities in place	Value supported	Risks impacted
Environment	Group Environmental	Excellence, Community	02
Employees	Health and Safety, Equal Opportunities and Diversity, Workplace Rights , Disability	Safety, People	05 06
Society and community	Health and Safety, Purchasing, National Express Foundation, Group Cyber Risk	Safety, Community, Customers	05 08
Human rights and corruption	Human Rights, Modern Slavery, Whistleblowing, Anti bribery and corruption	People, Community	02 05 06

For more information see http://www.nationalexpressgroup.com/our-way/

Deputy Chairman Jorge Cosmen receives the Fundación MAPFRE Award for Best Accident Prevention Initiative from Her Majesty Queen Sofia of Spain

Safety

We make no apologies for repeating every year that safety remains the highest priority for our business. It is the first agenda item for weekly executive team calls, all executive boards and the PLC Board.

Overall responsibility for safety sits with Dean Finch, Group Chief Executive, and our Divisional Managing Directors who set our annual plans and priorities for improved performance. We have also retained Arthur D Little as our independent external safety advisers.

We have 12 Global Safety Standards which set out the clear behaviours and minimum standards which we expect all our staff to demonstrate at all times. During 2017, we also enhanced these standards with five new Global Safety Policies:

- Speed management
- Driving evaluation
- Competency of driving evaluators
- Driver monitoring
- Driver performance management

Each of these new policies targets critical areas for further improvement in our safety performance. Each division has until 2020 to devise comprehensive plans to deliver against them in full. Many are already making good progress on a number of them. Performance and implementation is reviewed in a quarterly meeting of Managing Directors chaired by Dean Finch.

We are pleased that we have delivered significant improvements on our industry-leading safety measure: Fatalities and Weighted Injuries (FWI) index. As Figure 2 demonstrates, since the introduction of Driving Out Harm in 2010, we have seen a 74% reduction in our FWI score per million miles operated. The annual figures are reported in our KPI section on page 13. During 2017, senior managers conducted 697 safety tours across the Group (2016: 774). The lower number of tours last year compared to 2016 is as a result of the sale of the c2c rail franchise in February 2017.

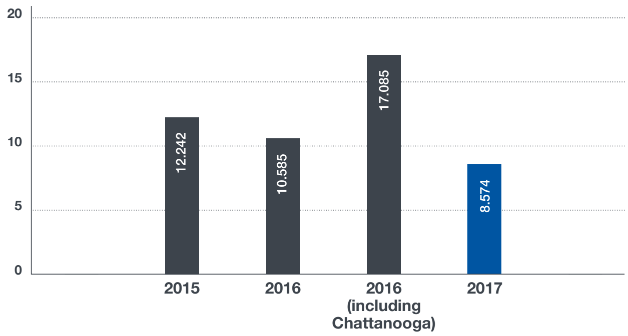
We have also invested in industry-leading safety technology to help us achieve our objective of removing all responsible harm from our business. Lytx DriveCam smart safety cameras are an example of this. The cameras are now fully installed across our UK fleet. We have accelerated installation programmes in place in North America and ALSA: North America has 6,351 vehicles with the cameras and targets around another 10,000 by the end of the year; ALSA has 150 vehicles installed, with a target of over 1,000 (around 45% of the Spanish fleet) by the end of the year.

Technology is, however, only part of the resource required to improve safety standards. We have comprehensive management systems in place to use the data generated by these smart cameras to tailor training and improve overall standards. We are already seeing encouraging early reductions in 'event severity', where the smart safety cameras have been in place the longest. So with the significant further roll out programme in 2018, we expect to reap further driving standards, safety and cost benefits over the next couple of years.

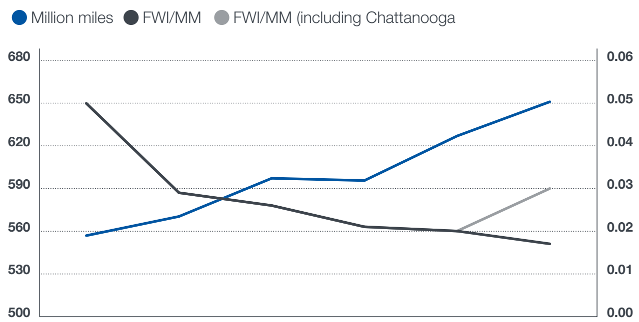
Our safety performance and leadership are also receiving significant external recognition. Both UK bus and coach received five-star British Safety Council scores, and their highest honour, the Sword of Honour. Indeed, our UK bus operations' score of 97.4% was the highest in the transport industry. Our UK coach business also received a ROSPA Gold Award. ALSA received two awards from MAPFE: the 'International Road Safety' and 'Best Initiative in the Prevention of Accidents' awards. Our North American school bus business has again received the highest possible safety rating from the Federal Motor Carrier Administration.

In the aftermath of the tragedy in Chattanooga in November 2016, we have sought to learn any appropriate lessons and also take considerate actions in the local community. We have, of course, continued to support the families of those involved as well as co-operate with all the relevant authorities, including the ongoing National Transportation Safety Board investigation. In the local community we have donated to local groups and funded a new home being built through Habitat for Humanity.

Safety figure 1: Fatalities and Weighted Injuries ('FWI')



Safety figure 2: Million miles (mm) vs FWI trend



Customers

As our Vision makes clear, customers are at the heart of our business. This is as it should be: we are a public transport company. But delivering against this Value also shapes the types of services we operate. It has not always been true that public transport companies operated services their passengers wanted. Rather, there was a culture in some places of running the services the operator found most convenient and customer demand was an afterthought.

This is why it is particularly pleasing that our businesses have again demonstrated their industry-leading customer service credentials in the year. Both our UK bus business and ALSA have achieved record customer satisfaction scores in 2017. UK bus' customer satisfaction score of 87% in the independent Transport Focus survey was up 1% year-on-year and equalled their best-ever result. ALSA's 7.4 out of 10 was up 4.8% year-on-year and a new record. ALSA also won the IZO 'Best Customer Experience for the Transport Industry' award, the largest satisfaction survey conducted in Spain.

North America has now consistently delivered customer satisfaction scores above 90% for many years; this year it achieved 91.2%. Our UK coach business' customer satisfaction score was up three percent to 86%, with the independent Temkin Group Net Promoter Score index ranking National Express fourth in its select group of companies.

We are also investing to further modernise our services for our customers' benefit. We have started to roll out the largest contactless ticketing network in the UK, outside of London: our West Midlands bus services will have this system fully in place in April. It is clear that a significant – and growing – number of passengers prefer these new methods of payment compared to the correct cash fare required previously. In the last year alone, the number of journeys made using an m-Ticket on one of our West Midlands buses went from virtually zero to 10% by the end of 2017.

We are also investing in our websites and customer apps. www.nationalexpress.com is now the highest placed land transportation company website on Google's crucial optimisation score ranking system. During 2017, we launched new apps in: North American transit, paratransit and school bus; ALSA; and the UK coach business. We will be launching new apps across many of our other businesses in 2018. Again, this nimbleness and constant review of and investment in the effectiveness of our services is at the heart of our Vision and Values as a company.

In our UK bus business we have started the roll-out of the largest contactless ticketing network in the UK, outside of London

People

We have asked Tom Harris, the ex-Transport Minister and Labour MP, to review our delivery against our People Value for the last three years. A summary from Tom is included to the right. It is a demonstration of our seriousness to our People Value and doing all we can to deliver on it for our staff, that we open ourselves up to independent critique in this manner. Tom's three reports can also be found on our Group website.

We have led the industry in a number of aspects of our People Value. Our Master Driver Programme goes from strength to strength, recognising the driving achievements of our staff and serving as an excellent engagement programme. Master Driver provides a framework to measure the performance of drivers and recognise and reward those with impeccable safety and customer service records as well as excellent driving skills. Across the Group, we now have 728 Master Drivers and 903 Advanced Drivers. We have also recently created a similar programme for engineers and technicians and will be rolling this out in 2018.

Our commitment to the higher Living Wage Foundation Living Wage is long-standing and growing. Our UK coach business will shortly target accreditation by the Living Wage Foundation. The UK bus business continues to pay the higher Living Wage and receive the Living Wage Foundation accreditation. Our policy remains the same across the Group as a whole: where widely recognised and understood national Living Wages are not in place, we commit to pay at least 10% above the prevailing national minimum wage.

We have a number of policies in place to protect the rights of our employees. Our Workplace Rights Policy and Human Rights Policy have been in place for a number of years and are published on our website. We investigate and take appropriate action to deal with any alleged breaches of these policies. Wherever our employees choose to be represented by unions, we actively seek to maintain relationships based on mutual respect and transparency.

We recognise the importance of the provisions of the Modern Slavery Act, which came into effect in 2015. The Group has a zero tolerance approach to modern slavery and human trafficking and remains committed to strengthening its practices to uphold that approach. We are committed to acting ethically and with integrity, and to implementing and enforcing effective systems and controls which ensure slavery and human trafficking are not taking place in our business or supply chains.

One example of this is our implementation of a new Modern Slavery Policy which is published on our Group website. Our first Modern Slavery Statement, which set out all steps taken by the Group to ensure that there is no slavery or human trafficking in our business or supply chains, is available on our website. We review the effectiveness of the steps we have taken each year and report on these in subsequent statements each year. Accordingly, we will be publishing a signed copy of the Group's second Modern Slavery Statement on our website during the year.

Independent review of the people value

I have conducted three independent reviews of National Express' People Value. In the first and third years this involved visiting a number of locations in North America, Spain and the UK; last year I conducted a desktop review. Every year I have had free, unencumbered access to any document, person or location I have asked to see, talk to or visit. I have been consistently impressed by what I have found. National Express is clearly a company that places a great emphasis upon its People Value, recognising the crucial importance of investing in their staff to achieve the high corporate standards to which they aspire. All of my reports have made recommendation for further action, to provide even greater support and opportunities for staff. I am delighted they have been so readily acted upon and commend National Express for its commitment and leadership in this area.

Tom Harris
Independent People Value Reviewer, March 2018

Our international NX Network provides a framework for the development of our graduate and high-potential managers

It is our policy to conduct all of our business in an honest and ethical manner. As a Group we do not tolerate bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and to implementing and enforcing effective systems to counter bribery and corruption. We have a Group anti-bribery policy which is available on our website and last year we implemented a refresh programme, which included an e-training module, to remind employees how to prevent, detect and report suspicions of bribery through our whistleblowing hotline. During the course of this year, we have also developed and implemented a revised gifts and hospitality policy to give further guidance to employees.

Employee, senior management and director numbers by gender at end or 2017

	Male	Female
Director	10	2
Senior managers	54	13
All employees	27,653	19,418

Community

Being active in the communities we serve is very important to National Express. We are not simply passive providers of services. We play a crucial role in supporting the local economy, helping people access jobs and see their friends and family. Our staff also live in the communities we serve.

The National Express Foundation is a significant and growing part of our community activity. In 2017, National Express Group provided £150,000 to the foundation. In 2018, this will be doubled to £300,000. This significant level of commitment is unique in the transport industry and is testament to the seriousness with which National Express Group takes its community responsibilities.

The National Express Foundation supports community groups working with young people and also students who would otherwise be unable to pursue further or higher education because of financial challenges. Since 2012, the foundation has supported over 14,200 people; in 2017 alone, the funding helped nearly 3,000.

Within our divisions there are also many different community activities. Some highlights are:

- UK coach's Youth Promise, including support to the Prince's Trust. This has involved mentoring, volunteering and hosting work experience placements.
- ALSA supports a number of foundations, including Foundation Integra, which supports people with a disability and those who are at risk of social exclusion, gain access to a job.
- In North America more than 50 depots have held 'Stuff The Bus' events, filling school buses with donations from employees and the local community to support those most in need.

Our team in Waterbury, Connecticut, were overwhelmed by the response to their appeal to help victims of Hurricane Maria in Puerto Rico. More than 40 school buses were filled with donations

Environment

Our environmental performance is a key measure for us as a business. This is principally for three reasons. First, it is the right thing to do. We recognise the crucial importance of climate change and the responsibility of all sectors of society in doing all they can to reduce their emissions and impact. Second, a company with ever reducing emissions and waste is a well-run, efficient company. And third, both of the first two points are reflected in our Values. The environment is both a community Value, but also relevant to all of the others: well-run, and efficient company (excellence, people and customers) and reducing harm (safety).

It is because of these considerations that we set such stretching targets in 2014. They demonstrate our commitment to our Values, to be a good company in the communities we serve and to be an efficient operator.

Overview

Against our 2013 baseline, by 2017 we have made excellent progress on our traction energy, water and total carbon emissions targets, some limited progress on our site energy target, and we have not made progress on our waste target.

We are delighted to have again (at the end of 2016) been accredited at Gold Standard for The Carbon Saver scheme. This award is made for two years and is due for renewal at the end of 2018. A number of other awards were earned throughout 2017, particularly in National Express West Midlands. We continue to engage staff in delivering these targets, with fleet efficiency and improving miles per gallon remaining a key deliverable in all divisions. Significant improvements continue to be maintained through fleet investment, technology and improvement in driving skills.

We remain committed to working in partnership with our stakeholders and partners to mitigate the impact of climate change and the Group continues to maintain full environmental legislative compliance, with zero prosecutions, enforcement notices or reported violations.

KPI performance

Our Group environmental performance against a particularly robust and ambitious suite of KPIs has delivered some strong results. Striving to meet those targets is key but equally important is the continued improvement in the accuracy of the data set and quality of our reporting.

The inclusion of UK coach third-party contracts in the data collection has continued for 2017, as well as for National Express owned operations and combined with the significant reduction of estimated data has improved our transparency in reporting. We remain committed to meaningful improvement in these areas. Water consumption data is now over 80% actual, vs 85% estimated in 2013.

There is a growth in passenger kilometres of 5.8% YOY 2016 to 2017 which is accompanied by a decrease in total carbon emissions per million passenger kilometres of 7.18% for the same period. This demonstrates that focus on improving the ratio of change is a meaningful target that should be considered for the next KPI period.

The targeted reduction in site emissions has not been met. It is encouraging however that even with increased consumption and the significant growth in our North American division, the Group has reported its lowest emissions since 2014, and a 4.36% reduction compared to 2016. Total site emissions for the Group excluding North America have actually decreased from 22,558 tCO_2e in 2013 to 16,353 tCO_2e in 2017 – a reduction of over 27%.

It is clear from our performance over this period that the levels of non-hazardous waste to landfill need to significantly reduce. Waste data has only been available for UK coach for the last two years, and with the data set now accurate we must start to demonstrate a real improvement in waste stream recycling in the next KPI period.

Driving Excellence in Environmental Performance – KPIs Targets 2014-2017

In 2017 specifically, we made good progress on our performance targets, significantly exceeding our targets for water use and total carbon emissions improvement. Traction energy and site energy both reduced year on year from 2016, and while there are still improvements needed in site energy, 2017 saw the first year that emissions fell below the baseline year. The accuracy of waste data reporting continues to improve and while this indicates a slight increase year on year from 2016, we now have two full years of accurate data from which to base our targets for the next KPI period.

KPIs: 2014-2017	Metric	2013 (baseline)	2014	2015	2016	**2017**	**Percentage change 2013-2017**	**Year on year % change 2016-2017**
Traction: 3% reduction in energy use (fuel and electricity) use per pass.km (for comparison) all business units	MWh/million passenger km	80.74	82.70	76.09	73.85	**69.88**	**-13.45%**	**-5.38%**
Site: 20% reduction emissions (fuel use only)	tCO_2e	40,049	42,016	43,050	42,466	**40,615**	**1.41%**	**-4.36%**
Waste: 80% reduction in non-hazardous waste to landfill	metric tonnes	5,750	5,357	5,648	7.449	**7,676**	**33.50%**	**3.05%**
Water: 10% (m^3) reduction in consumption	m^3	n/a	1,008,363	978,922	514.821	**510,167**	**-49.41%**	**-0.90%**
Total carbon emissions: 4% reduction in carbon emissions per pass.km	tCO_2e per million passenger km	23.69	24.11	22.55	22.01	**20.43**	**-13.75%**	**-7.18%**

Greenhouse Gas (GHG) Emissions

Strong performance in 2017 saw a 4.07% decrease in total emissions for the Group from 904,656 tCO_2e in 2016 to 867,870 tCO_2e. With the increase in passenger kilometres of 5.8%, this represents a YOY decrease in tCO_2e/million passenger kilometres of 7.18%, and a total decrease from 2014 baseline of 13.75%.

Global GHG emissions data for calendar year 2017	2014	2015	2016	**2017**	
Emissions from:	Tonnes of CO_2e	Tonnes of CO_2e	Tonnes of CO_2e	**Tonnes of CO2e**	
Combustion of fuel & operation of facilities (GHG Protocol Scope 1)	754,859	771,922	779,929	**801,061**	
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	67,186	66,317	95,107	**60,682**	
Other upstream emissions (GHG Protocol Scope 3)	8,228	8,257	9,620	**6,127**	
Total*	830,273	846,946	904,656	**867,870**	
Intensity metrics	2014	2015	2016	**2017**	**% (2017 vs 2014)**
(tonnes CO_2e / £million revenue)	445	428	430	**373**	**-16.23%**
Group Totals (million pass.km)	37,450	37,540	41,107	**42,485**	**13.45%**
Total tCO_2e per million pass.km	22.46	22.55	22.01	**20.43**	**-9.05%**

The completion of the c2c divestment contributed significantly to the UK reduction from 294,843 tCO_2e to 242,141 tCO_2e, but even without this UK bus and UK coach both delivered solid reductions through the benefit of improved driver skills, the Platinum bus fleet, the removal of Euro IV vehicles from UK coach fleet and improved technology.

The increase in North American consumption has slowed but has still seen a small rise. Total site emissions for the Group excluding North America have actually decreased from 22,558 tCO_2e in 2013 to 16,353 tCO_2e in 2017 – a reduction of over 27%. Although the absolute figures are low, the quality of data and focus in Bahrain has seen a commendable decrease of nearly 5.5% against an increase in passenger kilometres of nearly 6%.

Business growth in ALSA and North America continues to drive an increase in emissions through increased passenger kilometres but improved changes in operational reporting within our UK coach division has driven a 4% decrease.

UK rail emissions only contribute to Group data for Q1 prior to divestment of c2c. 2017 marks the first year for data comparative reporting for German rail operations. Bahrain absolute figures show a significant decrease for 2017 but do not significantly impact Group emissions.

National Express Divisions	2013 (tCO_2e)	2014 (tCO_2e)	2015 (tCO_2e)	2016 (tCO_2e)	**2017 (tCO_2e)**	**% change (2016-2017)**
ALSA	303,351	296,214	311,985	303,537	**313,608**	**+3.32%**
UK bus (Inc. Metro)	143,485	142,312	138,822	138,449	**132,586**	**-4.23%**
UK coach	110,317	109,225	106,203	110,799	**105,333**	**-4.93%**
UK rail	42,816	44,755	43,408	44,341	**4,038**	**n/a**
North America	237,314	236,979	232,577	258,183	**261,913**	**+1.44%**
Bahrain	–	–	12,862	21,698	**20,506**	**-5.49%**
Germany Rail	–	–	–	26,395	**28,704**	**+8.75%**
Leased vehicles & business travel	611	441	642	1,254	**1,184**	**-5.58%**
Group total	837,894	829,926	846,499	904,656	**867,872**	**-4.07%**

A positive carbon emission reduction trend continues in UK bus as a result of continued reinvestment in new fleet; for example, Euro 6 Platinum buses. UK bus has the largest low carbon fleet outside of London.

During 2018, we will retain the same KPI targets while we develop a Phase 2 compliance programme under the UK Government's Energy Savings Opportunity Scheme, as part of a new a three year Property and Environment strategy.

Committed to managing risk effectively

The Group is exposed to a variety of risks that can adversely affect business and financial performance, or potentially damage our reputation. These risks may be industry wide or more specific to the Group. The Board recognises that creating shareholder returns is the reward for accepting a level of risk. The effective management of risk is therefore critical in supporting the delivery of the Group's strategic objectives.

Risk management framework

The Group has a well-established governance structure with appropriate internal control and risk management systems. Our approach is centred on the accepted 'three lines of defence' model, with ultimate oversight from the Board.

Defence	Responsibility	Actions
Oversight	Board	– Sets strategic objectives – Determines overall risk culture and appetite – Establishes organisational structure with defined lines of responsibility, delegated authorities and clear operating processes – Ultimate oversight of internal control and risk management systems
Third line	Group Audit	– Provides reasonable assurance that systems of risk management, internal control and governance are effective
Second line	Group Executive Committee Group functions including Risk	– Support divisions with 'first line' responsibilities – Coordinate and report on Group-level risks – Build risk capability and understanding
First line	Divisional Executive Committees Divisional management	– Identify, assess and report key risks – Regularly review and update divisional risk registers – Assign risk 'owners' – Implement risk mitigation plans

Many risk controls are embedded and evidenced in the Group's day-to-day management activities, including:

- Detailed KPI tracking in monthly divisional executive reports;
- Well-established bid evaluation controls; and
- Robust due diligence on acquisitions.

Prioritising and reporting risks

Each division regularly reviews and updates a detailed 'risk register', in which risks are identified and assessed in terms of both the probability of the risk occurring, and its potential impact. Risk is assessed on a 'gross' and 'net' basis, taking into account known and proposed mitigating actions.

Group-level risks are assessed as:

- Macro risks which affect the majority of, or all, divisions; or
- Individual divisional risks where the materiality of the risk is considered of Group significance.

The Group has developed a 'risk radar' to supplement the Group risk register, and the radar and register are reported to the Group Executive, Audit Committee and Board, twice a year. At both the Divisional and Group level, the consideration of risk includes:

- Categorisation of risk as Strategic, Financial, Operational or Hazard;
- New or emerging risks (eg cyber risk, GDPR, Brexit);
- Longer-term risks such as developments in autonomous vehicles;
- Latest guidance from the Financial Reporting Council on best practice risk reporting;
- The impact of the Group's risk and operations on other stakeholders as well as the Group itself; and
- Acknowledgement that many risks are also opportunities (for example, the liberalisation of EU transport markets) and a balance needs to be struck in terms of the Group's risk appetite.

The Group prioritises risk mitigation actions by considering both risk likelihood and potential severity, coupled with our ability to effectively intervene to reduce the risk profile – for example, reducing the risk of a safety failure through the implementation of technology and new Group safety standards.

Summary risk radar

Risks are shown on a 'net' basis after mitigations.
The closer to the centre of the radar the greater the perceived risk.

Looking forward, the Group will focus on the following key areas of risk:

Potential impact	Management/mitigation
1. Economic conditions, including Brexit implications	
Declining economic conditions potentially impact demand for the Group's services in some divisions; improving economic conditions may impact the Group's ability to recruit drivers and other staff, or cause inflationary pressure on costs. The terms on which Brexit is negotiated (specifically in relation to the means by which any limitation on free movement/immigration is traded off against access to the single market) may affect the Group's ability to bid competitively within the EU.	The geographical diversification of the Group provides a natural hedge to some economic risk. The Group continues to monitor the position regarding Brexit. Robust bid modelling takes into account differing economic scenarios. Our exit from the UK rail market and focus on international opportunities mitigates risk in this area.
2. Political/geopolitical/regulatory landscape	
The political and regulatory landscape within which the Group operates is constantly changing. Changes to government policy, funding regimes or the legal and regulatory framework may result in structural market changes or impact the Group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency. The Group's exposure to franchise renewal risk in Spain is a specific example.	The Group constantly monitors the political landscape and is focused on effective stakeholder management. Political risk is specifically considered when considering bids or new market entry. Strategic alliances and partnerships are used where appropriate to mitigate risk. The Group carries out appropriate lobbying and communication, highlighting especially the importance of public transport to central and local government. Most importantly, we continue to focus on operational excellence and delivering value in our franchises.
3. Increasing competition	
The Group's divisions are facing increasing competition in various ways: price competition, inter-modal (eg coach vs rail), and more recently emerging threats such as new market entrants or disruptive technologies.	The Group is committed to operational and service excellence and the effective management of cost. Revenue trends are closely monitored and revenue management systems deployed. Our market strategy is to provide our customers with a compelling and differentiated offering. Effective processes are in place to ensure best practices are shared across the Group in many areas.
4. Terrorism	
The Group can be either directly impacted by a terrorist event, or indirectly, through softening demand from the travelling public.	The Group liaises closely with government agencies and industry partners. Major incident/emergency plans are developed in all Divisions. Insurance coverage is available and in place for some terrorism-related risks.

Potential impact	Management/mitigation
5. Safety, litigation and claims	
A major safety-related incident (eg bus or rail accident) could impact the Group both financially and reputationally. The Group self-insures a proportion of certain risks such as workers' compensation and auto liability, and higher than planned claims or cash settlements could adversely affect profit and cash outflow. The Group's operations are also subject to potential litigation from other sources such as environmental legislation or wage and hour matters in the US. The Group is increasingly subjected to regulation in many areas and non-compliance with regulations can create legal and financial risk.	The Group has a strong safety culture driven from the Chief Executive and divisional leadership. The Group is dedicated to leading edge safety technology and has accelerated investment in the Lytx DriveCam technology. A new compliance steering committee has been establish in the Group's North American business, chaired by the Divisional CEO. Appropriate insurance coverage is available and in place for accident-related claims to employees and third parties, and the Group has experienced claims management and legal teams in each Division. All Divisions have established safety audit programs, supported by Group Internal Audit.
6. HR and labour relations	
A lack of available talent/leadership skills can inhibit growth. Shortages in drivers and other key staff can disrupt operations. Increased unionisation and/or poor labour relations presents increased risk of strike or operational disruption; inflation of wage and benefit costs; and possible reputational damage.	The Group is committed to employee engagement and invests in a number of retention programmes. Appropriate training is provided for managers and supervisors. Reward and recognition programmes are established to further enhance employee engagement. The Group is focused on the effective management of stakeholder and union relationships, and the advice of specialist outside counsel is sought where necessary.
7. Changing customer expectations in a digital environment	
Customers increasingly expect to be able to buy tickets and manage their travel plans through a variety of digital platforms. Failure to develop applications and digital channels that meet these increasing customer expectations could affect profitability, customer satisfaction and the business' ability to capitalise on valuable customer data to enable commercial initiatives.	The Group has appointed a Chief Digital Officer; and comprehensive digital strategies are being developed in each Division. Divisional 'digital scorecards' are reviewed monthly by the Executive Committee to monitor the effectiveness of various digital channels.
8. IT, cyber risks and GDPR	
A major IT failure could disrupt operations and lead to loss of revenues, especially in the Coach businesses. The Group recognises a wide range of cyber threats, including loss of data, social engineering, hacking and extortion. The Group also recognises potential risks arising from the implementation of the EU General Data Protection Regulation (GDPR).	At a Divisional and Group level, comprehensive back-up procedures and disaster recovery plans are established. A dedicated Cyber Risk Security Committee was established in 2016, chaired by the Group Finance Director. External expert testing has been carried out for cyber risk and recommendations implemented. The Group is in the process of implementing plans to ensure compliance with GDPR by 25 May 2018, when the new regulation becomes effective. These plans have been tailored at Divisional level to reflect the type of personal data of European subjects and the nature of processing such personal data which is carried on by each Division and to build on measures that are already in place in each Division which are designed to comply with current national data protection laws.

Looking forward, the Group will focus on the following key areas of risk:

Potential impact	Management/mitigation
9. Credit risk	
As contracted operations, the North American and Spanish urban businesses are exposed to the risk that customers are either late or unable to pay sums owed to the Group, impacting Group liquidity.	Receivables in each business are closely monitored, based on robust and thorough documentation; provisions are then made where appropriate on a prudent basis for a certain level of non-collection. Group Treasury actively manages the relationships with 18 banks who provide £544 million of committed bank facilities maturing in November 2021, giving the Group an appropriate level of liquidity when combined with a series of debt capital market issuances and a programme of finance leases.
10. Hazard risk to key site (eg fire); natural catastrophe; extreme weather	
The loss of a key location to either a man-made hazard such as fire, or natural catastrophe such as a hurricane, can result in asset loss, a loss of revenue and profit, and a potential loss of competitive position in the market. Widespread events such as extreme weather events can also interrupt operations and cause revenue loss even if the Group's assets are undamaged.	The geographical diversification of the Group provides a natural hedge to this risk. Even at the Divisional level, the business operates from multiple locations. Each Division has established emergency and continuity plans. Insurance coverage is available and in place for some hazard related risks.
11. Foreign exchange	
The Group's exposure to foreign currency earnings through its overseas operations creates a risk that movement in exchange rates may adversely impact translation of profit and cash flows.	The Group hedges all transactional risk and also actively manages the effective currency of its debt portfolio to manage gearing ratios and safeguard covenants. A range of tools are employed including local currency debt and currency swaps. In addition, management has flexibility to adjust Group capital allocation.
12. Fuel cost	
Fuel represents a significant cost to the Group and unplanned increases in fuel price potentially impact profitability.	The Group operates a three year rolling hedge policy, hedging 100% of the next 15 months' demand, with decreasing levels of cover in the latter periods topped up each month.
13. Pension costs	
Market conditions and/or deficit may lead to increase in service costs and/or increased deficit recovery payments.	The Group's Defined Benefit schemes are closed to new entrants. The UK Bus Dundee scheme was transferred to the local authority in 2017. Triennial valuations for the UK Group and West Midlands Travel schemes have been completed and contributions agreed to 2020.

Statements of Company viability and going concern

Assessment of prospects

The Group's strong financial position is characterised by operating cash conversion of 88% and free cash generation of £146m underpinned by 11% revenue growth. The Group's credit rating is investment grade with committed facilities of £1.7bn and liquidity headroom of over £850m. This financial strength is built on the Group's diversified portfolio and business model page 6.

The Board reviewed the Group's principal risks page 38 and determined that the six highlighted below should be assessed in considering the Group's future viability. The Board selected the Group's highest risks from the risk radar (terrorism, competition, Brexit terms, regulatory conditions and economic environment), and in addition, credit and financing risk, given its fundamental link to the meeting of liabilities and continuing operation of the Group.

Based on these risks, the Board concluded that three years would be an appropriate timeframe over which to assess the Group's ongoing viability, as within that timeline:

- the majority of the major Spanish concession renewals are expected to complete;
- the immediate impact of Brexit will be felt; and
- €250m of the Group's bonds will expire.

Assessment of viability

The Group's viability assessment is an output of the annual strategic planning process, taking as input the robust three-year financial plans produced by each business in the Group. To assess viability, multiple, material risks are assumed to crystallise in parallel during the assessment period, putting the financial and operational performance of the business under plausible, but unlikely stresses as outlined below.

Risk	Stress tests
Competition	Material fall in concessions income coupled with stalled growth in commercial revenue
Economic environment/ Brexit	Slow down of UK economic growth leading to margin contraction in UK businesses
Regulatory landscape	Material margin loss in ALSA following ongoing long haul franchise renewal process
Terrorism	UK transport sector faces extended revenue loss resulting in lower levels of discretionary travel
Economic environment	Increased competition for drivers leads to an extended period of above inflation driver wage increases in the US
Credit/Financing risk	Material increase in the cost of borrowing following period of reduced cash generation and profitability

In the unlikely event of this concurrence of events, the Board would mitigate through reduced operating costs and capital expenditure to preserve the business's cash flow.

During assessment, the Group's robust business model; continued cash generation; access to liquidity and funding; and mitigation actions demonstrated that it could tolerate the impact of the risk scenarios without breach of covenants or threat to business viability.

Viability Statement

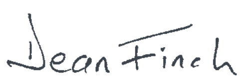
Based on the results of the analysis, the Board has a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the three year period of assessment.

Going Concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Group Finance Director's Review on pages 19 to 23, and the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report (pages 1-41). Note 30 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Board has reviewed assumptions about current trading performance, and has taken account of reasonably possible adverse changes to performance impacting availability of resources to June 2019. The Board confirms that it has a reasonable expectation that the Group has adequate resources to continue in operation for the period reviewed, and accordingly the Board continues to adopt the going concern basis of accounting in preparing the financial statements for the year ending 31 December 2017.

Our 2017 Strategic Report, from page 1 to page 41, has been reviewed and approved by the Board of Directors on 1 March 2018.



Dean Finch
Group Chief Executive
1 March 2018

Chairman's introduction to Corporate Governance

Sir John Armitt CBE
Chairman

The Board is committed to ensuring that high standards of good governance, values and behaviours are in place and consistently applied in the boardroom and throughout the Group. The following pages set out our approach in this regard and cover:

Dear fellow Shareholder

On behalf of the Board, I am pleased to introduce the Corporate Governance Report for the year under review.

The effective stewardship and governance of the Group remains a key commitment and high priority for the Board, which comes up in many aspects of its work. This is not only because high standards of corporate governance are vitally important in allowing the Directors to discharge their duties and responsibilities, but also because it helps management to enhance performance and protect value, and enables all our employees to embrace excellence and good governance in their day-to-day activities.

Culture and values

As part of its responsibility to provide effective leadership to the organisation as a whole, the Board sets the culture and tone from the top. The Executive Directors, supported by the Non-Executives, lead by example to ensure our high standards and expected values, attitudes and behaviours are understood and consistently applied throughout the Group. Collective opportunities for communicating and demonstrating this to employees and management exist when the Board visits local operations, as it did during the year to Madrid and Washington DC (see page 53). The Board monitors the corporate culture by regularly receiving HR updates and reviewing the outcomes of employee opinion surveys which are normally conducted annually.

However, while culture might originate from the behaviour of leaders, it cannot be sustained by top-down mandates and examples alone. That is why our Values are embedded across the business and represent the way we live and breathe our culture. They underpin our business model, are fundamental to the way we work with our employees, customers, suppliers and other stakeholders, and guide the way we engage with the wider community and environment which is affected by our conduct. Our Vision and Values are explained on pages 30 to 35.

""
Good governance helps us to implement our strategy, achieve our objectives and create and protect value for our investors and other stakeholders. It also significantly strengthens our culture.

Board changes and effectiveness

The Board completed two Executive Director changes during the year. As previously reported, we welcomed Chris Davies to the Board on 10 May and he took up the position as Group Finance Director on 1 June 2017. He replaced Matt Ashley who, after two and a half successful years and as part of a career development opportunity within the Group, relinquished that role (but not his executive directorship) on 31 May. This was to take up the operational position as President and CEO of our North America business, based in Chicago, on 1 September. I would like to thank Matt for his contribution not only in his previous role but also in ensuring an effective induction and a smooth handover of responsibilities that enabled Chris to get up to speed by the end of the summer. I am delighted to say that both Chris and Matt have settled in well and made good starts in their new roles. As a result of these changes, the quality of the Board, together with our leadership and succession plans (which remain high on our agenda), have been strengthened.

There were no Non-Executive Director changes to the Board or membership of its Committees during the year as these are working well and effectively. This was endorsed by the results of this year's external Board and Committee evaluation, the findings from which and the key areas identified for further development are set out on pages 50 and 51.

Board composition and diversity

The Nominations Committee undertook a formal review of the Board's composition and concluded that its current balance (post the executive changes referred to above) remains appropriate to the Group's forward-looking needs and our ability to continue delivering against our strategy. I believe there is a natural opportunity in relation to Non-Executive Director rotation over the next few years for us to consider our Board diversity, in its widest sense, including gender diversity (where 17% of our Directors are female), as one of the factors when making future appointments. In the business, we continue to embrace the benefits of workforce diversity and we are making progress in this important area. Nevertheless, the Board has challenged the executive to identify and pursue opportunities where we could be more active and drive change over time.

Governance

I am pleased to confirm that throughout the year we applied the principles and complied with the provisions of the UK Corporate Governance Code 2016 ('Code'), a copy of which is available at www.frc.org.uk. The following pages of this report explain our governance framework and the robust processes and procedures we have in place to achieve this under each of the five main principles of the Code, namely: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. Included as part of this is a report from the Chair of the Nominations, Audit, Safety & Environment and Remuneration Committees detailing the key matters addressed by each Committee during the year.

A new Directors' Remuneration Policy, which includes only a few changes from the current one, is being recommended to shareholders for approval at this year's AGM (see below). We are confident that the new policy, intended to last until the AGM in 2021, is fit for purpose, aligns the interests of the Executives with those of shareholders and promotes the long-term success of the Company. The changes proposed, the positive outcome of the consultation undertaken with major shareholders and the new policy in full, can be found in the Directors' Remuneration Report on pages 68 to 99.

The Board is aware that a new Code is in preparation and we will look to pro-actively respond to developments arising from this as part of our 2018 agenda.

Annual General Meeting ('AGM')

This year, our AGM will be held at 2.00pm on Wednesday, 16 May 2018 in the Horton Suite of the Burlington Hotel, 126 New Street, Birmingham, B2 4JQ. As this provides an opportunity for you to meet with and ask questions of your Directors regarding the business, this Annual Report and the matters before the meeting, I would encourage you to attend and look forward to meeting you.

Sir John Armitt CBE
Chairman
1 March 2018

Leadership

Board and Committee structure

The diagram below sets out the Company's governance framework and provides an overview of the roles, responsibilities and reporting lines of the Board and its Committees. Details of membership and meetings held, including attendance, during the year to 31 December 2017 are set out in the table opposite.

Governance framework

Shareholders

The owners of the Company and the persons to whom the Board is ultimately responsible.

Board

Collectively responsible for the long-term planning and success of the Company for the benefit of shareholders. It provides effective leadership and direction to the Group, sets strategic objectives and oversees their delivery within an effective system of risk management and internal controls. It also sets the culture, values and standards for the whole organisation and ensures that the necessary governance, structure, financial management and resources (including effective succession planning) are in place.

Board Executive Committee

Responsible for finalising and, if deemed appropriate, approving matters which have previously been conditionally approved in principle by the Board and delegated to the Committee for completion.

Read more, **p47**

Nominations Committee
Monitors the structure, size and composition of the Board and its Committees. It is responsible for succession planning (including at senior management level), makes nominations of suitable candidates to be Directors and leads the process for new Board appointments.

Read more, **p54**

Audit Committee
Oversees, monitors and makes recommendations, as appropriate, in relation to the Group's financial accounting and reporting processes and the integrity of the financial statements. It regularly reviews the work and effectiveness of the Group's external audit process, the internal audit function and the systems of risk management and internal controls.

Read more, **p57**

Safety & Environment Committee
Reviews and monitors the strategies, policies and standards, initiatives, risk exposures, targets and performance of the Group in relation to safety and environment matters.

Read more, **p64**

Remuneration Committee
Reviews and recommends to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy. It has sight of and takes into account pay, benefits and conditions existing elsewhere within the Group when considering the annual pay reviews of the Executive Directors.

Read more, **p68**

Group Chief Executive

Responsible for the development and implementation of strategy, leadership of the Group and, supported by the executive team, the overall performance of the business.

Group Executive Committee

Acts as an advisory and reporting body to the Group Chief Executive. Its main purpose is to oversee the safety, operational and financial performance of the Group, assess the ongoing impact of material risks, approve expenditure and other financial commitments within its authority level and discuss, formulate and approve proposals for onward consideration by the Board. It also addresses other key business and corporate related matters.

Board decision-making

Since the Board is the decision-making body for all significant matters affecting the Group, a formal schedule of matters reserved for its approval is in place. These matters include: strategy, risk appetite and significant risk management; major acquisitions, disposals and bids; capital and liquidity matters; medium-term planning and the annual budget; financial results; key policies; Board and Committee membership and governance. Other matters, responsibilities and authorities have been delegated by the Board to its four standing Committees, namely: Nominations, Audit, Safety & Environment and Remuneration.

The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved annually, can be found on the Company's website at www.nationalexpressgroup.com. Any matters outside of these fall within the responsibility and authority of the Group Chief Executive. He leads the Group Executive Committee, which operates in an advisory and reporting capacity to him, and both he and the Group Finance Director provide regular reports to the Board.

Setting the agenda

The Chairman and the Company Secretary are responsible, in consultation with the Group Chief Executive and the relevant Chair, for maintaining a rolling 12-month programme of agendas for the Board and its Committees. This is to ensure that all necessary matters are covered and prioritised time and attention allocated for discussion, recommendation and approval. At each meeting, the Board rigorously reviews updates on Group and divisional operating and financial performance versus plan and budget. Other regular Board agenda items include capital expenditure requests, tax and treasury updates, key project reviews, risk management, human capital, legal and governance and investor relations. The Committee Chairs also provide to the next Board meeting a summary of the main discussion points, decisions and recommendations arising from the last Committee meeting so that non-members are kept up to date with the work undertaken by each Committee.

The key subjects and matters considered by the Board during the year are shown on page 47. Reports for each of the Committees, including details of their responsibilities and activities during the year, appear later in this section.

Board and Committee meetings and membership

The core activities of the Board and its Committees are carried out in scheduled meetings over one or two-day periods during the year. Additional meetings and other arrangements are made to consider and decide matters outside of scheduled meetings.

The table below sets out the Board and Committee membership and near 100% attendance by members at meetings held in 2017. All Directors attended the Annual General Meeting held on 10 May 2017.

Membership and meeting attendance	Board	Nominations	Audit	Safety & Environment	Remuneration
Total meetings in 2017	7	2	3	3	6
Executive Directors					
Dean Finch, Group Chief Executive	7	–	–	–	–
Chris Davies, Group Finance Director[1]	4	–	–	–	–
Matt Ashley, President and CEO, North America[2]	7	–	–	–	–
Non-Executive Directors					
Sir John Armitt CBE	7*	2*	–	3	–
Joaquín Ayuso[3]	6	2	–	2	–
Jorge Cosmen	7	2	–	3	–
Matthew Crummack	7	–	–	3	6
Jane Kingston	7	2	–	3	6*
Mike McKeon	7	–	3*	3	–
Chris Muntwyler	7	2	3	3*	–
Lee Sander	7	2	3	3	6
Dr Ashley Steel	7	–	3	3	–

* Chairman.
1 Chris Davies attended all of the Board meetings he was eligible for from the date of his appointment on 10 May 2017. He became Group Finance Director on 1 June 2017.
2 Matt Ashley was Group Finance Director through to 31 May 2017 and took up his new role on 1 September 2017.
3 Joaquín Ayuso was unable to attend the Board and Safety & Environment Committee meetings in November for personal reasons.

Leadership continued

Roles and responsibilities

The Board has agreed a clear division of responsibilities at the head of the Company between the Chairman and the Group Chief Executive. This extends to other Directors as well to ensure that no individual or group of individuals can dominate the decision-making process. A short summary of roles and responsibilities is set out below.

Chairman Sir John Armitt CBE	– Responsible for overall leadership, governance and effectiveness of the Board – Provides the Board with insight into shareholders' various objectives – Promotes a culture of openness, challenge and debate in meetings – Maintains an effective working relationship with the Group Chief Executive and facilitates constructive relationships and communication between the Non-Executive Directors and Executive Directors and senior management – Helps set the tone from the top re culture, values and standards for the whole organisation – Identifies training and development needs of the Directors – Chairs the Nominations Committee, taking a lead role in succession planning
Group Chief Executive Dean Finch	– Develops the Group's strategy for consideration and approval by the Board and provides effective leadership of the executive team in implementing the same – Manages and develops the Group's operations and business model – Communicates (with the Group Finance Director) the Group's financial performance and strategic progress to investors and analysts, and establishes and services relationships with key stakeholders – Develops and implements policies integral to improving the business, including safety and the environment – Ensures the Board is kept fully appraised of the Group's performance, issues, events and developments
Group Finance Director Chris Davies	– Responsible for the financial stewardship of the Group's resources through compliance, good judgement and appropriate financial controls – Directs and manages the Group's Finance, Treasury, Risk Management and Insurance, Legal, IT, Investor Relations and Internal Audit functions
President and CEO, North America Matt Ashley[1]	– Responsible for implementation and leadership of the Group's North America strategy – Provides executive level support and contribution to the Group Chief Executive and the Board
Senior Independent Director Lee Sander	– Available to investors and shareholders to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels – Acts as sounding Board for the Chairman (deputising in his absence) and a trusted intermediary for other Directors – Meets with the Non-Executive Directors without the Chairman present at least annually and leads the Board in the annual performance evaluation of the Chairman
Non-Executive Directors[2] See pages 48 and 49	– Provide an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making – Support and constructively challenge the Executive Directors using their broad range of experience and expertise – Monitor and scrutinise the Group's performance against agreed goals and objectives – Play a lead role in the functioning of the Board's standing Committees
Company Secretary Michael Arnaouti	– Provides advice and support to the Board, its Committees, the Chairman and, as required, other Directors individually, primarily in relation to corporate governance practices, induction, training and development – Ensures that Board procedures are complied with, applicable rules and regulations are followed and due account is taken of relevant codes of best practice – Responsible, with the Chairman, for setting the agenda for all meetings and for high quality and timely information and communication between the Board and its Committees, and between senior management and Non-Executive Directors – The appointment or removal of the Company Secretary is a Board reserved matter

1 Executive Director.
2 Including independent Non-Executive Directors.

Board activity in 2017

Strategy, operational and funding

- Reviewed and confirmed the Group's 2018-2020 strategy with input from external advisers
- Considered and approved material bid and M&A proposals (including the sale of the c2c UK train franchise, to Trenitalia)
- Received various presentations from divisional, senior and local management in relation to business strategy and performance, projects, initiatives and focus
- Considered competitor activity in the bus, coach and rail sectors
- Assessed the ongoing performance of 'Delivering Excellence', a Group-wide programme aimed at improving operational performance and efficiency
- Monitored the economic, legislative and geopolitical landscape, including the potential impact of Brexit, the UK General Election, the US Presidential Election and the unlawful referendum on Catalan independence in Spain

Financial performance and controls

- Approved the annual budget, business plan and KPIs, and monitored performance against them
- Reviewed and approved the Group's half year and full year results (including dividends) and approved the Company's Annual Report (including its fair, balanced and understandable status) and AGM Notice
- Reviewed the Group's debt, capital and funding arrangements and approved a new £1.5 billion Euro Medium Term Note programme and the issue of a €250m 30-month Floating Rate Note
- Considered and approved the Group's tax strategy (for publication) and insurance programme, material capex and parent company guarantee requests, investment proposals and the ongoing contribution levels of the Company's defined benefit pension schemes
- Approved the relaxing of certain Board financial approval levels within the Group's Delegated Authorities Framework

Safety, internal control and risk management

- Received and discussed regular safety performance reports and updates, including in relation to ongoing investigations into the Chattanooga school bus accident of November 2016
- Reviewed the Group's risk management framework and principal risks and uncertainties
- Reviewed and confirmed the Group's Viability Statement and going concern status
- Reviewed and validated the effectiveness of the Group's systems of internal controls and risk management, particularly in relation to cyber security and terrorism

Leadership and people

- Discussed the composition of the Board and its Committees and approved two Executive Director changes
- Reviewed and approved changes to the annual fees of the Non-Executive Directors
- Reviewed Board and senior management succession planning and development
- Reviewed the Group's culture, vision and values (including the results of the external people values audit), its diversity framework and union activity, particularly in North America
- Considered the Group's proposed approach in preparing for compliance with the forthcoming Gender Pay Gap Reporting Regulations and the General Data Protection Regulation
- Discussed regular human capital and talent development reports introduced in the year
- Reviewed and approved changes to the remit of and financial commitment to the Company's charitable Foundation

Governance

- Considered the external effectiveness evaluation of the Board and its Committees
- Received and reviewed regular briefings on corporate governance developments and legal and regulatory issues, and approved the Group's inaugural Slavery and Human Trafficking Statement for publication
- Approved proposed changes to the Directors' Remuneration Policy and the basis on which to consult with major shareholders on it
- Considered shareholder relations, in particular the investor relations programme and feedback on the Company's full year and half year results and other trading updates issued
- Received regular reports from the Chair of the Nominations, Audit, Safety & Environment and Remuneration Committees

Leadership continued

Board of Directors

We have in place a highly experienced Board of Directors. The independent Non-Executive Directors bring sound judgement and objectivity to the Board's deliberations and decision-making process, helping to support and constructively challenge the Executive.

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● Committee Chair
(A) Audit Committee
(N) Nominations Committee
(R) Remuneration Committee
(S) Safety & Environment Committee

[IA] Independent on Appointment
[I] Independent

1. Sir John Armitt CBE (72) N S IA
Chairman (Non-Executive Director)

Appointed: January 2013 and as Chairman on 1 February 2013
Skills, competencies and experience:
Sir John Armitt has a wealth of experience in the rail, engineering and construction industries. He was President of the Institution of Civil Engineers from 2015 to 2016 and a member of the Board of Transport for London from 2012 to 2016. Sir John was Chairman of the Olympic Delivery Authority from 2007 to 2014 and Chairman of the Engineering and Physical Science Research Council from 2007 to 2012. From 2001 to 2007, he was Chief Executive of Network Rail and its predecessor, Railtrack. In 1997, he was appointed as Chief Executive of Costain Group PLC, a position he held until 2001. Before this, Sir John was Chief Executive of Union Railways, the company responsible for the development of the high-speed Channel Tunnel Rail Link. This followed a 27-year career at John Laing PLC. Sir John was awarded the CBE in 1996 for his contribution to the rail industry and received a knighthood in 2012 for services to engineering and construction.
Current external appointments: Deputy Chairman of Berkeley Group Holdings PLC, and Chairman of the City & Guilds Group, the National Infrastructure Commission and the Government Commission on the Thames Estuary. Independent Non-Executive Director of Expo 2020.

2. Dean Finch (51)
Group Chief Executive

Appointed: February 2010
Skills, competencies and experience:
Dean Finch qualified as a chartered accountant with KPMG, where he worked for 12 years, specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. Prior to joining National Express, he was Group Chief Executive of Tube Lines from May 2009. Before that he worked for over ten years in senior roles within FirstGroup PLC where he was Managing Director of the Rail Division from 2000 to 2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition, Dean became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer. Until May 2016, he was a Non-Executive Director of the Royal Free London NHS Foundation Trust.
Current external appointments: n/a

3. Chris Davies (47)
Group Finance Director

Appointed: May 2017
Skills, competencies and experience:
A qualified management accountant, Chris Davies joined National Express in May 2017 from Inchcape plc where he was Group Financial Controller and Treasurer from 2013. He also acted as interim Group Chief Financial Officer for Inchcape from January to April 2016. Chris has significant international senior financial experience having started his career with Andersen Consulting, before joining Boots, then Marakon Associates (a strategic consultancy). He spent ten years at Diageo plc, where he held a number of strategic and financial positions on three continents, culminating in him being Chief Financial Officer of its North American division from 2010-2012.
Current external appointments: n/a

4. Matt Ashley (44)
Executive Director

Appointed: January 2015
Skills, competencies and experience:
A qualified chartered accountant, Matt Ashley was appointed as President and CEO of the North America business on 1 September 2017. He originally joined National Express in 2010 as Group Financial Controller and most recently served as Group Finance Director from October 2014 until the end of May 2017. Prior to joining the Company, Matt worked at Deloitte where he was a Director specialising in transport and infrastructure and the auditing of listed companies.
Current external appointments: n/a

5. Jorge Cosmen (49) N S
Deputy Chairman (Non-Executive Director)

Appointed: December 2005
Skills, competencies and experience:
Jorge Cosmen was appointed to the Board at the time of the ALSA transaction. He was appointed Deputy Company Chairman in October 2008. He was Corporate Manager for the ALSA Group from 1995, becoming Chairman in 1999. Between 1986 and 1995, he worked in sales, distribution and banking. Jorge is a Business Administration graduate and has an International MBA from the Instituto de Empresa in Madrid.
Current external appointments: Non-Executive Director of Bankia, as well as of other private companies.

6. Lee Sander (61) A N R S I
Senior Independent (Non-Executive) Director

Appointed: June 2011
Skills, competencies and experience:
Elliot 'Lee' Sander has significant experience in the transportation sector. He is the former Chief Executive Officer of the Metropolitan Transportation Authority of New York and the former Commissioner of the New York City Department of Transportation. He is the Chairman Emeritus of the Regional Plan Association, an NGO that has played a guiding role in the planning of the New York Metropolitan area. Lee was Group Chief Executive for Global Transportation at AECOM, a global architecture and engineering firm. He served as President of The HAKS Group Inc and The I. Grace Company, which also specialised in architecture, engineering, and construction in the public and private sectors. In addition, Lee founded the Rudin Center for Transportation Policy and Management at New York University. Until 2017, he was a Senior External Adviser to McKinsey & Company.
Current external appointments: Managing Director, Global Transportation and US Infrastructure of Hatch, a global management, engineering and development consultancy, Chairman Emeritus of the Regional Plan Association and Vice Chairman of the Greater Jamaica Development Corporation.

7. Mike McKeon (61) A S I
Non-Executive Director

Appointed: July 2015
Skills, competencies and experience:
Mike McKeon is a chartered accountant. He has developed his core skills during extensive experience over many years of financial and business management in various sectors and countries around the world and in increasingly senior roles. During this time, he acquired in depth knowledge of how to develop and restructure different businesses, adapting strategy and operations to achieve success. Mike was Group Finance Director of Severn Trent plc from 2005 until his retirement from the board in 2015. Prior to that, between 2000 and 2005, he was Group Finance Director of Novar plc. He has held various senior roles, both in the UK and internationally, at Rolls-Royce plc, CarnaudMetalbox, Elf Atochem and PricewaterhouseCoopers. Until January 2017, Mike was also Senior Independent Director and Chairman of the Audit Committee at investment trust, The Merchants Trust PLC.
Current external appointments: n/a

8. Jane Kingston (60) N R S I
Non-Executive Director

Appointed: February 2014
Skills, competencies and experience:
Jane Kingston has a very experienced background in Human Resources. She served as Group Human Resources Director for Compass Group PLC from 2006 until her retirement in 2016. Prior to this, she served as Group Human Resources Director for BPB PLC from 2002 until its acquisition by Saint Gobain SA in 2006. Jane's earlier career in HR spanned a variety of sectors, including engineering and building materials with Enodis PLC and Blue Circle PLC (now Lafarge SA) and garment and textiles with Coats Viyella PLC, as well as the British car industry. She has significant international experience, having had responsibility for the people agenda in most parts of the world at some point during her career.
Current external appointments: Non-Executive Director, and Chair of the Remuneration Committee, of Spirax-Sarco Engineering plc.

9. Chris Muntwyler (65) A N S I
Non-Executive Director

Appointed: May 2011
Skills, competencies and experience:
Chris Muntwyler has more than 35 years' experience in the IT, Aviation and Transport Industries. During his 27 years at Swissair, he held top executive positions in the commercial areas and as CIO in Switzerland, Sweden and North America. In 1999 he joined DHL Express as Managing Director of Switzerland, Germany and Central Europe and from 2005 to 2008 as CEO of DHL Express (UK) Ltd, based in London where he was also a member of the CBI President's Committee. Chris previously served as a Director of ATPCO (USA) and Pilatus Aircraft Ltd (Switzerland).
Current external appointments: President and CEO of the Swiss Management Consulting company, Conlogic Ltd and Non-Executive Director of Panalpina World Transport (Holding) Ltd (Switzerland) and the Austrian Post Ltd (Austria).

10. Joaquín Ayuso (62) N S I
Non-Executive Director

Appointed: June 2011
Skills, competencies and experience:
Joaquín Ayuso has more than 35 years' experience with Ferrovial, the €10 billion Spanish transport infrastructure and services group that employs over 100,000 people worldwide. He was appointed CEO in 2002, and held that position until October 2009. During this period, Ferrovial expanded internationally with business interests in the UK, US, Canada, Latin America and Europe.
Current external appointments: Board Vice Chairman for Ferrovial, Non-Executive Director of Bankia, Chairman of the Board of Autopista del Sol SA, Non-Executive Director of Hispania Activos Inmobiliarios SA and Senior Advisor to AT Kearney in Spain and Portugal.

11. Matthew Crummack (47) R S I
Non-Executive Director

Appointed: May 2015
Skills, competencies and experience:
Matthew Crummack has 25 years' experience in both consumer product and digital service industries. He has successfully worked across multiple functions, geographies and sectors, while in the last 12 years building up significant leadership experience in technology enabled digital companies. In 2016, Matthew was awarded an Honorary Doctorate from Aston University for his achievements as an alumnus, and is Chair of the University's Business Advisory Group. He previously served as CEO of lastminute.com, the online travel and leisure retailer, from 2011 until March 2015 when the business was acquired by Bravofly Rumbo Group (subsequently renamed lastminute.com Group). He served as Deputy CEO and Chief Integration Officer until December 2015, following which he served as a member of its Strategic Advisory Committee. In addition, Matthew was formerly a Senior Vice President of Lodging at Expedia in Europe and the US, has previously worked for Nestlé UK, and spent eight years at Procter & Gamble in a variety of roles.
Current external appointments: Chief Executive Officer of Gocompare.com Group plc, a consumer services price comparison website. A Director of his own UK-based company, Interventus Limited.

12. Dr Ashley Steel (58) A S I
Non-Executive Director

Appointed: January 2016
Skills, competencies and experience:
Dr Ashley Steel has significant international experience and has advised numerous FTSE/Fortune 500 boards. Her skills include, strategy development, M&A, organisation effectiveness, risk management and HR, and her sector strengths lie in transport, professional services, media, technology, infrastructure and business services. She is a former Vice Chairman at KPMG and was Global Chair for its transport, leisure and logistics practice until her retirement from the firm in September 2014. She previously served on the International Business Advisory Board at British Airways. She has a PhD in Management from Henley Business School.
Current external appointments: Non-Executive Director of Gocompare.com Group plc, the Civil Aviation Authority and the BBC (as Nations Representative for England). Independent Non-Executive Director to global law firm, Ince & Co. She is also a founding member on the Global Advisory Board for Out Leadership, a New York-based business helping chairmen and CEOs of finance and law firms become LGBT aware.

Strategic Report
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Additional Information

Effectiveness

Performance evaluation

In line with the guidance provided under the UK Corporate Governance Code ('Code'), a performance evaluation of the effectiveness of the Board and its Committees, and of the Directors, is conducted annually within a three-year cycle set out below. The purpose is to identify opportunities to build on strengths, improve effectiveness and highlight areas for further development.

2017
Year 1 – External
Evaluation by independent consultants

2018
Year 2 – Internal
Evaluation focused on Year 1 issues raised and any specific new issues arising (questionnaire based)

2019
Year 3 – Internal
Progress review generally (questionnaire based) plus 1:1 interviews between Chairman and Directors

External effectiveness review of the Board and Committee workings

Conclusions from this year's review

Key areas of focus and development in 2018

Progress against actions from last year's internal review

2017 external evaluation

With internal evaluations having been carried out in each of the last two years, an external evaluation of the Board and its Committees was conducted in 2017 as the beginning of a new three-year cycle. It was conducted by Helen Pitcher of Advanced Boardroom Excellence ('ABE'), a specialist consultancy which undertakes no other business for the Company, although she and ABE did undertake the Company's last external evaluation in 2014.

The Chairman and Company Secretary provided a comprehensive briefing to ABE ahead of the review programme commencement in November. The programme included attendance and observation at Board and Committee meetings as well as access to supporting materials to enhance the evaluation team's understanding of how the Board and its Committees operate. In addition, detailed face-to-face interviews were held by Helen with each Director against a tailored agenda.

A final report and recommendations were presented to the Board in February 2018 and considered by the Directors. Separate reports for each of the Nominations, Audit, Safety & Environment and Remuneration Committees were also prepared and their conclusions will be discussed with the respective Committee Chair in due course. The Chairman also received a report on each Director which he will be discussing with them individually together with any identified development or training needs. Lee Sander, as Senior Independent Director, received the report on the Chairman and he has reviewed that with him.

Conclusions from this year's review

The Directors concluded that, overall, the Board and its Committees operate to a high standard and work well. The dynamics, culture and effectiveness had improved noticeably since the last external review and the Directors believe they are functioning effectively as a team. The external evaluation had captured a number of strengths of the Board including the effectiveness of the Committee structure, particularly the Audit Committee, and the strong interaction and integrity by which it carried out its role. The Directors were observed to take their duties and responsibilities, and the discharge of them, extremely seriously and be committed to a culture of openness and transparency which is seen as a key strength.

As with any Board, the Directors continue to look for areas of increased focus and further development and key areas identified from this year's evaluation are set out below. Progress against them will be reviewed as part of the 2018 internal evaluation and reported on next year.

The Senior Independent Director, in consultation with the Non-Executive Directors, led the annual performance evaluation of the Chairman during the year. It concluded (as did the external evaluation) that the Chairman was performing strongly and is highly effective in his role. Board meetings were well chaired and the relationship between the Chairman and the Group Chief Executive was considered to be very effective. The Chairman continued to devote sufficient time and attention to his role and maintained good informal relationships with all the Directors outside of meetings.

Key areas of focus and development in 2018

The key areas identified from this year's external evaluation for increased focus and development in 2018 are set out below. A number of these anticipate the actions which will be required of the Board emerging from the new Code (expected in the summer) in the areas of executive succession and diversity.

- **Executive succession**
  Requiring increased engagement of the Board with the long-term executive succession and leadership planning of the business.
- **Board and Committee succession**
  Requiring a focus on Board and Committee succession to ensure that the diversity and capability of the Board continues and is enhanced, with particular reference to gender balance.
- **External viewpoints**
  Requiring the Board to receive and be engaged with more external viewpoints as the uncertainty around Brexit and the rapid evolution of the transport sector technology continues.

Progress against actions from last year's internal review

In addition to considering the results of this year's external Board evaluation, the Directors reviewed progress against the actions identified from last year's internal evaluation with the outcomes set out in the following table:

Information and support

To enable the Directors to fulfil their duties and responsibilities effectively, they are provided with and given access to all necessary resources and expertise. This includes access to the Company Secretary (who acts as Secretary to the Board and its Committees) and management and, through an established procedure, the ability to obtain, at the Company's expense, independent professional advice. Further details about the role and responsibilities of the Company Secretary can be found on page 46.

To facilitate effective review and decision-making, Directors receive in advance of meetings high-quality papers, including from senior executive, management and advisers, who are also regularly invited to attend meetings for discussion of specific items in greater depth. The papers are published via a secure web portal which also hosts a library of other relevant Company information, including previous meeting papers, minutes and Board procedures.

If a Director is unable to attend a meeting because of exceptional circumstances, they still receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Company Secretary any matters on the agenda they wish to raise or to follow up on the decisions taken at the meeting.

In addition to Board meetings and private sessions held between the Chairman and the Non-Executive Directors, there are other opportunities arranged during the year allowing for informal discussions between Directors on relevant items.

Action point	Outcome
Bring more external viewpoints to the Board's attention	Achieved, most notably in respect of the Board: (i) hearing directly from US Congressmen and women as part of the Board's visit to Capitol Building in Washington DC last September (see page 53); and (ii) receiving a presentation from Bank of America Merrill Lynch, joint house broker, in support of the Group's Strategy 2018-2020 as part of the Board's annual strategy review.
Enhance education and development opportunities for Directors	Deloitte Academy membership has been made available to all the Non-Executive Directors. This provides training, discussion and briefing forums on topical matters and includes access to an online information library. The introduction of quarterly human capital and talent development reports to the Board is proving extremely useful from a broader people management and talent identification perspective across the Group.
Extend length of Audit Committee meetings	Audit Committee meetings have been extended by 30 minutes to allow for greater in-depth discussion on certain topics. This arrangement will continue going forward.
Keep leadership and succession plans under review	The Nominations Committee continued to review both the Board's and the Company's leadership and succession plans during the year. Further details are set out on page 56.
Maintain focus on cyber security	The Audit Committee continued to review the Group's management of its cyber security agenda, risk register and progress against a prioritised remediation programme. Further details are set out on page 58.

Effectiveness continued

Induction

All new Directors receive a structured and comprehensive induction programme. It is prepared and arranged by the Chairman and Company Secretary, with executive input as necessary, tailored to the experience and background of the individual and the requirements of the role.

Such an induction programme was formulated for Chris Davies who took up his first executive appointment in joining the Board on 10 May and becoming Group Finance Director on 1 June 2017. He replaced Matt Ashley who relinquished that position (but not his executive directorship) to take up a new role with the Group as President and CEO, North America, on 1 September. Mr Ashley and the Company Secretary led the induction programme which also provided for a smooth handover of responsibilities and included:

- the issue of a Board induction pack to assist with understanding the Group's history, culture, business, markets, strategy, risk management framework (including the risk environment), internal controls and financial position
- hands on briefing meetings coupled with introductory meetings with direct reports, members of the Group Executive Committee, the Chairman and the Audit Committee Chair (and subsequently with all Directors)
- meetings with the Company's external auditors, brokers and lead bankers (and subsequently with other key advisers and stakeholders)
- specific information and training sessions with the Company Secretary, the Company's corporate lawyers and the Director of Safety regarding Directors' duties, responsibilities and liabilities, Board mechanics, corporate governance practices and key policies and procedures (including the Group's Health & Safety policy, plan and standards)
- a number of site visits in the UK, Spain and the US, including with the Board in June to Madrid and in September to Washington DC.

Mr Ashley also benefited from a structured business and customer focused induction programme provided to him in Chicago by his predecessor, local management and the US General Counsel.

Both of the above induction programmes, and their progress to completion, were overseen by the Chairman and reported on to the Board through the Company Secretary.

Development and training

As part of an ongoing programme of development and training, which is the responsibility of the Chairman:

- the Board held various specific briefing sessions during the year on matters such as Brexit, technology, digital marketing and other economic and political risk factors that may affect the business or the wider transport sector in our main operating territories
- Directors receive relevant information, as part of and between meetings, regarding the Group's business, financial performance, shareholder sentiment and the legal, regulatory and governance environment in which it operates
- all Directors are encouraged to attend training, discussion and briefing forums on relevant topical matters. For the Non-Executive Directors, this is available through the Deloitte Academy which facilitates such events, with online and remote follow up access available.

Additionally, to provide Directors with further opportunities to meet with senior and local management and increase their visibility and working knowledge of the Group's operations and market dynamics, the Board aims to visit two of the Group's locations each year. To that end, the Board meetings in June and September 2017 were held in Madrid and Washington DC respectively, the latter also facilitating the Board's annual strategy review meeting. Details of the Washington trip can be found on the page opposite.

The Chairman also undertakes a busy programme of local site and management visits, which this year included a number of UK sites and a trip to our operations in Bahrain. To a lesser extent, but also encouraged, other Non-Executive Directors undertake similar personal visits from time to time.

Executive Directors are permitted to accept one external non-executive directorship with a non-competing company provided they first obtain Board approval. No such external appointments are currently held by any of the Executive Directors.

Conflicts of interest

The Board operates a policy to identify and manage declared actual and potential conflicts of interest which Directors (or their connected persons) may have and are obliged to avoid under their statutory duties and the Company's Articles of Association. The Board considers each Director's situation and decides whether to approve any conflicts based on the overriding principle that a Director must at all times only be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year. Authorisations given by the Board are reviewed on a regular basis.

There are no material conflicts currently in place save in respect of Jorge Cosmen's position as a non-Independent Non-Executive Director and his association with the Cosmen family as a substantial shareholder (see page 103).

Board in action

A conventional view of non-executive directors is that they govern from afar. In today's business world, particularly given the increasing risk, governance and public scrutiny environment, that simply doesn't work, and it doesn't exist at National Express. We believe that connection with and understanding of the business are key fundamentals for our Non-Executive Directors if they are to maximise their contribution to an effective Board. That's why, as part of an ongoing development programme, we aim to take the Board out of the boardroom and visit the business twice a year. This increases the visibility of the Board and provides the Non-Executives with valuable opportunities to engage with local management and employees, and increase their working knowledge of the Group's operations and market dynamics.

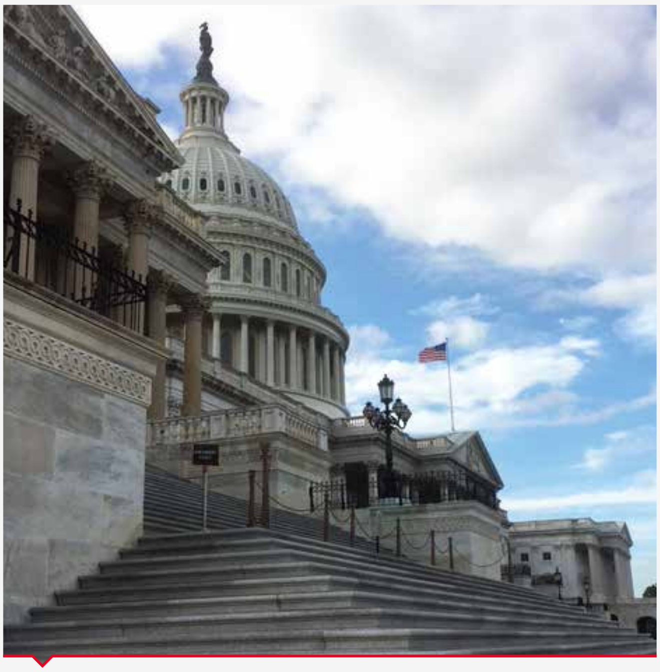
With this in mind, the Board went to Madrid in June to meet with ALSA's management and various business teams. In September, the Board went to Washington DC and visited four of our bus and transit Customer Service Centres ('CSCs') in the area, and the local Safety and Training Centre. The Directors toured the facilities and received presentations from management and employees about the business and their role in the operation. They spent time with drivers and maintenance technicians gaining valuable feedback on the Group's culture and values and how those are interpreted and exist locally.

The Directors also had a unique and insightful opportunity while in Washington to meet with Congressmen Holding and Rokita and Congresswoman McMorris Rodgers during an evening visit to Capitol Building. They heard relevant political views on Brexit and its potential impact on the future trading relationship between the US and the UK, and the importance placed on safe customer services in the areas of transport in which we operate.

Above: Various members of the Board receive a management presentation on their visit to the Odenton, Maryland, CSC

"Our visit to the recently acquired business in Baltimore enabled us to see how we take best practice from our existing operations and apply them to new operations, especially with regards to safety. The visit allowed us to see how our Board discussions and priorities are translated into action on the ground, where it really matters."

Dr Ashley Steel, Non-Executive Director



Above: In September, the Board visited Capitol Building in Washington DC and met with three Congressmen/women

"It's always a pleasure and source of inspiration to meet our front-line colleagues and drivers – teams absolutely committed to the children and communities they serve. The stand out for me from the Washington trip was to see our investment in DriveCam CCTV being rolled out and in action. Already we can see the power of this investment, its contribution to driver learning and coaching and of course the early signs of a significant improvement in some of our safety metrics."

Jane Kingston, Non-Executive Director

Effectiveness continued
Nominations Committee Report

Sir John Armitt CBE
Committee Chair

Primary role

To ensure that the Board and its Committees are properly structured and balanced (including the requisite skills, knowledge and experience) and that rigorous succession planning is in place for Directors and senior management (including the identification of candidates from both within and outside the Group).

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com.

Key responsibilities

- Monitor the structure, size and composition of the Board and its Committees and make recommendations to the Board accordingly
- Succession planning for Directors and senior management
- Identify and nominate, for approval by the Board, suitable candidates to fill Board vacancies
- Lead the process for new Board appointments
- Review the time commitment required by the Non-Executive Directors to fulfil their duties

Activity highlights

- Completion of recruitment of new Group Finance Director and appointment of new President and CEO, North America
- Assessment of composition of the Board and its Committees
- Review of succession planning and executive talent management
- Rigorous review of three Non-Executives to remain in office

Membership, meetings and attendance

Committee member	Appointed	Meetings held	Meetings attended
Sir John Armitt (Chair)[1]	01.01.13	2	2
Lee Sander[2]	01.06.11	2	2
Jorge Cosmen[2]	01.12.05	2	2
Chris Muntwyler[2]	11.05.11	2	2
Joaquín Ayuso[2]	01.06.11	2	2
Jane Kingston[2]	26.07.16	2	2

1 Non-Executive Chairman of the Board.
2 Independent Non-Executive Director.

Other attendees (by invitation): Group Chief Executive, Group Human Resources Director and, as required, external advisers.

Biographical details of the members are set out on pages 48 and 49.

Dear fellow Shareholder

I am pleased to present the Nominations Committee Report which summarises our work over the past year.

Once again, Board succession planning and its implementation has been a main area of focus for the Committee, together with talent development at senior management level. The process of building and strengthening an effective Board requires the right blend of expertise, continuity and refreshment and the Committee has borne this in mind in its deliberations throughout the year.

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board in place and balance is an important requirement for its composition, not only in terms of the number of Executive and Non-Executive Directors, but also in terms of expertise, diversity and backgrounds.

The composition of the Board was reviewed during the year with the Committee concluding that the balance (post the changes referred to below) remained appropriate to the Group's forward-looking needs and its ability to continue delivering against our strategy.

At the date of this report, the Board consists of 12 members comprising myself as Non-Executive Chairman (independent on appointment), three Executive Directors, seven Independent Non-Executive Directors and one non-Independent Non-Executive Director. The chart opposite demonstrates the strong and in-depth mix of skills and experience possessed by the current Board.

Board changes

In January, and as previously reported, the Committee completed its search, selection and recommendation process which ultimately led to Chris Davies joining the Board as an Executive Director on 10 May and being appointed Group Finance Director on 1 June 2017. He was recruited to replace Matt Ashley who, after two and a half successful years and as part of a career development opportunity within the Group, relinquished that role (but not his executive directorship) on 31 May. This was to take up the operational position as President and CEO of our North America business, based in Chicago, on 1 September. Both of these appointments were well planned and well executed and details of their tailored induction programmes, overseen by myself and the Company Secretary, can be found on page 52. As a result of these two changes, I believe that the quality of the Board, its leadership and our succession plans (which remain high on the agenda) have been strengthened.

During the year, there were no Non-Executive Director changes to the Board or membership of any of its Committees as these are all working well and effectively (as endorsed by the results of this year's external Board and Committee evaluation – see pages 50 and 51) and remain compliant with the UK Corporate Governance Code ('Code').

Diversity at Board level

While all appointments are made on merit, the Board strongly believes that an increasing diversity at Board level is acknowledged as essential in maintaining a competitive advantage. A truly diverse Board (and senior management team) will include and make good use of differences in the skills, experience, knowledge, thinking styles, background, race, gender, independence and other qualities of individuals. These differences are considered by the Committee in determining the optimum composition of the Board and will continue to be balanced appropriately to maintain and enhance its effectiveness.

The appointment of Mr Davies to the Board has meant that our female Director representation has reduced to 17% from 18% last year. The Committee believes a natural opportunity exists in relation to Non-Executive Director rotation over the next three years to influence the gender and ethnic diversity mix of the Board which would form part of our commitment to increase female representation on the Board to 33% by 2020, as per the recommendation of the Hampton-Alexander Review.

Diversity in the business

National Express is committed to a culture that attracts and retains talented people to deliver outstanding performance and enhances the success of the Group. In that regard, diversity across a broad range of criteria is recognised as an important business asset that fosters innovation and helps us better understand and meet the needs of our customers and the communities we serve.

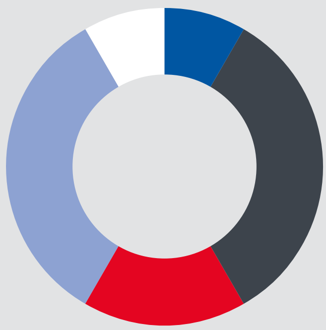
The Group has a Diversity Policy which applies to all employees and supports and promotes our commitment; the ethos is also reflected in our embedded Values. Local management is responsible for implementation and communication of the policy and training forms part of a new employee's induction process.

Recognising the racial and cultural diversities of the business and territories in which we operate, diversity is far more than gender based. During the year, we have we continued to embrace the benefits of workforce diversity and we are making progress in this regard. For example, in the UK, where our employees span more than 50 different nationalities, new mechanisms and initiatives introduced to support and encourage women in business have led to an increased number of women in supervisory and management roles, as well as in revenue protection, driving instruction and engineering apprenticeships. That said, the Board has challenged the executive to promote and communicate an inclusive, positive and proactive story across the whole Group and to identify and pursue opportunities where we could be more active and drive change over time. The monitoring and development of our diversity programme will remain a key focus in 2018.

Board experience

92%	Finance
100%	Operational
100%	International
75%	Transport futures
83%	Public Board
75%	Government/regulatory
67%	Remuneration
8%	Digital marketing
25%	IT

Board tenure



0–2 years	1 male
2–4 years	1 female, 3 male
4–6 years	1 female, 1 male
6–9 years	4 male
9+ years	1 male

Board composition

25%	Executive
75%	Non-Executive
17%	Female
83%	Male

Effectiveness continued
Nominations Committee Report continued

Succession planning

It is important for the Board to anticipate and prepare for the future and to ensure that the skills, knowledge and experience of the Directors and senior management reflect the changing demands of the business and are aligned to delivering on the Company's strategy. The Board recognises that an active Nominations Committee is key to promoting effective succession planning and ensuring that a strong pipeline of future senior management has been identified from which future Board appointments can be considered. Equally important is the need to support the development and skill set enhancement of the current Executive Directors.

Led by the Committee, succession plans are formally reviewed at least annually by the Board as a whole, with quarterly talent and development updates from across the business presented by the Group HR Director. The Group has a well-established and robust succession planning process which covers all Group Executive Committee members and their direct reports, divisional management and other employees who have longer-term high potential for senior roles. The Committee's opinion is that the plans are aligned to the Company's strategy, are well prepared and appropriate for the size of the Group and its management structure, and there is a range of good candidates in the pipeline for senior roles. Any potential gaps are the subject of both internal development plans and/or timely selected external recruitment.

Independence, effectiveness and commitment

The independence, effectiveness and commitment of each of the Non-Executive Directors is annually reviewed by myself and I share my views with the Nominations Committee and the Board. During the year, the Committee satisfied itself as to the individual contributions and time commitment of all the Non-Executive Directors bearing in mind their other offices and interests held. The Board considers myself and each of the Non-Executive Directors, other than Jorge Cosmen, to be independent and free of any relationships which could materially interfere with the exercise of our independent judgement.

Mr Cosmen is not considered to be independent due to his close links with the ALSA business in Spain and the significant share interests that the Cosmen family hold in the Company. Despite his non-independent status, I feel that the Board benefits greatly from having Mr Cosmen's extensive local market knowledge and experience to hand in the boardroom.

In respect of Lee Sander, Chris Muntwyler and Joaquín Ayuso, who each attained six years' service since last year's AGM, I conducted a rigorous review of their suitability to remain in office for up to a nine-year term (including taking account of the need for progressive refreshing of the Board). This was undertaken because the Code suggests that length of tenure is a factor to consider, particularly where service is six years or more, when determining the independence of Non-Executive Directors. The Committee was confident that all three Directors remain independent, committed to their role and, as with the other Non-Executive Directors, would continue to be highly effective members of the Board and able to fully discharge their duties and responsibilities going forward.

"It is critical to our continued success that we have the right people with the right range of skills and experience on the Board and in senior management positions. At present we do, and our succession plans are geared towards ensuring that we do in the years to come."

Director's re-election

Based on the above Director assessment, the Board is recommending the formal election to office of Mr Davies and the re-election to office of all the other Directors at this year's AGM. Details of the Service Agreement for the Executive Directors and Letters of Appointment for the Non-Executive Directors, and their availability for inspection, are set out in the Directors' Remuneration Report on pages 68 to 99.

Committee effectiveness

The Committee's operations and activities formed part of the external review of Board effectiveness performed in the year and which confirmed the Committee continues to operate well and effectively. Details of this review and the identified areas for further development are provided on pages 50 and 51.

Looking forward

In 2018, the Committee will continue to look at Board and senior management succession planning with a focus on diversity development. In response to such ongoing internal and external succession planning work, and given the expected increase in the number and scope of changes likely to arise from a busy governance pipeline, the Committee will also consider increasing the number of scheduled meetings it holds each year.

Sir John Armitt CBE
Nominations Committee Chair
1 March 2018

Accountability
Audit Committee Report

Mike McKeon
Committee Chair

Primary role

To protect the interests of shareholders through ensuring the integrity of the Company's published financial information and the effectiveness of the Group's internal audit function and systems of internal control and risk management, and external audit process.

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com.

Key responsibilities

- Assess the integrity of the Group's financial reporting
- Ensure that any significant financial judgement and estimates made by management are sound
- Approve the activities and monitor the performance of the internal and external auditors, including monitoring their independence, objectivity and effectiveness
- Evaluate the effectiveness of the Group's internal controls (including financial controls) and risk management systems
- Review the Group's systems and controls for detection of fraud, prevention of bribery and whistleblowing
- Maintain an appropriate relationship with the external auditor

Activity highlights

- Scrutinised the full and half year financial statements
- Reviewed the Group's risk management framework
- Reviewed and recommended the Group's tax strategy
- Monitored progress of the Group's cyber security programme
- Reviewed the Group's first Slavery & Human Trafficking Statement
- Assessed the potential impact arising from accounting standards IFRS 9, 15 and 16 and the new US tax regime

Membership, meetings and attendance

Committee member	Appointed	Meetings held	Meetings attended
Mike McKeon (Chair)[1]	03.07.15	3	3
Lee Sander[1]	01.06.11	3	3
Dr Ashley Steel[1]	01.01.16	3	3
Chris Muntwyler[1]	11.05.11	3	3

1 Independent Non-Executive Director.

Other attendees (by invitation): Chairman of the Board, Group Chief Executive, Group Finance Director, Group Financial Controller, Head of Group Finance, Group Director of Insurance & Risk, Head of Group Internal Audit and representatives of the external auditor, Deloitte.

Biographical details of the members are set out on pages 48 and 49.

Dear fellow Shareholder

I am pleased to present the Audit Committee's Report for the year under review. It demonstrates not only the Committee's activities against a structured programme but also the detailed level of review and reporting now taking place on the back of a growing regulatory and legislative agenda.

In terms of compliance with the 2016 UK Corporate Governance Code ('Code') and the FRC Guidance on Audit Committees, I believe the Committee has continued to address the spirit and requirements of both during the year.

Review of the year

The Committee again challenged itself to ensure its work continued to address those areas of most importance to the Group and/or which could have a material impact on its current or future financial performance. This resulted in prioritisation of its time and attention being given to the following key matters:

- the accounting requirements associated with the sale of the Essex Thameside c2c franchise to Trenitalia, and the consequential restructuring of UK coach and bus
- resolution of the revenue recognition issues associated with German Rail
- the judgements applied by management in relation to insurance/other claims and goodwill/fixed asset impairment
- assessment of the potential impact of the new accounting standards IFRS 9 and 15 (which come into force this year), and 16 (which comes into force in 2019)
- the reporting impact arising from the new ESMA Guidelines on Alternative Performance Measures
- the impact of refinancing activities on the Group's financial position
- the Group's tax strategy and implementation of new tax evasion defence procedures
- the impact on the Group's future effective tax rate following changes in US tax rates introduced in December 2017.

While there were no changes in the Committee's membership in 2017, the Company did welcome Chris Davies as its new Group Finance Director on 1 June. He succeeded Matt Ashley who relinquished that role (but not his executive directorship) to take up the position of President and CEO of our North America business on 1 September 2017. I would like to thank Matt for effecting a smooth handover and induction for Chris, enabling him to get up to speed so quickly. The Committee has seen Chris make a good start in his new role.

Risk landscape

The Committee reviewed changes in risk affecting the Group at both a macro-economic and geopolitical level, as well as other risks affecting the business at an operational level, including cyber security and rapid technological change. While no new risks were added to the Group's significant risk register during the year, some minor changes to our risk radar were made arising from developments in the risk environment, most notably in respect of terrorism given the events in London, Manchester and Barcelona last year. Overall, the Group's risk profile has improved strategically through its UK rail divestment earlier in the year, and this has been recognised by both the investor and analyst community.

Accountability continued

Audit Committee Report continued

In relation to cyber security, management continues to maintain a specific risk register and follow a prioritised remediation programme monitored by the Cyber Security Committee. Additionally, external projects are in progress targeted at ISO 27001 accreditation, and employee awareness and training continues to be rolled out across the Group. I am pleased to report that our external security advisers, ZeroDayLabs, and our co-sourced experts, PwC, have validated the good progress we are making with our cyber security programme. We are however not complacent, knowing that risks in this area continue to evolve rapidly.

A coordinated programme is in place, jointly led by the Group Finance Director and the Group Commercial Director, in respect of our preparations for compliance with the new General Data Protection Regulation ('GDPR') across the businesses by May this year.

Overall, the risk landscape continues to be challenging but the Group is well placed to understand and manage it.

Internal audit and control

Notwithstanding that the Group's internal audit continues to operate effectively, as recently assessed by the Committee, we have commissioned an external quality assurance review of the function. The purpose is to benchmark its structure and activities against best practice and identify a roadmap to where it should be positioned going forward, aligned with the future needs of the business. EY will undertake the review in early 2018 and I will report on its outcome next year.

Following the discovery of a non-material fraud at one of our Spanish locations, the Committee reviewed the results of a controls audit of all cash handling operations across the Group. I am pleased to say that we were satisfied this was a one-off occurrence and that the controls in place elsewhere across the Group would have prevented a similar event occurring. Controls at the Spanish location have been improved with the help of input from third-party experts.

Viability Statement

The Committee reviewed and challenged management on the Group's viability outlook period as well as on the viability analysis and conclusions, and satisfied itself that three years remained appropriate. The Viability Statement, and the rationale for the period selected, is set out on page 41.

Fair, balanced and understandable

The Committee assessed and recommended to the Board (which it subsequently endorsed) that, taken as a whole, the 2017 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

“Sound risk management and internal control systems are essential to enable the Group to achieve its objectives, while proper accountability to shareholders requires fair and balanced performance reporting. The Committee's role is to ensure both are in place.”

FRC Corporate Reporting Review

At the end of last year and early this year, I reviewed and approved responses to the FRC Corporate Reporting Review team's information request relating to the Company's 2016 Annual Report. The FRC has since advised the Company that their enquiry is closed.

Committee effectiveness

The Committee's operations and activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided on pages 50 and 51. Overall, the Committee continued to operate effectively and to a very high standard during the year, with clear priorities, well-defined responsibilities and clarity around its work plan.

Looking forward

I expect 2018 will be another busy year for the Committee in fulfilling its core responsibilities and in completing the assessment of the impact of IFRS 16, Leases, on the Group's accounts (for which we expect an update will form part of this year's interim results), responding to changes arising from the new Code (expected mid-year) and finalising our preparations for GDPR compliance.

Finally, I would like to thank the other members of the Committee, together with management and Deloitte, for their support during the year.

M McKeon

Mike McKeon
Audit Committee Chair
1 March 2018

Committee composition and operations

The Board is satisfied that the Committee as a whole possesses relevant sectoral experience and that its members bring a broad range of financial and commercial experience from across various industries. It is also satisfied that Mike McKeon in particular possesses the recent and relevant experience required by the Code.

Details of the Committee meetings held during the year are shown on page 57. The Committee also hosts private sessions with the external auditor and/or Head of Group Internal Audit after each meeting. The Committee Chair has regular private sessions with the Group Finance Director, Head of Group Internal Audit and the Deloitte team to ensure that open and informal lines of communication exist should they wish to raise any concerns outside of formal meetings.

Audit Committee activity in 2017

The main areas of Committee activity during the year and through to the date of this report, included the planning, monitoring, reviewing and approval of the following:

Financial reporting

- the integrity of the half year and full year financial statements, including significant financial matters considered
- the information, underlying assumptions and stress test analysis presented in support of the Viability Statement and going concern status
- the consistency and appropriateness of the financial control and reporting environment
- the potential impact from new accounting standards IFRS 9 (Financial Instruments), 15 (Revenue from Contracts with Customers) and 16 (Leases)
- the financial reporting impact from new ESMA Guidelines on the use of Alternative Performance Measures
- the availability of distributable reserves to fund the dividend policy and make dividend payments
- the fair, balanced and understandable assessment of the Annual Report and half year statement

External audit

- the scope of and findings from the external audit plan undertaken by Deloitte as the external auditor
- the effectiveness of the external audit process
- the assessment of the performance, and continued objectivity and independence, of Deloitte
- the level of fees paid to Deloitte for permitted non-audit services
- the re-appointment of Deloitte as external auditor

Internal audit

- the scope and appropriateness of the Group's internal audit plan and resourcing requirements, including external assistance
- the findings from investigations undertaken and the progress made against agreed management actions
- the findings from compliance testing of financial controls
- the independence, objectivity and effectiveness of the Group's internal audit function

Risk management and internal control

- the scope of the Group's internal control and risk management programme
- the adequacy and effectiveness of the Group's internal control and risk management systems, including the management of its insurance and claims handling programme
- the Group's risk environment, including its significant and emerging risks register
- the Group's IT risk strategy, cyber security threats and disaster recovery plans
- the Group's fraud, anti-bribery and corruption and whistleblowing prevention measures

Tax and treasury

- the Group's treasury policy and affairs, including associated key risks management
- the impact of refinancing activities on the Group's financial position
- the Group's tax affairs, including its tax strategy posted on the Company's website, and its tax evasion defence programme
- the impact on the Group's financial position and future effective tax rate arising from changes in US tax rates

Other

- the Committee's effectiveness and terms of reference
- compliance with the Code and the Group's regulatory and legislative requirements
- the Group's inaugural Slavery and Human Trafficking Statement posted on the Company's website
- responses to the FRC's Corporate Reporting Review team's information request on the 2016 Annual Report

Accountability continued
Audit Committee Report continued

Significant financial matters

The following descriptions are of the two significant financial matters considered by the Committee, with input from management and the external auditor, in connection with the Group's financial statements and disclosures. These were considered to be significant taking into account the level of materiality and the degree of judgement exercised by management. The descriptions should be read in conjunction with the Independent Auditor's Report on pages 106 to 113 and the accounting policies disclosed in the notes to the financial statements.

We have not provided a description this year (and the external auditor has not reported on them) of the risks associated with taxation, pensions and fuel hedge accounting as these were downgraded from significant to normal risk by Deloitte as part of their audit plan for the year. In consultation with management and Deloitte, the Committee has of course continued to monitor and review these matters though not as significant issues.

Goodwill and fixed asset impairment (see note 2 and 14 to the financial statements)

The Committee considered whether the carrying value of goodwill and fixed assets held on the Group's balance sheet should be impaired. The potential risk is around the recoverability of these balances, particularly in relation to our ALSA and North America businesses, as assessed annually by management as part of their goodwill impairment review using discounted cash flows on a value in use basis. The key judgements relate to the discount rate and the future growth rate applied as the value in use models are highly sensitive to changes in these rates, both of which must reflect a long-term view of the underlying growth in each respective economy.

The Committee received a detailed report from management which outlined the robust impairment analysis undertaken for the year on a bottom-up basis and which included: the underlying cash flows, discount rates and future growth rates assumed, the improved modelling adopted relating to the use of a country-specific discount rate and various impact scenarios arising from the outcome of ALSA's concession renewal programme. The report concluded that there is not a material risk of recoverability in this area and that neither the North America nor the ALSA goodwill assets are impaired. Indeed, both have healthy levels of headroom (in the case of North America, further enhanced by the recent changes in US tax rates) that compares well with previous years notwithstanding the additions of goodwill during the year through ongoing acquisition activities.

The Committee challenged management's methodology and assumptions and consulted with Deloitte, whose own testing and validation of the critical assumptions had resulted in them concurring with management's conclusion. As a result, the Committee was satisfied that the goodwill and intangible assets of the Group as at the balance sheet date are not impaired.

Insurance and other claims provisions (see note 2 to the financial statements)

The Committee considered the adequacy of the provisions associated with insurance and other claims arising predominantly from traffic accidents and employee incidents, particularly in North America. The estimation of such provisions, including those arising on acquisition, is judgemental and based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not yet reported at the balance sheet date. Given the level of complexity and judgement involved in making these estimations there is a risk that the eventual outcome could be materially different from that estimated and provided for.

The Committee received and discussed with management a report from the Group Director of Insurance and Risk on North America insurance and other claims, particularly the key judgements made in determining the level of provisions, the methodology used, the measurement of self-insured claims and the extent to which they were supported by third party actuarial advice. It also reviewed the rigorous audit investigation undertaken by Deloitte which included actuarial specialists' challenge of the underlying assumptions around loss development, sample testing and in-depth discussion with the US General Counsel and members of the local claims handling team.

The Committee noted that in considering the overall balance sheet provision, there was a wide range of potential outcomes. However, taking into account the thorough internal analysis undertaken and the audit work conducted by Deloitte, the Committee concluded that the provision for North America insurance and other claims, as recommended by management, was within an acceptable range and was fairly stated.

In addition to the above, the Committee has considered, taken action and made onward recommendations to the Board, as appropriate, on a range of other matters, including in relation to the Viability Statement, the going concern basis on which the financial statements are prepared, the accounting treatment of business combinations, acquisitions and disposals (in particular regarding the sale of property and the sale of Essex Thameside c2c franchise to Trenitalia), the potential impact arising from the new accounting standards IFRS 9 and 15, and other specific areas of audit, compliance and governance focus.

The Committee was satisfied that all issues had been fully and adequately addressed, that the judgements made by management were reasonable and appropriate and had been reviewed and debated with the external auditor (who concurred with the approach taken by management), and that the accounting and disclosure requirements were correct.

External auditor

Deloitte, as the external auditor, is engaged to conduct a statutory audit and express an opinion on the financial statements. Their audit includes the review and testing of the systems of internal financial control and data which are used to produce the information contained in the financial statements.

The current external audit engagement partner (appointed with effect from 1 January 2016) is Stephen Griggs, Head of Audit and Risk Advisory for Deloitte in the UK.

The external audit plan and the £1.1m fee proposal for the financial year under review (2016: £1.1m) was prepared by Deloitte in consultation with management and presented to the Committee for consideration and approval. The plan again focused on risk, challenge and materiality and was aligned to the Group's structure and strategy. However, it was also designed to transition the audit, as directed by Deloitte, to be more internal control assurance (and less substantive) in its emphasis.

The Committee is responsible for monitoring and reviewing the objectivity and independence of Deloitte as external auditor. In undertaking this annual assessment for the year under review, and concluding that their independence remained assured, the Committee considered: a report on their independence submitted by Deloitte (which included the internal safeguards operated by them); the mitigating actions taken by the Company to safeguard their independent status (see 'Non-audit services' below); the tenure of the current audit engagement partner (being less than five years); and the positive outcome of the external audit and performance review of Deloitte (see below).

Effectiveness

Immediately following completion of the external audit process for 2017, the Committee conducted a review of its effectiveness and a performance review of Deloitte. This was carried out through a mix of a survey questionnaire and analysis and follow-up consultation with Committee members, the Executive Directors, members of the senior finance team and divisional Finance Directors. The qualitative assessment focused on the valuable feedback and insights received, process and communication, handling of issues and the quality of the audit team, and had regard to the latest Audit Quality Inspection Report on Deloitte issued by the FRC.

The Committee's conclusion was that Deloitte had again completed an effective audit process which provided an appropriate level of independent challenge to the Group's senior management. Additionally, Deloitte continue to perform their services, in respect of both the audit and their work generally, to a high standard. Areas identified for development have been shared with them for inclusion in their service delivery plans going forward.

External audit tendering policy

The Company last put its external audit out to competitive tender in 2011 following which Deloitte was appointed to the office of auditor. Having undertaken such a process, the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Company is next required to retender the audit by no later than the financial year ending 2021. The Committee will assess the quality of the external audit annually and, on the basis that its quality remains high and the audit fee represents good value to shareholders (both as benchmarked versus market practice), it is expected that the next audit tender will take place at that time.

On the recommendation of the Committee, the Board is proposing a resolution to reappoint Deloitte to office as external auditor for a further year at this year's AGM.

Non-audit services

To help protect the objectivity and independence of Deloitte, and in addition to their own internal safeguards, the Company operates a Non-Audit Services Policy that sets out the types of non-audit services, such as assurance work, which Deloitte may provide to the Group. The policy remained unchanged during the year although a new policy (which includes an enhanced pre-approval process, specific financial control limits and a more definitive list of permitted and non-permitted services), has been approved by the Committee effective from 1 January 2018. The new policy also meets the FRC's revised Ethical Standards requirements.

Details of the fees charged by Deloitte, split between audit and permitted non-audit fees, for the year ended 31 December 2017 can be found in note 6 to the financial statements on page 131. Total fees for non-audit services, including the half year review, amounted to £0.12m, representing 11% of the Group's total audit fees payable to Deloitte for the year. No audit fees were approved or paid on a contingent basis.

Accountability continued
Audit Committee Report continued

Internal audit

The Committee has oversight and directional responsibility for the Group's internal audit function which is led by the Group Head of Internal Audit and who has a direct reporting line into the Committee Chair. The function's purpose is to provide an independent and objective assessment of the effectiveness of the internal controls, risk management and governance processes in operation throughout the Group. The function adds value by:

- contributing to the continuous improvement of internal control and related processes, including identifying and sharing good practice across the Group
- addressing the safeguarding of assets, compliance with applicable laws and regulations and achievement of management's operational objectives
- promoting business processes that deliver effective internal control at reasonable cost
- providing alignment with the Group's risk management process.

An Internal Audit Charter sets out the responsibilities of both the internal audit function (in terms of its focus, programme of activity, scope of investigations and reporting lines) and management (in terms of it providing support and co-operation at all levels of the organisation).

The annual internal audit plan and resource allocation (including any external specialist assistance required) is reviewed and approved by the Committee to ensure it is aligned with the key risks of the business and the Group's strategic plan. The Committee receives update reports at each meeting confirming the key findings from reviews undertaken, the material actions required to implement the recommendations and the status of progress against previously agreed actions. These include the identification of known instances of fraud, theft or similar irregularities affecting the Group, although there were no such matters that were sufficiently material to warrant separate disclosure in this report.

Effectiveness

The Committee monitors and formally assesses the effectiveness of the internal audit function on an annual basis and seeks to satisfy itself that the quality, expertise, experience and cost of the function is appropriate to the Group. This was conducted for 2017 through a mix of a survey questionnaire and analysis and feedback from both senior management and local management. Overall, the Committee concluded that the function continued to be effective, objective and independent in the work it undertakes, and has a good reputation with operational management in the performance of its role.

Notwithstanding the above, and aligned to the recommendations of the International Internal Auditing Standards, the Committee has commissioned EY to conduct an external quality assurance review of the internal audit function in early 2018. This will provide useful insight and benchmarking versus best practice as well as development recommendations to ensure the function continues to add value and is positioned to satisfy the future needs of the business.

Risk management and internal control

The Board is responsible for determining both the nature and extent of the Group's risk management and internal control framework and for setting the tone on the risk appetite that is acceptable in seeking to achieve its strategic objectives. The Committee is responsible for reviewing and monitoring the adequacy, design and effectiveness of the Group's ongoing systems of risk management and internal control (which includes financial, operational and compliance controls), and reporting to the Board accordingly, with primary responsibility for their operation delegated to management. These systems have been designed to safeguard both the shareholders' investment and the assets of the Group and manage, rather than eliminate, the risks inherent in achieving the Group's business objectives. They can therefore provide only reasonable, not absolute, assurance against material misstatement or loss.

Risk management

The organisation has an embedded risk management culture and the Group Director of Insurance and Risk oversees the numerous sub-committees and work groups that own and manage day-to-day risk in the business at local and divisional level.

The Committee receives regular updates on the Group's risk register and risk radar which allows for discussion of the significant and emerging risks affecting the business and monitoring of progress against previously agreed actions. It also receives regular reports from the external auditor, and from internal audit and other major business functions on various aspects of internal control, financial reporting and risk management. In turn, the Committee provides the Board with interim assessments of risk impact on the Group's financial position, accounting affairs and control systems and on how material risks to the Group are being managed. The annual risk management work plan, prepared in consultation with management, is reviewed and approved by the Committee to ensure alignment with the changing risk profile and priorities of the business.

A summary of the Group's risk management framework, and the process in place for identifying, evaluating and managing the principal risks and uncertainties faced by the Group, is set out on pages 38 to 40.

Internal control

The following items represent the key elements of the Group's internal control system (which is subject to internal audit's ongoing programme of review and reporting to the Committee):

- a devolved organisational structure with clear leadership, responsibility and delegated authorities
- a divisional performance and key function review process conducted on a monthly basis
- a comprehensive annual strategy and operating plan review
- a robust annual and monthly budgeting, forecasting and financial reporting process
- a delegated authorities matrix defining approval limits for various classifications of expenditure and investment
- a top-down/bottom-up approach to risk management and internal control
- various policies, procedures and guidelines underpinning the development, management, financing and main operations of the business
- specialist professional support services provided on a central and/or divisional basis, as appropriate, covering safety, property and environment, legal, human resources, communications, insurance, information services, tax and treasury, and company secretarial.

Effectiveness

Assisted by the Committee, the Board reviewed the systems of internal control and risk management described above (which have been in place for the year under review and through to the signing date of this Annual Report) taking into account the assurance work undertaken by both the risk management and internal audit functions, and the relevant process, controls and testing undertaken by Deloitte as part of their half year review and full year audit. No significant weaknesses or control failures were found while identified opportunities to strengthen the controls have been taken and will themselves be subject to regular review as part of the internal assurance process.

Fair, balanced and understandable

The Committee reviewed the Annual Report in terms of its preparation, control process, verification of content, consistency of information (including the appropriate weighting given to 'bad news' as well as 'good news') and linkage between key messages throughout the document. It also received a specific paper from management to assist in its challenge and testing of a fair, balanced and understandable assessment.

Based on the above, and the views expressed by Deloitte, the Committee recommended, and in turn the Board confirmed, that the 2017 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Bribery and Corruption Policy

The Board has a zero-tolerance policy in place against bribery and corruption of any sort. Regular training is given to employees, including new employees, to highlight areas of vulnerability and reporting procedures. Our principal suppliers are also required to have similar policies and practices in place within their own businesses.

Whistleblowing Policy

The Committee reviews the Group's whistleblowing arrangements, incorporated within a specific policy and applied in each of the businesses, which allows employees to report genuine concerns about suspected impropriety or wrongdoing (whether financial or otherwise) on a confidential basis, and anonymously if preferred. This takes the form of a free independent telephone hotline in each country of operation. Any matters reported are investigated by local legal counsel in the first instance with monthly summary reports submitted to the Group Company Secretary (and reviewed by the Group Executive Committee) in case a higher level of independent investigation is required. During the year, there were no whistleblowing incidents investigated at Group level.

Accountability continued
Safety & Environment Committee Report

Chris Muntwyler
Committee Chair

Primary role

To oversee the quality and effectiveness of the Group's safety and environment strategies, standards, policies and initiatives, together with risk exposures, targets and performance.

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com.

Key responsibilities

- Review the Group's strategy and framework of standards, policies and initiatives for managing safety risks across the Group
- Monitor and review the Group's safety leadership and performance
- Review the Group's strategy and approach to the environment and the external reporting of performance

Activity highlights

- Safety targets, performance and initiatives for the Group, its divisions and operations
- Lessons learnt and actions taken following the 2016 Chattanooga accident
- Safety-related benefits from the Group's Driving Out Harm and World Class Driver programmes
- Progress and impact from the Group's ongoing investment in vehicle safety systems and on-board support technology
- Management of environmental responsibilities and focus on employee engagement
- Local health and wellbeing programmes for employees in all territories

Membership, meetings and attendance

Committee member	Appointed	Meetings held	Meetings attended
Chris Muntwyler (Chair)[1]	11.05.11	3	3
Sir John Armitt CBE[2]	01.01.13	3	3
Lee Sander[1]	01.06.11	3	3
Jorge Cosmen[3]	01.12.05	3	3
Joaquín Ayuso[1]	01.06.11	3	2
Jane Kingston[1]	26.07.16	3	3
Dr Ashley Steel[1]	01.01.16	3	3
Mike McKeon[1]	03.07.15	3	3
Matthew Crummack[1]	06.05.15	3	3

1 Independent Non-Executive Director.
2 Non-Executive Chairman of the Company.
3 Non-Executive Director.

Other attendees (by invitation): Group Chief Executive, Group Finance Director, President and CEO, North America, Group Safety Director, Head of Group Property and, as required, external advisers.

Biographical details of the members are set out on pages 48 and 49.

Dear Shareholder

I am pleased to present this year's Safety & Environment Report which provides an overview of the Group's main activities and progress in these areas during the year. More information can be found on these matters on pages 31 and 34 respectively.

The safety of our employees and customers is of critical importance to the Board, as is the responsible management of our environmental obligations. I would like to thank our Group Chief Executive, Dean Finch, and his management team for their ongoing leadership and effectiveness in again driving improvements in both these areas in 2017.

As part of my role as Committee Chair, I visit operations to better understand the safety risks, exposures and challenges faced by the business and the actions being taken locally to address them. I have recently returned from such a visit to six school bus and transit Customer Service Centres in the US where I was accompanied by Bob Ramsdell, Chief Safety Officer of our North America business. A review of this trip can be found on page 67.

Safety

Safety continues to be our highest priority and a strong safety culture exists throughout the business. Overall responsibility for safety lies with the Group Chief Executive supported by Divisional Managing Directors, the Group's Safety Director and local safety teams. It is they who set the annual plans and priorities for continued improvement and progress against these is reviewed by the Chief Executive's Safety Committee on a quarterly basis.

In recognising the ongoing strategic importance of safety to the Group, the Remuneration Committee increased the safety element weighting of the annual bonus for the Executive Directors from 10% to 18% of salary in 2017; the emphasis continues this year. Additionally, a revised safety underpin for the annual bonus plan and a new safety underpin for the LTIP is proposed to be introduced as part of the Company's new Directors' Remuneration Policy – see pages 74 to 84.

Performance

The Committee is extremely pleased to report that the Group's safety performance for responsible accidents showed further year-on-year improvement in processes, procedures and outcomes in 2017. Most notably, there was a material reduction in our Fatalities Weighted Injuries Index ('FWI') score and a significant reduction in the number of major injuries and lost time injuries. Our FWI per million miles travelled is now at an all-time low, in line with the Group's 2020 target, having fallen by 74% since our Driving Out Harm programme was first launched in 2010. A truly excellent achievement. However, the executive is far from complacent and believes there is further safety improvement to come from this year's strengthening of the programme and the investments we are making in our safety systems, as outlined below. Additionally, the Committee wholeheartedly supports the Group-wide 'Target Zero' safety campaign recently launched and confirming that any fatality is unacceptable.

Arising from the late 2016 Chattanooga school bus accident, a US Department of Transportation ('DOT') audit undertaken during the year identified some driver testing and record keeping shortfalls (unrelated to the causes of the accident) and these have been fully addressed. Consequently, the DOT confirmed our operating licence in Durham as wholly unconditional, which is the highest rating available.

Driving Out Harm

The Group has operated well established Global Safety Standards for many years. As we seek to move these forward, we are harnessing the power of digital to achieve a transformation in our ability to manage our people and make us best in industry. To that end, we further strengthened our Driving Out Harm programme during the year with the introduction of the following five new Global Safety Policies in April:

- Speed Management
- Driving Evaluation
- Competence Requirements: Driving Evaluations
- Driver Monitoring
- Driver Performance Management.

Divisional plans are in place for full implementation of the policies by 2020 and the Committee has received validation of progress against key milestones from the internal audit function. It has also seen evidence of the benefits to be derived from the new policies, for example:

- there has been a significant reduction in speeding in each of our territories resulting from the introduction of continuous driver monitoring versus posted speed limits. This information is also enabling us to identify and eradicate all types of driver risk distractions; and
- through our World Class Driver programme, the number of Master Drivers in the Group (who are assessed to externally accredited standards – in the UK, with the Institute of Advanced Motorists) has risen to 700.

“ ”

Safety is and always will be the highest priority for our business, Dean Finch will see to that. We are good at it, not complacent and always striving to be better.

Safety systems

Our safety investment programme continues at a pace. The installation of Lytx DriveCam, an incident alert system provided by an on-board camera, as part of our World Class Driver training programme, continues to be rolled out across the Group. At the end of the year, all buses and coaches in the UK had been fitted with this new technology, 6,351 in North America and fitment in Spain had commenced, with 1,000 planned to be fitted there in 2018. Another 9,800 buses will be fitted in North America this year. Of vital importance is the coaching of every driver who triggers a recorded event (by braking harshly, swerving or through collision) and the Committee has noted that this hands-on and immediate response approach is starting to change driver behaviour.

The implementation of a Group-wide system to facilitate and support the central management of customer complaints is also taking place. This is already live in North America and scheduled to be live across the rest of the Group later this year.

The Committee can see the added value of the Group's investment in these new systems which will help us continue to improve both the effectiveness and efficiency of our driving standards and safety programmes.

Safety awards

The Committee was pleased to learn of several safety awards received again across the Group in 2017. Of particular note was the prestigious:

- British Safety Council's Sword of Honour, which recognises the commitment to excellent health and safety management standards. This was received by UK bus for the second successive year (with the highest score of any transport company in 2017) and by UK coach for the third successive year. Both companies are also now certified to BS OHSAS 18001; and
- Fundación MAPFRE 'Award for Best Accident Prevention Initiative', which was awarded to our Spanish business, ALSA. This was in recognition of its World Class Driver project (part of the Group-wide programme) targeted at reducing risks by improving driver skills. The award was received by Jorge Cosmen from Queen Sofia of Spain, and is the first time the award has been won by a private company.

These types of external recognition and accreditation give the Committee great confidence in the embedded nature and robustness of our safety management arrangements across the whole Group.

Accountability continued
Safety & Environment Committee Report continued

Environment

We recognise that the Company has an important role to play in enabling and delivering climate change strategies which, in partnership with our partners and other stakeholders, can help mitigate the impact arising from the operation of our vehicles and sites. Accordingly, the Committee has continued to monitor the Group's strategy and approach to the environment, as well as the external reporting of its environmental performance, including greenhouse gas emissions.

With respect to the management of the Company's environmental responsibilities, I am pleased to report that the Group maintained full environmental legislative compliance, with zero prosecutions, enforcement notices or reported violations in 2017.

During the year, we continued to make good progress with our Driving Excellence in Environmental Performance programme. We have set ourselves some challenging KPIs through to 2018 and against that our water usage and total carbon emissions improvements are running well ahead of target though our targeted reduction in site emissions has not yet been met. The focus on employee engagement continues, with fleet efficiency and improving miles per gallon fuel usage remaining key deliverables in all divisions. Significant improvements continue to be maintained through fleet investment, technology and improvement in driving skills.

Our UK businesses were again accredited with a Gold Standard for the Carbon Saver scheme and a number of other notable awards were received elsewhere across the Group. These awards are a testament to our seven-year programme of reducing carbon emmission through a continued commitment to driving sustainability, reducing energy costs and adopting carbon emissions reduction measures in both our fleet and site operations.

Health and wellbeing

During the year, the Committee reviewed the significant amount of work being undertaken across the Group as we continue to promote, support and deliver a multitude of health and wellbeing activities for employees, comprising a mix of physical, mental and occupational services. Examples of these included:

- in the US, a new three-year Health and Wellbeing Strategy launched in 2017. The first-year focus was on employee education and awareness of the various programmes available while the second-year focus will shift to prevention, with the objective of driving engagement in biometric screenings and other preventative measures;
- in Spain, an online sports, health and wellbeing platform, SPORTSNET. This gives employees up-to-date information on local sports activities as well as bulletins on food and health. The platform aims to boost healthy habits, especially through physical exercise;
- in Bahrain, two medical clinics are operated on site, one at the main staff accommodation and one at the Isa Town Depot. These provide free consultations with visiting health specialists from local hospitals on a regular basis; and
- in the UK, our continuing award-winning Health Bus. This provides health monitoring services to employees and in 2017 facilitated over 5,000 appointments.

Committee effectiveness

The Committee's operations and activities formed part of the external review of Board effectiveness performed in the year (see pages 50 and 51) and which confirmed that the Committee continues to operate very well and effectively in providing oversight of safety and governance.

Looking forward

In 2018, the Committee will continue to monitor and review the structure, content and operation of the Group's safety management and environment arrangements, and the actions being taken by the executive to achieve the Group's objectives on both fronts.

Chris Muntwyler
Safety & Environment Committee Chair
1 March 2018

Committee in action

The Board believes the Company should aim to lead the industry on safety and continuously seek to improve our standards. Our safety agenda is aligned to that – led from the top and embedded in everything we do – and a rigorous governance framework underpins our approach. The Executive and Non-Executive Directors are regular visitors to our Customer Service Centres ('CSCs') to make sure we 'walk the talk' from the boardroom to our operations.

Chris Muntwyler, Chair of our Safety & Environment Committee, visited six student transportation and public transit CSCs in New York and Connecticut in February this year. Accompanied by Bob Ramsdell, the North American Chief Safety Officer, he met with local management and personnel and toured each centre looking into the safety processes in place, including driver coaching through the use of our smart camera system, DriveCam, reduction in speeding using GPS reports, facility safety, and vehicle maintenance and environmental procedures.

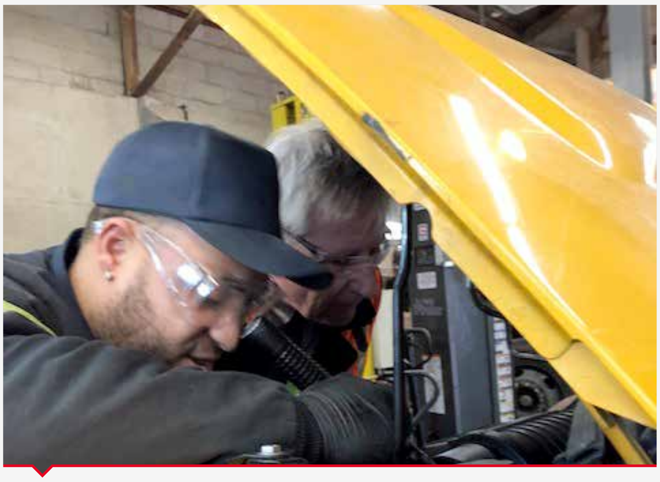
Discussions with drivers, mechanics, site managers and other staff enabled Chris to gauge the effectiveness of these programmes and the level of implementation at each centre.

Above: Chris with the management team at our Stratford, Connecticut, CSC

Above: Chris discussing training processes with Mark Logan, Safety Manager at our White Plains, NY, CSC

> **It is important and interesting for me to see in person how our strategic safety programmes are being implemented and followed on the front-line, as well as the impact they have on reducing accidents and injuries. These visits give me a unique opportunity to meet and talk to National Express staff at all levels and hear their perspectives on what works well and where there is still room for improvement. This real-world view helps me make meaningful contributions to our overall safety effort as Chair of the Safety & Environment Committee.**

Chris Muntwyler, Safety & Environment Committee Chair



Above: Chris watching a technician make a vehicle repair at our Brooklyn, NY, CSC

Directors' Remuneration Report
Annual Statement by the Remuneration Committee Chair

Jane Kingston
Committee Chair

Primary role

To review and recommend to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy.

The Committee's terms of reference, reviewed and approved annually, are available on the Company's website at www.nationalexpressgroup.com.

Key responsibilities

- Determine the remuneration and conditions of employment of the Executive Directors and Senior Management Group ('SMG') members
- Determine the Chairman's fees
- Monitor pay, benefits and employment conditions across the Group
- Oversee administration of the Company's share incentive plans
- Appoint independent remuneration consultants

Activity highlights

- Engaged with shareholders on the 2016 Annual Report on Remuneration
- Reviewed and determined:
  - salary levels for Executive Directors and SMG, and fees for the Chairman
  - new remuneration package for Chris Davies and relocation package for Matt Ashley
  - outturn vs. performance conditions of LTIP awards
  - new Directors' Remuneration Policy and consultation with major shareholders
- Set and reviewed outcome vs. targets of annual bonus plans
- Determined annual LTIP awards to Executive Directors and SMG
- Considered developments in executive pay and corporate governance

Membership, meetings and attendance

Committee member	Appointed	Meetings held	Meetings attended
Jane Kingston (Chair)[1]	26.02.14	6	6
Lee Sander[1]	01.06.11	6	6
Matthew Crummack[1]	06.05.16	6	6

1 Independent Non-Executive Director.

Other attendees (by invitation) and advice/services provided:

- PricewaterhouseCoopers LLP ('PwC'): independent remuneration and ancillary legal and governance advice
- Company Chairman*: input and recommendations relating to the performance and remuneration of the Group Chief Executive
- Group Chief Executive*: input and recommendations relating to strategy and the performance and remuneration of other Executive Directors and SMG
- Group Finance Director, Human Resources Director and Company Secretary*: input and advice re financial performance, HR policies and practices, governance and administration.

* Do not attend or participate in discussions concerning their own performance or remuneration.

Biographical details of the members are set out on pages 48 and 49.

Dear fellow Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017. It has been another very successful year for the Group and a busy one for the Remuneration Committee. We have assessed outcomes under incentive plans, approved certain aspects of remuneration for two Executive Director changes that occurred, and have conducted a full review of the current Directors' Remuneration Policy. The Company is seeking shareholders' approval to a new policy at the AGM in May.

Aligning pay and performance in 2017

2017 was a standout year for the Group, where our performance again delivered record breaking results. Our share price increased by 8% ahead of sector competitors and a 10% increase in the final dividend is proposed. The financial highlights table opposite shows our strong performance compared to last year as we delivered in excess of plan on all key metrics. In addition to this, the Executive Directors made significant progress on a number of strategic projects with tangible results, most notably in relation to the divestment of our UK rail franchise and the consequential restructuring of the UK business.

The Committee has undergone a robust and full assessment of performance, taking into account financial and non-financial measures. In addition, we considered (in consultation with the Safety & Environment Committee) the Group's performance in relation to safety processes, procedures and outcomes for 2017 and judged that the annual bonus underpin had been fully satisfied given the continuing year-on-year improvement delivered. Particularly pleasing is our Fatalities Weighted Injuries Index ('FWI') score per million miles travelled which is now at an all-time low having fallen by 74% since our Driving Out Harm programme was launched in 2010.

Consequently, the following outcomes were approved by the Committee:

- annual bonuses of 95% of maximum for 2017, of which a portion has been deferred into shares. No discretion was used by the Committee in determining these bonuses;
- 96.7% of maximum vesting for the LTIP awards with a three-year performance period ended 31 December 2017. These are due to vest in March 2018; and
- 73.4% of maximum vesting for the legacy LTIP award made to the Group Chief Executive with a five-year performance period ended 31 December 2017. This is due to vest in May 2018.

Directors' Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) ('Regulations'), the Listing Rules and the provisions of the UK Corporate Governance Code ('Code') and consists of the following sections:

- Annual Statement by the Remuneration Committee Chair
- Remuneration at a glance – an overview of our remuneration strategy and the performance outcomes for the variable elements of remuneration
- Summary of changes and recommended new Directors' Remuneration Policy – the policy is subject to shareholder approval at the 2018 AGM and, if approved, will be effective immediately thereafter and be binding on the Company until the close of the 2021 AGM
- Annual Report on Remuneration – this sets out details of payments made to Directors in 2017 under the current remuneration policy. The report is subject to an advisory vote by shareholders at the 2018 AGM.

Following the tragic accident in Chattanooga in late 2016, the Committee has continued to monitor ongoing investigations. I am pleased to confirm that no new findings have arisen since February 2017 that would then, or indeed now, lead the Committee to apply anything other than the same judgement or reach anything other than the same decision in respect of last year's bonus payments to the Executives. However, we have reviewed and revised the safety underpin wording in the annual bonus as part of this year's policy review. In addition, a significant and increased portion of the non-financial element of the bonus (18% out of 25%) was devoted to safety metrics and the delivery of related key plans and investments for 2017. This weighting level will be maintained in 2018.

Overall, the Committee believes that the outcomes of the bonus and LTIP fully reflect the strong underlying performance of the business as well as the strong results for shareholders delivered over the last five years which include a Total Shareholder Return of 134% and basic statutory EPS growth of 118%.

Directors' Remuneration Policy review

Following a number of substantial changes made to executive remuneration in 2015, our current policy was approved by shareholders with an overwhelming 99% vote of support at that year's AGM. Since then, we have successfully used the policy to reward and retain a high-quality executive team, under the leadership of Dean Finch, which has and is continuing to deliver record performance as it executes on an ambitious strategy.

The Committee's objective in approaching this year's policy review has been to ensure that the remuneration structure continues to support our strategy, incentivise our executive team to achieve stretching targets, and to balance this against the need to be sensitive to shareholder requirements and corporate governance best practice.

The Committee considered alternative remuneration structures but concluded that the current one achieves our objectives and it therefore remains fit for purpose without the need for any significant changes. In particular, we can see that the current structure aligns the executives' interests with those of our shareholders over the long term.

However, to ensure the policy continues to meet governance guidelines and provides flexibility in dealing with certain scenarios and events which could occur during the intended three-year term of the new policy, the Committee is proposing to make a few incremental changes to the way the policy is operated for Executives. In line with good practice, and before finalising the new policy, the Committee consulted on these changes with major shareholders representing some 74% of our share register, and the main institutional proxy voting agencies, at the end of last year/early this year.

The proposed changes included:

- a reduction in the maximum pension contribution for new Executive Directors to no more than 25% of salary;
- revision of the safety underpin for the annual bonus and the introduction of a similar safety underpin for the LTIP; and
- removal of the ability to use the Listing Rules to make exceptional LTIP awards, and the introduction of the flexibility to grant LTIP awards up to 200% of salary for all Executives in special circumstances.

"Our recommended new Directors' Remuneration Policy is aligned with our strategic priorities and targeted to incentivise and reward the long-term success of the Group."

2017 financial performance highlights

- Group revenue £2.32 billion, **up 10.9%**
- Normalised profit before tax £200m, **up 18.6%**
- Statutory profit after tax £128.4m, **up 11.7%**
- Free cash flow £146.4m, **up 5.6%**
- Normalised basic earnings per share 29.1p, **up 10.6%**

Directors' Remuneration Report continued
Annual Statement by the Remuneration Committee Chair continued

The changes were very well received by shareholders and in response to our engagement with them, the Committee also made the following further amendments to those originally proposed:

- reduction in the threshold level of LTIP vesting from 30% to 25% for the TSR and EPS elements;
- extension of the application of malus and clawback to the whole of the annual bonus award, not just the deferred share element; and
- reduction in the Group Chief Executive's annual pension allowance from 35% to 30% of salary in three equal tranches commencing from 2019.

A summary of all the key changes proposed to the current policy is set out in the table on page 73 and the proposed new policy is set out in full on pages 74 to 84.

The Committee is confident that the current policy remains fit for purpose, subject to the incremental changes being proposed, and fundamental in helping us achieve continued strong business performance. The new policy is therefore recommended to shareholders for approval at the AGM in May.

Executive team changes
The number of Executive Directors increased and the team strengthened during the year by the appointment of Chris Davies as Group Finance Director in June and the appointment of Matt Ashley (the former Group Finance Director) to the role of President and CEO of our North America business in September 2017. Chris was appointed on the same remuneration package, terms and conditions as his predessor and Matt moved to Chicago with no changes to his package. Full details of their remuneration and the relocation assistance provided to Matt are set out on pages 85 and 86.

2018 remuneration and the wider pay environment
I continue to be encouraged by management's commitment to invest in staff at all levels and our commitment to always meet or exceed national minimum standards of employment in all of our business areas offering pay, terms and conditions that are appropriate to each labour market in which we operate.

The Committee has recently completed its annual review of salary and can confirm that for 2018 the base salary increase for each of the Executive Directors will be 2.5%, in line with that of the wider UK workforce.

There will be no change to the award opportunity for bonus or LTIP arrangements in 2018. The structure and performance conditions will be operated as per the current policy and the 2017 plans, as detailed in the Annual Report on Remuneration.

Committee effectiveness
The Committee's effectiveness and activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided on pages 50 and 51. Overall, the Committee continued to operate effectively and to a high standard having delivered on a significant agenda during the year.

Looking forward
We will continue to engage with shareholders and review corporate governance best practice as it develops. In that regard, the Committee acknowledges that a new corporate governance code is in preparation and, together with the whole Board, will look to pro-actively respond to developments arising from this as part of its 2018 agenda.

I hope that you find the information contained in this report helpful, thoughtful and clear. I welcome any feedback from shareholders and look forward to answering any questions at the AGM when we will be asking shareholders to approve our new policy and the Annual Report on Remuneration.

Jane Kingston.

Jane Kingston
Remuneration Committee Chair
1 March 2018

Remuneration at a glance

Introduction

In this section, we highlight:

- the linkage between our strategic initiatives and the various elements of remuneration being used to drive and incentivise their achievement; and
- the annual bonus and LTIP targets for performance periods ended 31 December 2017, the Company's performance against each of them, and the resulting bonus payouts and LTIP vesting levels as a proportion of the maximum opportunity for the Executive Directors in 2017.

More details can be found in the Annual Report on Remuneration on pages 85 to 99.

Remuneration link to strategy

Our focus is to deliver long-term success for the business and shareholders and we seek to achieve this through various strategic initiatives. These are set out below together with the corresponding element of remuneration targeted to drive and incentivise their achievement.

Strategic initiatives	Remuneration element
Revenue growth	Normalised profit before tax target in the annual bonus plan EPS target attaching to LTIP awards
Cost efficiency and better margins	ROCE and TSR targets attaching to LTIP awards
Operational excellence – safety, customers, people, community	Non-financial goals in the annual bonus plan
Superior cash and returns	Free cash flow target in the annual bonus plan ROCE and TSR targets attaching to LTIP awards
Creating new business opportunities	Non-financial goals in the annual bonus plan

A minimum shareholding requirement of 200% of salary exists for the Group Chief Executive and 150% of salary for the other Executive Directors. This aligns their interests with those of shareholders by focusing them on the execution of the business strategy and the creation of long-term shareholder value.

Principles of remuneration

Our current Directors' Remuneration Policy is based on the following broad principles set by the Committee:

- provide a competitive remuneration package to attract and retain quality individuals;
- align remuneration to drive the overall objectives of the business;
- align the interests of management with the interests of shareholders; and
- provide the foundation for overall reward and remuneration beyond the specific roles falling within the direct remit of the Committee.

A new Directors' Remuneration Policy is being recommended to shareholders at this year's AGM (see page 74).

Targets, outturns and payouts for 2017

Annual bonus

Measure	Threshold	Target	Maximum	Actual
Normalised PBT[1]	£158.9m	£176.6m[1]	£194.3m	£200.0m
Free cash flow[2]	£103.5m	£115.0m[2]	£126.5m	£146.4m

1 The original normalised PBT Target was set at £180.1m. This was adjusted to £176.6m to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/– 10% linkage to Target.

2 The original free cash flow target was £117.1m. This was adjusted to £115.0m to reflect foreign exchange rate movements and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/– 10% linkage to Target.

Directors' Remuneration Report continued
Remuneration at a glance continued

Annual bonus continued

Executive Directors	Bonus maximum opportunity as % of salary	Bonus earned as % of salary			Total bonus earned as % of salary[1]	Bonus earned as % of maximum opportunity
		Normalised PBT	Free cash flow	Non-financial measures		
Dean Finch Group Chief Executive	200%	100%	50%	40%	190%	95%
Chris Davies Group Finance Director	150%	75%	37.5%	30%	142.5%[2]	95%
Matt Ashley President and CEO, North America	150%	75%	37.5%	30%	142.5%	95%

1 Part of the bonus earned is subject to a one-year deferral in the form of forfeitable shares.
2 Pro-rated to reflect service during the year as an Executive Director from 10 May 2017.

Long-term incentives whose performance period ended on 31 December 2017

2013 5-year LTIP award (Dean Finch only)

Measures	Weighting	Threshold	Target	Maximum	Actual	Vesting as % of maximum
TSR vs. selected Travel & Leisure comparator group	1/2	Median	–	Upper Quintile	Median → Upper Quintile (Rank 7th of 15)	46.7%
EPS	1/2	23.4p	–	28.3p	30.0p[1]	100%
Total vesting						**73.4%**

1 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

2015 3-year LTIP awards (Dean Finch and Matt Ashley)[1]
2017 1-year LTIP Recruitment Incentive Award (Chris Davies only)

Measures	Weighting	Threshold	Target	Maximum	Actual	Vesting as % of maximum
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median → Upper Quintile (Rank 59th of 221)	85.2%
TSR vs. Bespoke Index	1/6	Equal to Index	–	≥ Index + 10% pa	> Index + 10% pa	100%
EPS	1/3	24.8p	26.3p	28.6p	30.0p[2]	100%
ROCE	1/3	9%	10%	12%	11.9%	97.5%
Total vesting						**96.7%**

1 Vested share awards are subject to a two-year holding period.
2 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

Summary of the key changes proposed to the current Directors' Remuneration Policy

A summary of the key changes proposed to the current Directors' Remuneration Policy, approved by shareholders at the 2015 AGM, is set out below and relates only to the operation of the executive remuneration structure. These are the changes on which the Company consulted with its major shareholders.

Further details regarding the operation of the current policy in 2017 can be found in the Annual Report on Remuneration on pages 85 to 99.

Element	Proposed change	Rationale for change
Base salary – clarification	Changes to clarify operation of the circumstances in which above employee salary increases or above market median salary may be necessary.	To provide flexibility in cases of material changes in responsibility or below-market pay, or to reward significant experience and proven performance.
Annual bonus – malus and clawback	Extension of malus and clawback to apply to the whole of the bonus award, not just the deferred share element.	To normalise the application of malus and clawback in line with best practice.
Annual bonus – underpin	Revision of safety underpin wording for 2018 onwards.	To ensure that the Committee has the ability to make appropriate downward adjustments to bonus and LTIP vesting outcomes in specified circumstances.
LTIP – underpin	Introduction of safety underpin to future LTIP awards.	
LTIP – grant size	Introduction of the ability to grant annual LTIP awards to all Executives up to 200% of salary (currently, the maximum is 150% of salary for Executives, other than the Group Chief Executive who is already entitled to a 200% of salary maximum annual award).	To provide for future developments and to address retention, incentive and succession planning matters over the expected three-year term of the policy.
LTIP – threshold vesting level	Reduce the threshold level of LTIP vesting from 30% to 25% of maximum for TSR and EPS elements.	To normalise the threshold level of vesting in line with best practice and to incentivise a focus on outperformance.
LTIP – recruitment/retention awards	Removal of the ability to make use of the Listing Rules provision to make exceptional awards in retention or recruitment scenarios.	To ensure that all future LTIP awards are made under the approved remuneration policy in line with best practice.
Pension – new Executive Directors	Reduction in the maximum annual pension allowance for new Executives to no more than 25% of base salary.	To normalise pension provision for all Executive Directors over time.
Pension – Group Chief Executive	Reduction in the annual pension allowance from 35% to 30% of base salary in three equal tranches commencing from 2019.	To move this specific legacy pension arrangement more into line with current market practice.

Directors' Remuneration Report continued
Directors' Remuneration Policy

1. Introduction to the policy

This new policy will be put to a binding shareholder vote at the AGM on 16 May 2018 and, if approved, will be effective immediately thereafter (in place of the current policy approved at the 2015 AGM which will continue to apply until such time). It is intended that the new policy will remain in force until the Company's AGM in 2021 and there are no planned changes to it over the three-year period to which it applies.

The new policy is very similar to the current one, save for the incremental changes to the way it is operated for Executives as summarised on page 73. The remuneration linkage to strategy, through its structure and individual elements (as described on page 71), remains unchanged.

2. Considerations when setting and determining the policy

The Committee's primary objective when setting the new policy is to align remuneration to the long-term success of the business and shareholders while at the same time enabling the Company to effectively recruit, motivate and retain key individuals. To achieve this, the Committee takes into account the responsibilities, experience, performance and contribution of the individual, as well as levels of remuneration for individuals in comparable roles elsewhere. The Committee also takes into account the views expressed by shareholders and institutional investors' best practice expectations, and monitors developments in remuneration trends. The policy places significant emphasis on the need to achieve stretching and rigorously applied performance targets, with a significant proportion of remuneration weighted towards performance-linked variable pay.

The Company does not formally consult with employees on executive remuneration. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to pay and employment conditions elsewhere in the Group.

3. Consideration of shareholder views

The Committee is committed to maintaining strong relationships and an open dialogue with shareholders and shareholder bodies and to encourage them to share their thoughts with us. The Committee also values investors' views in the process of formulating remuneration policy decisions.

The Committee undertook a comprehensive review of the current remuneration policy during the year to ensure it remains appropriate and fit for purpose in light of both the Company's strategy and developments in corporate governance and best practice expectations of investors. In doing so, it engaged with shareholders holding more than 70% of the Company's shares, as well as the leading shareholder advisory bodies, on the key changes proposed, as set out in the summary table on page 73. This helped the Committee to understand their views and formulate the final policy. The changes were very well received and in response to our engagement with shareholders, the Committee made the following further amendments to those originally proposed:

- reduction in the threshold level of LTIP vesting from 30% to 25% for the TSR and EPS elements;
- extension of the application of malus and clawback to the whole of the annual bonus award, not just the deferred share element; and
- reduction in the Group Chief Executive's current annual pension allowance from 35% to 30% of salary in three equal tranches commencing from 2019.

The Committee will continue to spend time each year considering feedback received at the AGM and throughout the year as part of its ongoing review of policy. We are grateful for the time, assistance and support shareholders give us.

4. Remuneration Policy for Executive Directors

4.1 Summary of the individual elements of the policy for Executive Directors

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary	To provide base salaries which: – reflect the value of the Executive's experience, skills, knowledge and contribution, and importance to the business; and – help attract, retain and motivate high performing Executives of the calibre required to lead the business and successfully implement the strategy, but without paying more than is necessary to do so.	Base salaries are paid monthly in cash and normally reviewed annually with effect from 1 January. Reviews cover individual performance, experience, development in the role and market comparisons. To determine market comparisons the Committee reviews remuneration data on executive positions against comparator groups consisting of transport/leisure and general sector companies of similar size, complexity and international presence. The Committee retains the discretion to amend the comparator groups as necessary to remain relevant.	Whilst there is no prescribed formulaic maximum, base salaries will reflect: – the Executive's role; – the job size and responsibility; and – the performance and effectiveness of the individual. In addition, when reviewing Executive salaries, consideration will always be given to the approach to employee pay across the Group and the general performance of the Company. Therefore, salary increases for Executives will not normally exceed the general employee increase for the country in which the individual is domiciled. However, larger increases or above median salaries may be necessary, for example (but without limitation): – where there has been a material increase in the scope and/or scale of the Executive's responsibility in the role (including internal promotion); – to apply salary progression for a recently appointed Executive who has been appointed on a salary below the market level; and – where an Executive is extremely experienced and has a long track record of proven performance. In such circumstances, salaries may need to be in the upper quartile of comparable companies of similar size and complexity. No increase would exceed 10% above RPI in any one year, except for internal promotion or where the Executive's salary is below the market level. Where such exceptional changes do occur, they will be fully disclosed and explained.	Not applicable.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Pension	To provide a competitive pension and funds that enable Executives to save for retirement. Pension benefits are a fixed element of remuneration.	Executive Directors receive a cash allowance in lieu of a pension provision in line with market practice. The current Group Chief Executive receives a 35% of salary annual cash allowance. The other Executive Directors receive a 25% of salary annual cash allowance. Only base salary counts for the purpose of the allowance.	The Committee's policy is that the maximum annual cash allowance payable in lieu of a pension provision will be 35% of base salary reducing to 30% in three equal tranches commencing from 2019. For new Executive Directors, the annual cash allowance will be no more than 25% of base salary.	Not applicable.
Benefits	To provide competitive benefits as part of fixed remuneration to enable the Group to recruit and retain highly performing Executives.	Executive Directors receive a combination of family private healthcare, death-in-service and life assurance cover (4x salary), long-term sickness and disability insurance, car allowance, free travel on the Company's services and professional membership subscriptions. They are also entitled to travel, subsistence and accommodation for business purposes. The Committee has discretion to provide additional benefits or remove benefits in order to remain competitive or to meet the needs of the business; for example, to provide relocation assistance to an Executive Director (and his/her family), including financial, tax and legal advice if applicable. Any change to benefit provisions will be detailed on an annual basis.	The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions. This will therefore determine the maximum amount that would be paid in the form of benefits to Executives during the policy period.	Not applicable.

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Annual bonus	To incentivise delivery of near-term performance objectives which are directly linked to the financial and strategic priorities of the business. A portion of any bonus paid is deferred into shares, assisting the retention of Executives and further aligning their interests with those of shareholders.	Bonus payments are based on the achievement of pre-specified corporate objectives, both financial and non-financial (including personal) over a one-year performance period. A proportion of the bonus payment is subject to mandatory deferral (gross) into shares for one year from award as follows: – 25% of the bonus earned up to 125% of salary; – 50% of the bonus earned between 125% to 150% of salary; and – 75% of the bonus earned above 150% of salary (applicable to Group Chief Executive only). Dividends or dividend equivalents (which may assume notional re-investment) are paid on the deferred share element. The Remuneration Committee retains the discretion to standardise the percentage of the bonus deferred into shares if this is deemed appropriate in the future. Unless the Committee determines otherwise, the market price per share on the date of the award will be calculated on the basis of the average share price in the five days preceding the date of the grant. From the 2019 bonus year, malus and clawback provisions attach to the whole of the bonus award and apply to the two-year period post award, including following cessation of employment. Only the Executives currently participate in the Company's bonus deferral arrangements. Other senior management members may be invited to participate in future years at the Committee's discretion. Achievement of each element of the bonus is assessed independently. Bonus payments are paid following announcement of the Company's audited year end results and are not pensionable.	Maximum 200% of base salary for the Group Chief Executive and 150% of base salary for other Executive Directors.	The targets for the bonus in respect of 2018 are as follows: – 75% subject to normalised profit and free cash flow targets; and – 25% subject to non-financial targets. The Committee retains discretion in exceptional circumstances to amend the weightings of the financial and non-financial elements of the bonus from year to year and for each Executive as appropriate. The targets attached to the financial condition will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum. The numerical values of the performance targets will not be disclosed in advance (except for safety) as the Committee considers this information commercially sensitive. Actual targets, performance achieved and awards will be published at the end of the performance period in order that shareholders can fully assess the basis for any pay outs under the annual bonus. The non-financial targets will be set annually based on strategic objectives for the year as set out in the Strategic Report. These include safety, operational, business development, customer and talent development/employee related metrics and will be determined by the Committee on an annual basis. The proportion of the bonus determined by performance against non-financial targets will only become payable when the Company achieves a threshold level of normalised profit. The annual bonus includes an underpin that enables the Remuneration Committee to use its discretion, acting reasonably and proportionately, to scale back the annual bonus outcome, including to nil. This underpin applies if, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs that has a material adverse impact on both the reputation of the Company and its share price. Additionally, to the extent that legal, regulatory or other investigations are ongoing in relation to such an event, the Committee has the discretion to delay the payment of a bonus (in whole or in part) until those investigations are completed.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Long-Term Incentive Plan ('LTIP')	To incentivise performance, reward the execution of strategy, aid retention and align the long-term interests of the Executives with those of shareholders. The performance conditions are aligned with the business strategy, thereby driving participants to achieve outcomes that create shareholder value over the long term.	LTIP awards (in the form of conditional shares, nil cost options or forfeitable shares) are granted annually with vesting subject to the achievement of performance conditions measured over a three-year consecutive financial period commencing with the year of award. An additional two-year holding period exists on vested LTIP awards of the Executive Directors in order to increase the alignment of their interests with those of shareholders. Dividend equivalents can be paid (gross) on vested shares during both the vesting and holding periods. Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company's current circumstances. Pursuant to Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003, and while providing no additional remuneration (only tax efficiency in delivery of the vested LTIP awards), the Company may also grant to the Executives a market value approved Company Share Option Plan ('CSOP') option (with a maximum face value of £30,000) when such opportunity is available to them individually. Malus and clawback provisions attach to all vested LTIP awards and apply to the two-year period post vesting, including following cessation of employment.	The Group Chief Executive is eligible to receive a conditional LTIP award of up to 200% of salary per annum. The normal maximum LTIP award for other Executives is 150% of salary per annum. However, in special circumstances, and to address retention, incentive and succession planning matters, an LTIP award of up to 200% of salary may also be granted to other Executives in any one year.	Awards will be subject to stretching performance targets over a period of three consecutive financial years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation. For 2018, the performance measures for LTIP awards will be based equally as follows: – 1/3 earnings per share ('EPS'); – 1/3 return on capital employed ('ROCE'); and – 1/3 total shareholder return, split 50/50 between the constituents of the FTSE 250 Index and a bespoke index comprising a small group of competitor companies ('TSR'). Achievement of threshold performance in respect of the EPS and TSR targets results in a 25% vesting for each part of the award. Achievement of threshold performance in respect of the ROCE target results in 0% vesting. There is no ability to retest any of the performance conditions. The LTIP includes an underpin that enables the Remuneration Committee to use its discretion, acting reasonably and proportionately, to scale back the level of vesting, including to nil, in any financial year. The underpin applies if, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs during the vesting period, that has a material adverse impact on both the reputation of the Company and its share price. Additionally, to the extent that legal, regulatory or other investigations are ongoing in relation to such an event, the Committee has the discretion to delay the LTIP vesting (in whole or in part) until those investigations are completed. The Committee also retains discretion under the LTIP rules to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company's performance over the measurement period.

Shareholding requirement

This policy element ensures that the interests of the Executive Directors are closely aligned with those of shareholders.

Executive Directors are encouraged to build up a shareholding over a five-year period commencing from the later of 2015 (when the provision was first introduced) and their date of appointment. The required holding value for the Group Chief Executive is equivalent to 200% of base salary and for the other Executives is 150% of base salary. Adherence to these guidelines is a condition of continued participation in the Company's LTIP and other equity incentive arrangements. The Committee retains discretion to increase the shareholding requirement over the life of the policy and will have regard to LTIP award levels when using this discretion.

4.2 Previous arrangements

For the avoidance of doubt, in approving this policy, authority is sought by the Company to honour any outstanding commitments (subject to existing terms, conditions and plan rules, as applicable) entered into with current or former Directors (as previously disclosed to shareholders) before this policy took effect or before they became a Director.

4.3 Performance conditions under the Annual Bonus Plan

Normalised PBT, free cash flow and non-financial measures were chosen for the annual bonus plan as appropriate measures of the Group's short-term performance. The table below summarises the rationale for the selection of each element.

Measure	Rationale for performance measure
Normalised PBT	– A primary measure of the success of the Group in growing the business – The profit definition for the annual bonus is pre tax and excludes other items over which management have limited control, such as exchange rate charges, to ensure that the target represents a fair measure of management performance
Free cash flow	– Determines how efficiently the Group generates cash to fund its outgoings and to finance investment – Free cash flow is a key driver for generating shareholder value
Non-financial measures	– Non-financial metrics ensure that management are measured on a broader range of safety, strategic, people and operational targets – Safety is of paramount importance to our business and therefore appropriate that management are incentivised to maintain and improve safety processes – Strategic measures include business development and customer targets which ensure that management take the right actions now to grow the business in future and to maintain high levels of customer service – People are the Group's primary asset. Developing them, including today's talent and tomorrow's leaders, is of paramount importance to the business – Other metrics will be used to support business initiatives and these may change through the life of the policy

4.4 Performance conditions under the 2015 Long-Term Incentive Plan

EPS, TSR and ROCE were chosen for the 2015 LTIP as appropriate measures of the Group's long-term performance. The table below summarises the rationale for the selection of each element.

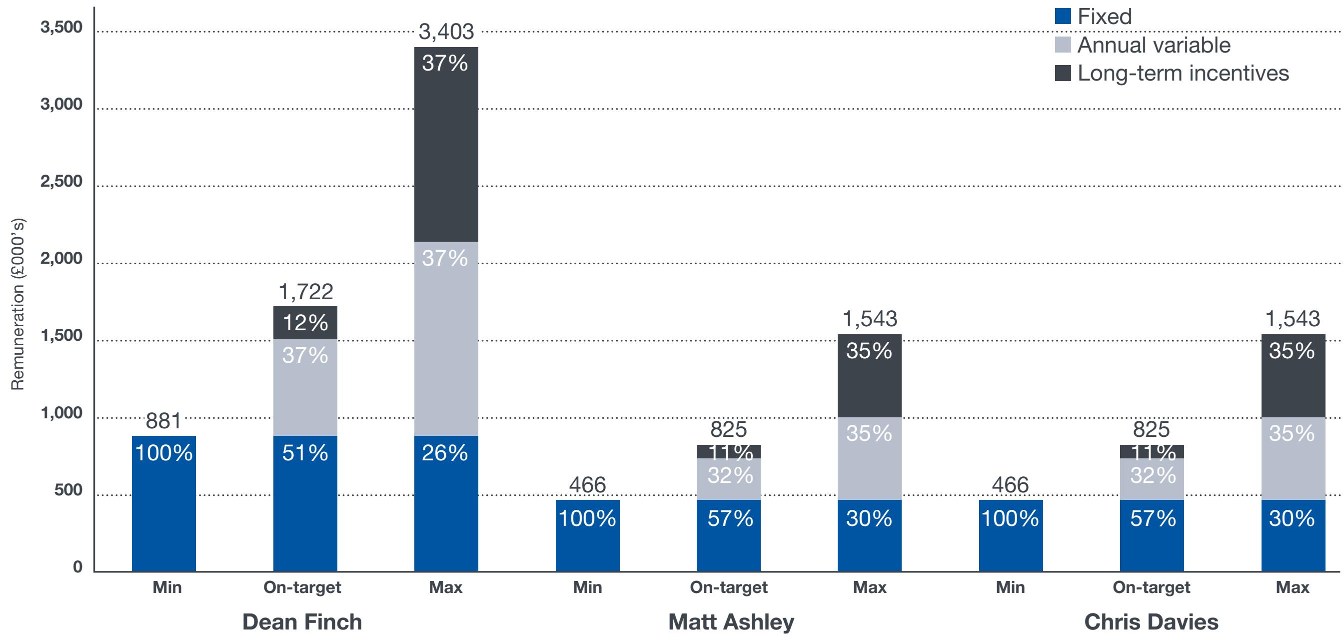
Measure	Rationale for performance measure
EPS	– Important growth measure considered within the Company and a driver of shareholder value – Provides a transparent and accessible method of gauging the financial performance of the Company – Ensures the annual profit performance targeted by the annual bonus plan flows through to long-term sustainable growth – The Company calculates performance against this measure by reference to the earnings per share figures reported in the Company's audited accounts
TSR	– Improves shareholder alignment – Consistent with the Company's objective of providing superior long-term returns to shareholders
ROCE	– Demonstrates how efficiently the Company is operating with the resources available

If the Committee changes the performance conditions within the life of the policy, it will consult with shareholders in advance on the changes to be made and the reason for doing so.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

4.5 Total remuneration opportunity at various levels of performance

Our aim is to ensure that superior awards are only paid for exceptional performance, with a substantial proportion of Executive Directors' remuneration payable in the form of variable pay. The charts below illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for the coming year.



The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Long-term incentives, which are set out in the future policy table below.

Element	Descriptions
Fixed	– Latest base salary, pension allowance and benefits
Annual variable	– Performance-related annual bonus (including deferred element)
Long-term incentives	– Long-Term Incentive Plan award

Assumptions used in determining the level of pay out under the given scenarios are as follows:

- Salaries are those set as at 1 January 2018
- Benefits are those paid in 2017 (but excludes the relocation costs for Matt Ashley)
- LTIP awards are granted at the normal annual level under the policy
- The Minimum performance level assumes fixed pay only and no variable payments
- The On-target performance level assumes performance in line with the Company's expectations, resulting in threshold LTIP vesting and 50% of maximum annual bonus payout. (While the bonus plan has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above for the On-target level includes the values for on-target bonus and threshold LTIP performance.)
- The Maximum performance level assumes an outstanding level of performance (ie maximum annual bonus and full LTIP vesting)
- Share price appreciation is ignored.

4.6 Comparison with approach to remuneration across the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative requirements and labour market conditions that exist in each country. We set Global People Standards to provide a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards of employment in all of our business areas offering pay, terms and conditions that are appropriate to each labour market in which we operate. Base pay is set at a level that allows us to recruit and retain staff in each relevant labour market and performance-related pay arrangements are based on the achievement of business unit and individual goals, objectively assessed. National Express believes in the value of continuous improvement, both for the individual and for the Company.

The Group offers pension and pension savings arrangements to its employees appropriate for the labour markets in which it operates. In the UK, in line with market practice, new employees are offered membership of a Defined Contribution ('DC') plan with employer contributions up to 15% of salary. The Group also has Defined Benefit ('DB') schemes in its UK Bus division with employer contributions ranging between 25% and 40% of salary. Historically, a majority of the Group's UK employees would have been in DB schemes when the Group operated rail franchises. With the Group having exited UK rail in 2017, the majority of UK employees are now in the DC plan.

LTIP awards are also provided to selected members of the Senior Management Group to incentivise and reward them for delivering long-term value to the Group and shareholders.

The Company did not consult with employees in drawing up the Directors' Remuneration Policy.

4.7 Executive Directors' Service Agreements

The Executive Directors each have a Service Agreement with the Company and the table below shows the date of those agreements and the relevant notice period to be provided by either party in normal circumstances.

Executive Directors	Date of Service Agreement	Date of appointment	Notice period from Company	Notice period from Director
Dean Finch	16.12.09	15.02.10	12 months	6 months
Matthew Ashley	16.07.15	28.01.15	12 months	6 months
Chris Davies	17.01.17	10.05.17	12 months	6 months

The Service Agreement for Dean Finch, which is a rolling contract, contains a provision, exercisable at the option of the Company, to pay an amount on termination of employment equal to one year's salary, salary supplement in lieu of pension and car allowance. The Director will not be obliged to mitigate his loss in relation to any payment in lieu of notice. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding his departure justify their use.

The Committee continuously reviews its policies on executive remuneration and severance in the best interests of shareholders. Guidance on best practice expectations is taken into account prior to agreeing Directors' contractual provisions.

The Group Chief Executive is entitled, under an unfunded pension arrangement, to a pension based on the value of notional contributions made of 25% of his salary, plus a 5% per annum notional return. The benefits under this arrangement ceased to accrue from 5 June 2016. In normal circumstances, the pension is payable, at the earliest, from 1 April 2022, with all or part of it capable of being paid as a lump sum at the Company's discretion.

On a change of control of the Company, outstanding LTIP awards will vest, except to the extent they are exchanged for awards over shares in the acquiring company. Vesting will be subject to any performance conditions and will normally be reduced to reflect early vesting, unless the Remuneration Committee determines that a reduction in the number of vested shares is considered inappropriate. The number or class of shares under award may be adjusted on a rights issue, variation of capital, demerger or similar transaction. Vested LTIP shares subject to a holding period (and any outstanding deferred bonus shares) will vest automatically to participants on a change of control.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

4.8 Executive Directors' employment termination arrangements

Same as referred to in 4.7 above, the Company may at its discretion make payment in lieu of notice, which could potentially include up to 12 months' base salary, benefits and pension, and which may be subject to payment by instalments and/or mitigation.

The table below sets out the treatment of the elements of remuneration that would normally apply where an Executive Director's service with the Company is terminated:

Reason for termination	Salary, pension and contractual benefits	Annual bonus	Unvested deferred share bonus awards	Unvested LTIP awards	Other
Good leaver: retirement, disability, redundancy, death, sale of part of Company that employs participant or any other reason that the Remuneration Committee determines.	Payment equal to the aggregate of the base salary and pension allowance and the value of any contractual benefits during the notice period, including any accrued but untaken holiday.	Bonus awarded (subject to the satisfaction of performance targets for the relevant financial year).	Awards vest on date of termination.	Unvested LTIP awards will vest on the date of termination or on the normal vesting date as determined by the Remuneration Committee. The amount of an award vesting will be subject to satisfaction of the relevant performance conditions measured as at the date the award is deemed to vest. Awards will normally be reduced pro rata to reflect the time elapsed between the date of grant and the date of termination.	Fees for outplacement and legal advice may be paid.
Other reasons	Paid to date of termination, including any accrued but untaken holiday.	No awards made for the year of termination[1].	Awards lapse in full on termination.	Awards lapse in full on termination.	

1 Pursuant to Dean Finch's Service Agreement dated 16 December 2009, if his contract is terminated for reasons other than for an event of default by the Executive (such as gross misconduct), he is entitled, subject to the applicable performance conditions, to a pro rata bonus calculated from the commencement of the relevant bonus year in which termination takes place up to the date of termination.

Subject to the circumstances surrounding the termination, the Committee may, in its discretion, treat the Executive as a 'good leaver' (in relation to their reason for leaving under the first section of the above table). The Committee will consider factors such as personal performance and conduct, overall Company performance and the specific circumstances of the Executive's departure, including, but not limited to, whether the Executive is leaving by mutual agreement with the Company. In addition, the Committee will consider the above circumstances in considering whether unvested LTIP awards should be pro-rated for a good leaver to reflect their completed period of service since the date of grant.

The Committee reserves the right to make additional exit payments to an Executive Director where such payments are made in good faith:

- to discharge an existing legal obligation (or by way of damages for breach of such an obligation); or
- by way of settlement or compromise of any claim arising in connection with the termination of office or employment.

4.9 Approach to the remuneration of newly appointed Executive Directors

In the event that the Company recruits a new Executive Director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors including, but not limited to, quantum, the type of remuneration being offered and the jurisdiction from which the candidate is being recruited. This is to ensure that the arrangements made are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre.

The Committee's policy is for all Executive Directors to have rolling service contracts with a notice period of 12 months. The only exception to this is where, in exceptional circumstances, it is deemed necessary to offer a longer notice period initially, reducing down to 12 months, in order to secure the appointment of an external recruit.

The Committee would generally seek to align the remuneration of any new Executive Director with the same principles as apply for the current Executive Directors.

In line with the above policy, the elements that would be considered by the Company for inclusion in the remuneration package of a new Executive Director are:

- salary and benefits, including a cash allowance in lieu of a pension provision;
- participation in the performance-related annual bonus of up to 200% of salary (depending on role), pro-rated for the period of service in the year of recruitment. If the commencement date is after 1 September, no award would normally be made for that year;
- participation in the LTIP with award levels applicable for that grade. On appointment, that would be a maximum value of 200% of salary, although this may be pro-rated depending on the time of appointment through the year; and
- costs and outgoings relating to, but not limited to, relocation assistance; legal, financial, tax and visa advice; and pre-employment medical checks.

Other elements may be included where an interim appointment is being made to fill an Executive Director role on a short-term basis or similarly if the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

The Committee may also make awards on the appointment of an Executive Director to 'buy out' remuneration arrangements being forfeited by the individual on leaving a previous employer. The Committee would take into account both market practice and any relevant commercial factors in considering whether any enhanced and/or one-off annual incentive or long-term incentive award was appropriate. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance conditions and achievements (or likely achievements), the proportion of the performance period remaining and the form of the award. Compensation could be in the form of cash and/or shares. The Committee will not offer any non-performance related incentives payments (for example, a 'guaranteed signing-on bonus' or 'golden hello'). Leaver provisions will be determined in line with this policy when 'buy-out' awards are made.

4.10 Executive Directors' external appointments

Board approval is required before any external appointment may be accepted by an Executive Director. If approved, the individual is permitted to retain any fees paid in respect of such office or services. At present, none of the Executive Directors hold an external appointment.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

5. Remuneration Policy for Non-Executive Directors

5.1. Summary of the individual elements of the policy for Non-Executive Directors

Element	Purpose	Operation	Maximum potential value
Fees	To attract, retain and motivate high performing persons of a suitable calibre for a business of this size and complexity. To pay fees which are reflective of responsibilities and time commitments, competitive with peer companies, without paying more than is necessary.	The single fee paid to the Chairman for all Board duties is set by the Remuneration Committee and the basic and additional fees paid to the other Non-Executive Directors are set by the Board. The fees are reviewed (though not necessarily changed) annually having regard to independent advice and published surveys. The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 60 days per year for the Chairman and 20 days per year as a basic requirement for other Non-Executive Directors) and any additional responsibilities and time commitments required in chairing various Board Committees or acting as the Senior Independent Director. A travel allowance is also paid to Non-Executive Directors for attendance at Board meetings or other Board related matters held outside their continent of residence. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in long-term incentive arrangements.	The Committee's policy is to set fees at an appropriate level taking into account the factors outlined in this table.

5.2. Appointments

The Chairman and the other Non-Executive Directors are not employed and do not have service agreements with the Company; they are also not entitled to participate in the Group's pension, annual bonus or long-term incentive arrangements. Instead, they are appointed under individual Letters of Appointment and only receive a fee for their services. On appointment, the fee arrangements for a new Non-Executive Director will be determined in accordance with the policy in force at that time.

The Non-Executive Directors are normally appointed for an initial three-year term but with an expectancy that they will serve for at least two three-year terms. That said, in accordance with the requirements of the Code, they (and the Executive Directors) are required to stand for election or re-election by shareholders at each AGM and their appointment can be terminated at any time without compensation by either party usually by either party serving not less than one month's prior written notice.

The Letters of Appointment for the Chairman and the Non-Executive Directors, together with the Service Agreements for the Executive Directors, are available for inspection at the Company's registered office. Their dates of appointment and current notice periods are shown in the table below.

5.3. Non-Executive Directors' dates of appointment and notice periods

Non-Executive Director	Date of appointment	Notice period from either party (months)
Sir John Armitt CBE	01.01.13	3
Joaquín Ayuso	01.06.11	1
Jorge Cosmen	01.12.05	0
Chris Muntwyler	11.05.11	1
Lee Sander	01.06.11	1
Jane Kingston	26.02.14	1
Matthew Crummack	06.05.15	1
Mike McKeon	03.07.15	1
Dr Ashley Steel	01.01.16	1

Annual Report on Remuneration

This Annual Report on Remuneration describes how the current Directors' Remuneration Policy, approved by shareholders at the 2015 AGM, was applied in the financial year to 31 December 2017, and how it will be applied in the financial year commenced 1 January 2018. The relevant sections of this report have been audited, as required by the Regulations.

1. Remuneration background relating to Executive Director changes during the year

(a) Chris Davies: appointment as Group Finance Director

Chris Davies joined the Company on 2 May, was appointed an Executive Director on 10 May and became Group Finance Director in succession to Matt Ashley (see below) on 1 June 2017. His remuneration package on appointment was the same as his predecessor and his Service Agreement is in line with the Company's standard form at this level, including a 12-month notice period from the Company.

Mr Davies received his first full annual LTIP award on appointment with the same three-year performance conditions and scheduled vesting date of 2020 as applied to the annual LTIP awards made to the other Executive Directors on 18 April 2017. At the same time, he also received two Recruitment Incentive Awards ('RIAs') under the LTIP in recognition of certain incentives he forfeited on leaving his previous employer to join the Company. The RIAs are scheduled to vest on the first and second anniversary of grant subject to the same performance conditions as apply to the LTIP awards granted to the Executives in 2015 and 2016 (which are also scheduled to vest in 2018 and 2019) respectively.

(b) Matt Ashley: appointment as President and CEO, North America

As part of a career development opportunity for him and a strengthening of the executive team for the Company, Matt Ashley relinquished his role as Group Finance Director (but retained his executive directorship) on 31 May. This was to take up a two-year (minimum) assignment as President and CEO, North America, based in Chicago, commencing 1 September 2017.

In order for Mr Ashley to commence his new role (the transition for which started on 1 June), and for his family to join him in Chicago, the Company provided him with a relocation assistance package in line with normal practice for an international relocation at executive level. The package, which includes tax equalisation and exchange rate protection, falls into the following four main categories:

- pre-visit costs for school and accommodation search purposes;
- relocation costs related to storage, shipping, incidental expenditure and legal, professional and visa processing fees;
- ongoing costs, including a 10% of salary disturbance allowance (to reflect the economic cost to his family of the relocation), occasional return flights to the UK, school fees, rented unfurnished accommodation, company car, medical and travel insurance, and tax return preparation assistance; and
- return costs associated with shipping and return flights to the UK.

As Mr Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year (substantially in the US), as set out in this report under 'Relocation benefits', is the total grossed-up cost of tax amount estimated to paid by the Company (except in relation to the disturbance allowance) on his behalf. In 2017, this amounted to £295,854.

Specific details confirming the above elements of remuneration are provided in this report. Further ongoing relocation cost details for Mr Ashley will be disclosed in next year's report.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

2. Single total figure of remuneration for Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in relation to the financial year ended 31 December 2017 (with comparative figures provided for 2016).

The subsequent tables and information give more detail on how we have measured the performance outcomes with respect to the annual bonus and LTIPs in the context of value created for shareholders.

	2017							
£'000	Base salary	Taxable benefits[3]	Pension allowance	Annual bonus[4]	LTIPs vested[5]	Sub-total	Relocation benefits	Total
Dean Finch	615	30	215	1,169	2,038	4,067	–	4,067
Chris Davies[1]	233	12	59	333	112	749	–	749
Matt Ashley[2]	350	18	88	499	541	1,496	296[6]	1,792

	2016					
£'000	Base salary	Taxable benefits	Pension allowance	Annual bonus	LTIPs vested[7]	Total[7]
Dean Finch	589	29	206	984	2,079	3,887
Chris Davies	–	–	–	–	–	–
Matt Ashley	325	17	81	431	538	1,392

1 As explained in 1(a) above, Chris Davies joined the Company on 2 May and was appointed a Director on 10 May 2017. His remuneration is shown pro rata to his period of service during the year.
2 Matt Ashley relinquished his position as Group Finance Director (but not his executive directorship) on 1 June to take up his new role as President and CEO, North America, based in Chicago, effective from 1 September 2017.
3 Taxable benefits comprise a car allowance, private medical insurance and death in service and life assurance cover.
4 The annual bonus represents the gross bonus declared and to be paid in March 2018 in connection with performance achieved in the year. As explained on page 88, part of this bonus will be paid in cash and part will be deferred for one year in the form of forfeitable shares in the Company.
5 The LTIP represents the estimated value of shares that are scheduled to vest in March and/or May 2018 arising from a five-year legacy award made to Dean Finch in 2013, a three-year award made to Messrs. Finch and Ashley in 2015 and a one-year Recruitment Incentive Award made to Chris Davies in 2017. All such awards were based on a 31 December 2017 performance period end and their values have been calculated using a share price of 363.9p (being the three-month average to 31 December 2017). For Messrs. Finch and Ashley, the value also includes, in relation to their 2015 awards only, the dividend equivalent of 27.87p per share earned on the vested shares during the vesting period to be paid to them in cash on vesting. The actual values of vested shares (including the cash equivalent dividends received) will be confirmed in next year's report.
6 As explained in section 1(b) above, Matt Ashley was given an international relocation package to assist him and his family with their move to Chicago. As Mr Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year is the total grossed-up cost of tax amount estimated to paid by the Company (except in relation to the disturbance allowance) on his behalf. Additionally, in respect of the relocation benefits paid to him in the US during the year, the total amount shown includes the converted value of such benefits based on an exchange rate of $1.2888:£1, being the average rate for 2017.
7 Since last year's LTIP values of vested shares were estimated the 2016 LTIPs vested and total comparative figures for each of Messrs. Finch and Ashley have been adjusted to reflect actual values on vesting. For Dean Finch, 440,095 shares vested on 9 April 2017 when the closing share price was 360.3p and 130,703 shares vested on 3 August 2017 when the closing share price was 366.7p. For Matt Ashley, 149,372 shares vested on 9 April 2017 when the closing share price was 360.3p.

(a) Base salary

As explained in the 2016 Annual Report on Remuneration, the base salaries set by the Committee for 2017 were £615,000 for Dean Finch and £350,000 for Matt Ashley. There was no change to Mr Ashley's base salary (or any other parts of his remuneration or Service Agreement with the Company) when he relinquished his role (but not his executive directorship) on 31 May to take up the position as President and CEO, North America, based in Chicago, on 1 September 2017 (see 1.(b) above).

Chris Davies joined the Company on 2 May and was appointed to the Board on 10 May. He took up the role of Group Finance Director, in succession to Mr Ashley, on 1 June 2017. His base salary (and other elements of remuneration) for 2017 was set at the same level as his predecessor, ie £350,000 pa (see 1.(a) above).

(b) Pensions

The Executive Directors are not entitled to participate in the Group's pension schemes. Instead, they receive a pension allowance (gross) which does not qualify as salary or for any other benefit or entitlement. The Group Chief Executive currently receives an allowance of 35% of salary and each of the other Executive Directors receives an allowance of 25% of salary. Under the proposed the new policy, the Group Chief Executive's pension allowance will be reduced from 35% to 30% of salary in three equal tranches commencing in 2019 (see page 76). Benefits under the Group Chief Executive's previous unfunded pension arrangement ceased to accrue with effect from 5 June 2016 (see note 9 on page 96]).

(c) Annual bonus

A summary of the 2017 performance-related bonus plan for the Executive Directors is set out below.

- Group Chief Executive:
  - Maximum opportunity – 200% of salary
  - Target weighting – 75% financial
    – 25% non-financial (including 18% safety related)
  - Deferred element – 25% of bonus earned up to 125% of salary
    – 50% of bonus earned between 125% – 150% of salary
    – 75% of bonus earned between 150% – 200% of salary

- Other Executive Directors:
  - Maximum opportunity – 150% of salary
  - Target weighting – 75% financial
    – 25% non-financial (including 18% safety related)
  - Deferred element – 25% of bonus earned up to 125% of salary
    – 50% of bonus earned between 125% – 150% of salary

The Committee has full discretion in the payment of annual bonuses. It is a pre-condition to the award of any bonus that the Committee has determined that there has been an improvement in the Group's safety processes, procedures and outcomes during the year. In respect of the latter, the Committee consulted with the Chair of the Safety & Environment Committee, and satisfied itself that based on: (i) the level of due diligence undertaken by that Committee, and (ii) the evidence made available in support of the Group's safety performance against the basket of measures we consistently compare ourselves against, 2017 had been another year in which the Group's performance had shown year-on-year improvement in its safety processes, procedures and outcomes. For any financial element of the bonus to be payable, the Group must have achieved at least the threshold level of normalised profit target for the year.

The Committee has reviewed performance against the financial and non-financial targets attached to the 2017 bonus plan and, in addition, made an assessment of the Group's overall performance in 2017.

2017 bonus structure and performance conditions

The following table sets out the structure and performance conditions which attached to the 2017 bonus plan.

Structure	Group Chief Executive (% of base salary)	Other Executive Directors (% of base salary)	Performance conditions
Maximum bonus opportunity	**200%**	**150%**	Proportion of bonus subject to compulsory deferral into Company shares for one year from award
Bonus potential at 90% of budgeted normalised PBT	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted normalised PBT	50%	37.5%	Awarded on achieving budget
Stretch bonus for 110% of budgeted normalised PBT	**100%**	**75%**	Awarded on achieving a stretch target of 110% of normalised PBT
Bonus potential at 90% of budgeted free cash flow	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted free cash flow	25%	18.75%	Awarded on achieving budget
Stretch bonus potential at 110% of budgeted free cash flow	**50%**	**37.5%**	Awarded on achieving a stretch target of 110% of budgeted free cash flow
Non-financial targets (underpinned by achievement of 90% of budgeted normalised PBT)	**50%**	**37.5%**	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities

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2017 bonus targets, outturns and awards

The following table sets out the targets, performance outturns and awards in respect of the 2017 bonus plan. No discretion was applied by the Committee in determining the awards.

Measure	Weighting	Threshold	On-target	Maximum	Actual	Bonus value achievable between Threshold and Maximum (% of salary)		Actual bonus value achieved (% of salary and/or £'000)		
Financial targets						Dean Finch	Other Executive Directors	Dean Finch	Matt Ashley	Chris Davies[1]
Normalised PBT[2]	50%	£158.9m	£176.6m	£194.3m	£200.0m	0%-100%	0%-75%	100%	75%	75%
Free cash flow[3]	25%	£103.5m	£115.0m	£126.5m	£146.4m	0%-50%	0%-37.5%	50%	37.5%	37.5%
Non-financial targets[4]	25%					0%-50%	0%-37.5%	40%	30%	30%
Total bonus awarded								190% £1,169	142.5% £499	142.5% £333
To be paid in cash								116.3% £715	102.3% £358	102.3% £239
To be deferred in shares								73.8% £454	40.3% £141	40.3% £94

1 Pro-rated to reflect service during the year as an Executive Director from 10 May 2017.
2 The original normalised PBT Target was set at £180.1m. This was adjusted to £176.6m to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/– 10% linkage to Target.
3 The original free cash flow target was £117.1m. This was adjusted to £115.0m to reflect foreign exchange rate movements and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/– 10% linkage to Target.
4 Details of the non-financial bonus targets, and the corresponding performance outturns for each of the Executive Directors, is set out below.

The cash bonus will be paid, and the deferred bonus award granted (in the form of forfeitable shares in the Company under the rules of the Executive Deferred Bonus Plan ('EDBP')), in March 2018. The forfeitable shares:

- will be calculated based on the Company's average share price for the five business days immediately preceding the date of grant;
- will be held in the Company's Employee Benefit Trust where the beneficial interest is held by, and dividends arising on them are paid to, the Executive Director;
- will vest on the first anniversary of grant, subject to continued service or, in the absence of the same, good leaver status being confirmed under the EDBP; and
- are subject to malus and clawback for a two-year period from the date of grant.

Summary of non-financial bonus targets and corresponding performance outturns for 2017

As Matt Ashley and Chris Davies were new to their roles in 2017, all three Executive Directors (Dean Finch, Matt Ashley and Chris Davies) have been judged against the below common set of objectives which in total represented a 25% target weighting of the annual bonus opportunity for each person.

Objective	Performance
Safety (10% of 25%)	
Deliver a year-on-year improvement in the Fatalities and Weighted Injuries Index ('FWI').	Safety, as measured by the FWI, improved materially from 17.085 in 2016 (or 10.585 excluding Chattanooga) to a record low of 8.574. Both UK bus and UK coach have again been awarded the BSC Safety Sword of Honour and each retained 5-star British Safety Council ratings – UK bus with a score of 97.4, the highest in the industry for the year. North America regained its 'satisfactory' Department of Transportation ('DOT') safety rating – the highest rating awarded by the DOT.
Safety systems and processes (8% of 25%)	
– Progress with the implementation of a single system in each business to capture all complaints and comments relating to drivers – Continue the roll-out of DriveCam CCTV and Master Driver – Improve Driver Performance management systems, including the competence of driver managers – Improve the assessment, monitoring and coaching of drivers – Improve the management of speeding – Progress the implementation of world class maintenance.	The Group-wide Customer Feedback Management System is being supplied by iCaseworks. The target completion date for full Group implementation is June 2018. In North America, the system is now live and available to all student transportation CSCs. ALSA is also well progressed and German Rail implementation is planned for April 2018. The UK will be completed in June 2018. In all Divisions, work has been done to enable the system to be implemented on schedule. DriveCam is on target. 6,351 units have been installed in North America, and the full fleet is fitted in the UK. In Spain, data protection issues required our supplier to set up a centre in Europe which was done in November - 152 units are now fitted and working. Bahrain and Morocco are fully fitted with CCTV. All progress is consistent with the 2020 plan. Master Driver - we now have 698 Master Drivers of which UK bus has 338, UK coach 73 (partner operators start in 2018) and ALSA 287. North America has commenced a pilot of the programme. Bahrain is finalising the external verifier in Q1 2018 now that the drivers have the required length of service to qualify for the programme. Competency of Driver Managers - on target for the 2020 plan. The North America pilot starts in January 2018; UK pilots took place in Autumn 2017 and training for all trainers started in January 2018; Spain and Morocco training started in Autumn 2017 and continues into Q1 2018; Bahrain training commences in Q1 2018. Driver Performance Management - largely on target and at the early stage of implementation. Each of the Divisions is implementing this policy at a different pace as it is dependent on the electronic collation of data on the drivers. Electronic database of drivers has been put in place in ALSA, Bahrain and North America; risk profiling has been developed and is being trialled in the UK, ALSA and Bahrain. Our proposed driver evaluation system was checked by the University of Oviedo in Spain which, at the end of June 2017, said 'the test is excellent with a high reliability coefficient'. It was only with this test validation that roll-out could start. This initiative is currently on target: North America will be piloted in Q1 2018; UK started in January 2018 and Spain and Morocco in October and November 2017 respectively; Bahrain trialled in December 2017. All Divisions have implemented monitoring of speed. There have been challenges with the technology which have had to be worked through. Significant progress has been made in all Divisions in reducing incidents of speeding. With the appointment of Miguel Alonso as Group Engineering Director, progress has been made on all seven elements that make up World Class Maintenance (ie Vehicle Maintenance, Specifications, Process, Supplier Relationships, People, Facilities and Equipment and Assurance). Of the 10 Global Maintenance Standards identified, seven have been issued and three are in draft.
Business development (7% of 25%)	
– Sell c2c, the UK rail franchise – Continue to develop the M&A strategy – Continue to develop the international diversification strategy, including building the talents of the team – Continue to develop the digital strategy – Promote the development of the Operational Excellence initiative.	The c2c UK rail franchise was successfully sold in February 2017 – delivering a significant cash benefit to the Group and removing a future risk. Subsequent developments in the UK rail industry have supported the long-term strategic value of this divestment. We conducted a comprehensive and objective review of the potential returns in both existing and new markets in order to balance risk and reward when investing Group capital. Market entry strategies outside of core markets were also analysed. We continued our successful bolt-on M&A activity in North America and ALSA again this year with nine deals completed. During 2017, we made two senior hires to lead the international team. The team performed a review of global market attractiveness with deep dives into potential markets, and worked in tandem with ALSA on two significant bids. A comprehensive pipeline of opportunities is being developed. After an extensive search, the Group has hired a new Chief Digital Officer ('CDO') to develop and lead our digital strategy. Working with the Group Commercial Director, the CDO is focusing on areas where digital can drive revenues or reduce costs. The team continues to evaluate and respond to threats created by digital disruptors, and is also looking at opportunities to use digital to build on our core strengths. During 2017, two international Operational Excellence project teams were formed and they conducted studies into driver recruiting, training, and manpower utilisation. The 11 participants on the programme were drawn from our graduate programme and other high potentials. Two project teams will again be run in 2018 and the first project commenced in January.

Based on the above assessment against the objectives set, the Committee determined that for the non-financial elements of their respective bonuses, the performance of Dean Finch warranted a 40% pay out of a 50% of salary maximum opportunity, and each of Matt Ashley and Chris Davies warranted a 30% pay out of a 37.5% of salary maximum opportunity.

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(d) Long-Term Incentive Plan ('LTIP') vesting and awards

LTIP vesting in 2018

LTIP awards granted in 2013, 2015 and 2017 to the Executive Directors are scheduled to vest in March and/or May 2018 as the performance measurement periods relating to them ended on 31 December 2017. Details of the performance conditions attaching to the awards, and the extent to which they have been met, are set out below. No discretion was applied by the Committee in determining the awards.

2013 5-year LTIP award (Dean Finch only)[1]

Performance condition	Weighting	Threshold (30% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. selected Travel & Leisure comparator group	1/2	Median	Upper Quintile	Median → Upper Quintile (Rank 7th of 15)	23.4%
EPS	1/2	23.4p	28.3p	30.0p[2]	50.0%
Total vesting					**73.4%**

1 As previously reported, there is only one more 5-year LTIP award outstanding to the Group Chief Executive. This was granted in 2014 and will vest on 9 April 2019 subject to performance conditions achieved for the 5-year financial period ending 31 December 2018.
2 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

2015 3-year LTIP awards (Dean Finch and Matt Ashley)
2017 1-year LTIP Recruitment Incentive Award (Chris Davies only)

Performance condition	Weighting	Threshold (30% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median → Upper Quintile (Rank 59th of 221)	14.2%
TSR vs. Bespoke Index[1]	1/6	Equal to Index	–	≥ Index + 10% pa	> Index + 10% pa	16.7%
EPS	1/3	24.8p	26.3p	28.6p	30.0p[2]	33.3%
ROCE	1/3	9%	10%	12%	11.9%	32.5%
Total vesting						**96.7%**

1 Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.
2 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and target and maximum levels of performance.

Vesting details

- In relation to Dean Finch, he was granted:
  - in 2013 a 5-year LTIP award in the form of a nil cost option over 257,953 shares. As 73.4% of the performance conditions have been met, 189,337 of these shares are scheduled to vest on 23 May 2018; and
  - in 2015 a 3-year LTIP award in the form of a nil cost option over 356,303 shares. As 96.7% of the performance conditions have been met, 344,545 of these shares are scheduled to vest on 5 March 2018. A portion of the vested award will be delivered in the form of an approved Company Share Option Plan ('CSOP') option exercise over 9,526 shares at an option price of 314.9p per share.
- In relation to Matt Ashley, he was granted in 2015, a 3-year LTIP award in the form of a nil cost option over 142,902 shares. As 96.7% of the performance conditions have been met, 138,186 of these shares are scheduled to vest on 5 March 2018.
- In relation to Messrs. Finch and Ashley and their respective 2015 3-year LTIP share vesting:
  - they will each receive a cash dividend equivalent payment (gross) of the total dividend paid by the Company on the number of vested shares during the vesting period, amounting to £96,024 and £38,512 respectively; and
  - the vested shares are subject to a two-year holding period and malus and clawback, including post cessation of employment, for two years from the date of vesting. The Executives are also entitled to receive cash dividend equivalent payments on the vested shares during the holding period while the options remain unexercised.
- In relation to Chris Davies, he was granted in 2017 a 1-year LTIP Recruitment Incentive Award in the form of a nil cost option over 31,867 shares. These were granted with the same performance conditions as attached to the 2015 3-year LTIP awards (as above). As 96.7% of the performance conditions have been met, 30,815 of these shares are scheduled to vest on 10 May 2018. He is not entitled to any cash dividend equivalent payment on these vested shares and they are not subject to a holding period. Malus and clawback do apply.

LTIP awards made in 2017

The tables below set out details of the LTIP awards granted to the Executive Directors in 2017 where vesting will be determined according to the achievement of performance conditions that will be measured over future financial periods.

3-year LTIP awards

Dean Finch

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
18.04.17	341,476	Nil cost option	200% of salary	1,230	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

Matt Ashley

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
18.04.17	145,752	Nil cost option[2]	150% of salary	525	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

Chris Davies

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
10.05.17	143,403	Nil cost option[2]	150% of salary	525	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

1 The face value has been calculated by multiplying the number of shares awarded by the share price at the time grant. The relevant share prices were 360.2p on 17 April and 366.1p on 9 May 2017, each being the closing share price on the day preceding the date of grant.
2 A portion of the award has been granted in the form of approved CSOP options (over shares with a face value of £30,000) aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 with an exercise price of 360.2p for awards granted on 18 April 2017 and 366.1p for awards granted on 10 May 2017.

1-year and 2-year LTIP Recruitment Incentive Awards

Chris Davies

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[3] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
10.05.17 (1-year)	31,867	Nil cost option	34% of salary	117	TSR and EPS: 30% ROCE: 0%	01.01.15 – 31.12.17	TSR, EPS and ROCE – see[4]
10.05.17 (2-year)	63,735	Nil cost option	66% of salary	233	TSR and EPS: 30% ROCE: 0%	01.01.16 – 31.12.18	TSR, EPS and ROCE – see[5]

3 The face value has been calculated by multiplying the number of shares awarded by the share price at the time grant. The relevant share price was 366.1p on 9 May 2017, being the closing share price on the day preceding the date of grant.
4 These awards were granted with the same performance conditions as attached to the 2015 3-year LTIP awards scheduled to vest in 2018. Details of the performance period conditions, outturns and scheduled vesting can be found on page 90.
5 These awards were granted with the same performance conditions as attached to the 2016 3-year LTIP awards (as previously reported) scheduled to vest in 2019.

Performance conditions for 3-year LTIP awards

The following table sets out the performance conditions attaching to the 3-year LTIP awards granted in the form of nil cost options to the Executive Directors in 2017 which will be measured over the three-year financial period ending 31 December 2019.

Performance level	EPS (1/3 of award)	ROCE (1/3 of award)	TSR vs. FTSE 250 Index (1/6 of award)	TSR vs. Bespoke Index[1] (1/6 of award)	Percentage vesting of award
Below Threshold	Less than 29.8p	Below 9%	Below Median	Below Index	0%
Threshold	29.8p	9%	Median	Equal to Index	EPS and TSR: 30% ROCE: 0%
Target	31.6p	10%	–	–	EPS and ROCE (only): 50%
Maximum	34.4p or above	12% or above	Upper Quintile	≥ Index + 10% pa	100%

1 Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.

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For TSR measures, straight-line vesting will occur between Threshold and Maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between Threshold and Target, and Target and Maximum levels of performance.

Vested shares will be subject to a two-year holding period and malus and clawback for two years, including post cessation of employment, from the date of vesting. Dividend equivalents are payable on vested shares over the vesting period and during the holding period while the option remains unexercised.

Indicative vesting levels for other outstanding LTIP awards

The table below sets out the indicative vesting levels for other outstanding LTIP awards assuming their respective performance conditions had been tested through to 31 December 2017 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period).

LTIP award year/type	EPS		ROCE		TSR vs. FTSE 250 Index		TSR vs Bespoke Index[1]		
Performance condition	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Total (max 100%)
2014 5-year LTIP (Dean Finch only)	1/2	100%	–	–	1/4	58.6%	1/4	100%	89.7%
2016 3-year LTIP (including 2-year Recruitment Incentive Award to Chris Davies[2])	1/3	91.7%	1/3	97.5%	1/6	38.5%	1/6	100%	86.2%
2017 3-year LTIP	1/3	0%	1/3	97.5%	1/6	0%	1/6	100%	49.2%

1 Comprising three comparator companies, namely: First Group plc, Stagecoach plc and Go-Ahead Group plc.
2 Granted under the LTIP with the same performance conditions as apply to the 2016 3-year LTIP awards which are also scheduled to vest in 2019.

Executive Deferred Bonus Plan ('EDBP')

The table below sets out the awards, in the form of forfeitable shares in the Company:

- which were granted to the Executive Directors on 8 March 2017 under the EDBP and which related to the deferred element of the bonus for the financial year ended 31 December 2016. These shares, with a one-year deferred period, are scheduled to vest on 8 March 2018. Dividends paid by the Company on these shares during the deferred period have been passed to the Executives as per their entitlement under the rules of the EDBP; and
- which vested on 15 March 2017 and related to the one-year deferred element of the bonus for the financial year ended 31 December 2015.

Executive Director		As at 1 January 2017	Granted	Vested	Lapsed	As at 31 December 2017	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2016	129,550	–	129,550	–	0	359p	15.03.16	15.03.17
	2017	–	91,838	–	–	91,838		08.03.17	08.03.18
Matt Ashley	2016	40,278	–	40,278	–	0	359p	15.03.16	15.03.17
	2017	–	31,503	–	–	31,503		08.03.17	08.03.18

Forfeitable share awards in the Company relating to the one-year deferred element of the bonus declared for the financial year ended 31 December 2017 (see page 88) will be granted to the Executive Directors in March 2018, subject to the rules of the EDBP, and will ordinarily vest on the first anniversary of grant. Dividends paid on these shares during the deferred period will be passed on to the Executives. These awards are subject to malus and clawback for a two-year period from the date of grant, including post cessation of employment.

3. Single total figure of remuneration for Non-Executive Directors

The table below sets out the single total figure of remuneration (fees) for the Non-Executive Directors who served during the year.

Non-Executive Director	**2017 £'000**	2016 £'000
Sir John Armitt CBE (Chairman and Nominations Committee Chair)	**240**	230
Jorge Cosmen (Deputy Chairman)	**52**	49
Joaquín Ayuso[1]	**52**	49
Matthew Crummack	**52**	49
Jane Kingston (Remuneration Committee Chair)	**62**	59
Mike McKeon (Audit Committee Chair)	**62**	59
Chris Muntwyler (Safety & Environment Committee Chair)[1]	**62**	59
Lee Sander (Senior Independent Director)[1]	**59**	54
Dr Ashley Steel	**52**	49

1 A travel allowance of £4,000 is payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander as overseas based Directors for attendance at each Board meeting or other Board related matter held outside their continent of residence. For 2017, the allowances paid were as follows: Joaquín Ayuso £4,000, Chris Muntwyler £4,000 and Lee Sander £24,000.

With effect from 1 January 2017:

- the Committee determined that the Chairman's fee would increase by 4.3% to £240,000 pa in recognition of the significant contribution and unique attributes Sir John Armitt brings to the Board and to bring his fee to a more competitive level
- the Board determined that the Non-Executive Directors' base fee would increase by 5% to £51,500 pa and the fee for the Senior Independent Director would increase by 5% to £7,500 pa in order to ensure they reflect the role, responsibilities and market rate for these positions
- there would be no change in the Committee Chair fee which remained at £10,000 pa.

Payments to past Directors

There were no payments made to past Directors during the year.

Payments for loss of office

There were no payments made for loss of office to any former Director during the year.

4. Statement of Directors' shareholdings

Executive Directors' interests and share ownership guidelines

In order to align the interests of the Executive Directors more closely with those of shareholders, the Executive Directors are encouraged to build up a shareholding in the Company over a five-year period from 2015, or their respective date of appointment if later, as set out in the Directors' Remuneration Policy on page 79. The shareholding target for the Group Chief Executive is shares to the value of 200% of salary and for the other Executive Directors is 150% of salary.

The beneficial and non-beneficial interests of the Executive Directors and their connected persons, and details of their outstanding LTIP interests, as at 31 December 2017 are shown below.

	Shares held directly			Other share interests	
Executive Director	Shareholding target (% salary)	Shareholding value at 31 December 2017 (% salary)[1]	Beneficially owned	Forfeitable shares held under the EDBP	Outstanding LTIP awards subject to performance conditions
Dean Finch	200%	151%	151,798	91,838	512,439
Matthew Ashley	150%	156%	111,785	31,503	438,779
Chris Davies[2]	150%	3%	3,000	–	247,199

1 The 31 December 2017 share price of 380.9p per share has been used for the purposes of this calculation and has been applied to the beneficially owned and the forfeitable shares held under the EDBP in arriving at the shareholding value as at 31 December 2017.
2 Chris Davies' required shareholding level applies to the five-year period commencing from his date of appointment on 10 May 2017.

The Appendix on page 99 provides more information on all outstanding LTIP awards held by the Executive Directors.

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Non-Executive Directors' interests
Non-Executive Directors are not subject to the share ownership guidelines or a specific shareholding requirement. Details of their interests in shares and those of their connected persons as at 31 December 2017, all of which are held beneficially, are shown below:

Non-Executive Director	As at 31 December 2017
Sir John Armitt CBE	6,000
Joaquín Ayuso	–
Jorge Cosmen[1]	69,237,515
Matthew Crummack	2,696
Jane Kingston	2,100
Mike McKeon	5,000
Chris Muntwyler	–
Lee Sander	1,000
Dr Ashley Steel	15,416

1 Jorge Cosmen's holding includes shares held by European Express Enterprises Ltd which are shown on page 103 in the list of substantial shareholders in the Company.

The Register of Directors' interests maintained by the Company contains full details of the Directors' holdings in shares and options over shares in the Company.

The closing price of a Company's ordinary share at 31 December 2017 was 380.9 pence (2016: 353.7 pence) and the range during the year ended 31 December 2017 was 334.7 pence to 381.1 pence per share.

Changes since year end
There have been no changes in Directors' shareholdings between 31 December 2017 and the date of this report.

5. History of CEO's pay
The table below sets out the total remuneration delivered to the Group Chief Executive over the last nine years, valued using the methodology applied to the single total figure of remuneration.

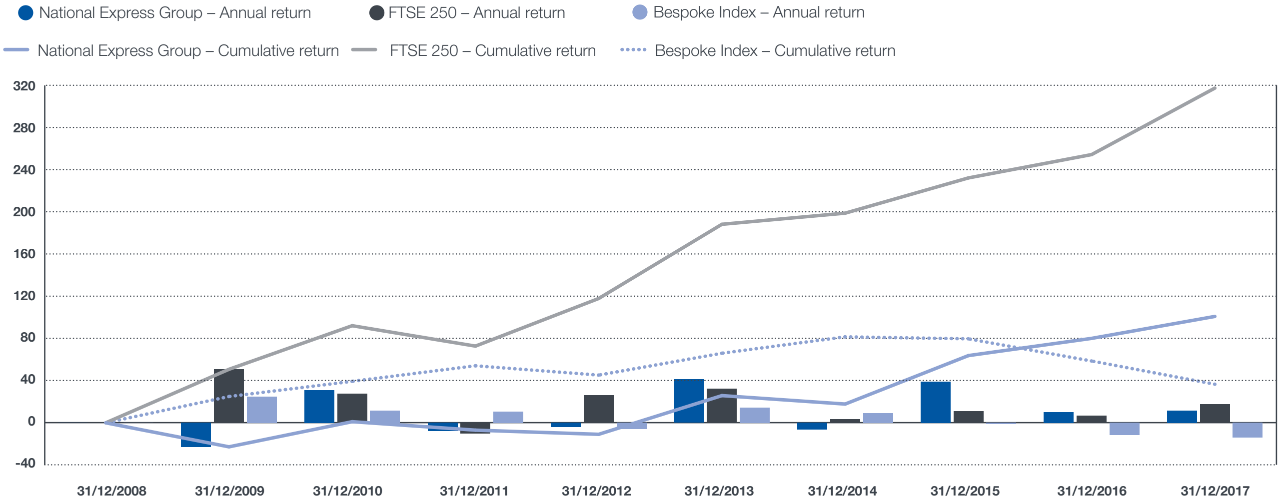
Year	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Group Chief Executive	R Bowker[1]	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	**D Finch**
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562	3,661	3,887	**4,067**
Annual bonus payment (as % of maximum opportunity)	0%	100%	100%	100%	95%	93%	96%	83.5%	**95%**
LTIP vesting level achieved[2] (as % of maximum opportunity)	n/a	n/a	n/a	32.5%	0%	0%	73.4%	80.8%	**86.9%**

1 R Bowker resigned on 10 July 2009.
2 During each of 2010 and 2011, the current Group Chief Executive did not have entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year.

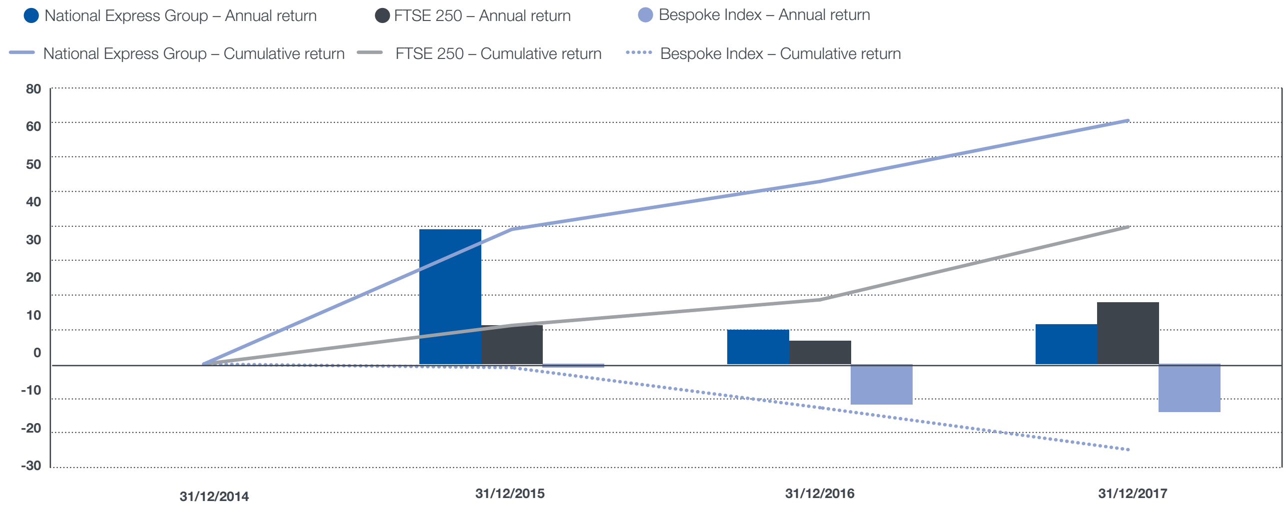
6. Comparison of overall performance

The two graphs below show a comparison of the Company's cumulative total shareholder return (ie share price growth plus dividends paid) and annual return against the FTSE 250 Index and a Bespoke Index (comprising peer group companies) over a 9-year and a 3-year period. The FTSE 250 Index has been selected as the Company is a constituent of that Index and it is therefore considered to be the most appropriate benchmark for comparative purposes.

Shareholder returns: 9-year history



Shareholder returns: 3-year history



The Group achieved a very strong performance in 2017 with revenue, profits and free cash flow up significantly on 2016, beating the budgeted profit before tax (as adjusted) by 13.3%. This excellent result, underpinned by a strong and sustainable free cash flow, has merited the 10% increase in the full year dividend for the second year in a row.

In 2017, our vehicles travelled 1.1 billion kilometres. We also carried a record 882 million passengers (on a continuing operations basis), up 1.2% in the year, reflecting the strong focus in all our businesses on good service and value for money. There was strong growth in both of our international divisions, with North America revenue and operating profit up 10.1% and 6.8% respectively on a constant currency basis. ALSA delivered revenue growth of 3.6% and a profit increase of 4.4%, again on a constant currency basis. The newly combined UK Division, comprising bus and coach, delivered a very impressive second half performance (reversing a first half decline) resulting in revenue growth of 0.6% and profit growth of 5.3%. German Rail delivered big increases in constant currency revenue (20.4%) and profit. The Group completed nine acquisitions in the year: three in North America, including Cook DuPage Transportation which provided us with entry into the US's largest para-transit market (Chicago), and six in ALSA, including three that build on our successful Swiss ski market entry and strengthen our presence in Geneva.

Altogether, 2017 was another sector leading financial performance.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

7. The context of pay in the National Express Group

The following table sets out the change in certain elements of the remuneration paid to the Group Chief Executive from 2016 to 2017 compared with the average percentage change for the UK employee population.

The Group Chief Executive's remuneration, disclosed in the table below, has been calculated to take into account base salary, taxable benefits and annual bonus (including any amount deferred) on the basis used for determining the single figure. The UK employee remuneration is based on the base salary, taxable benefits and annual bonus of those UK employees who received taxable benefits and bonuses. The Group uses the UK workforce as an appropriate comparator group for the average employee as this avoids complicated exchange rate adjustments that would have to be used if we included employees in the Group's overseas operations in the calculation.

Comparator persons or group	Average percentage increase/decrease from 2016 to 2017		
	Base salary	Taxable benefits	Performance-related bonus
Group Chief Executive	4.4%	3.4%	18.8%
UK employee remuneration	1.7%	14.8%	6.6%

8. Relative importance of the spend on pay

The table below sets out the total spend on pay in 2017 and 2016 compared with distributions made to shareholders:

Measure	**2017 (£m)**	2016 (£m)	Increase from 2016 to 2017 (%)
Overall Group spend on pay including Directors	**1,161.6**	1,020.7	13.8%
Profit distributed by way of dividend	**64.7**	58.8	10%

9. Statement of implementation of current Directors' Remuneration Policy in 2018

(a) Executive Directors' base salaries

The Committee determined that the base salary for the Group Chief Executive and each of the Executive Directors would be increased by 2.5% with effect from 1 January 2018, broadly in line with the UK general workforce increase. In doing so, the Committee recognised the excellent financial and operating performance delivered by Dean Finch, supported by his executive team, in 2017. This has resulted in significant shareholder value and a strong platform from which to build further growth in line with the Board's challenging strategy.

Accordingly, the annual base salaries of the Executive Directors in 2018 are:

Executive Director	Base salary (gross)
Dean Finch, Group Chief Executive	£630,375
Chris Davies, Group Finance Director	£358,750
Matt Ashley, President and CEO, North America	£358,750

(b) Pensions

The Group Chief Executive will continue to receive a 35% of salary pension allowance and each of the other Executive Directors a 25% of salary pension allowance.

(c) Annual bonus

The annual bonus for the 2018 financial year will be structured and operate for Dean Finch and Chris Davies on the same basis as the arrangements in place during 2017 (as set out on page 87). However, for Matt Ashley, his financial bonus targets will be weighted as to 75% North America EBIT and 25% Group PBT and his non-financial bonus targets, including safety, will be wholly North American focused.

When setting the bonus targets for 2018, the Committee has taken into account:

- the Board's challenging three-year strategy to 2020 and the first-year expectations within that
- the Group's approved budget and operating plan for 2018
- stock market consensus for 2018
- the non-recurring items included in the 2017 results which will need replacing in 2018
- increased pricing pressures and competition in the UK and North America generally.

Targets will be set on a basis consistent with accounting measures (ie without reference to exceptional items).

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these in next year's Directors' Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose bonus performance targets in advance although 18% (2017: 18%) of the 25% non-financial bonus element will be based on safety objectives.

In anticipation of and subject to the approval of the new Directors' Remuneration Policy to be put before shareholders at the AGM in May, it is proposed that the revised safety underpin to the annual bonus plan for the Executive Directors (as set out on page 77) will apply for 2018.

(d) Long-Term Incentive Plan ('LTIP') awards

LTIP awards in 2018 are proposed to be granted in line with the normal annual award levels contained in the current Directors' Remuneration Policy. Accordingly, awards with attaching performance conditions will be made to the value of 200% of salary to the Group Chief Executive and 150% of salary to the other Executive Directors.

The performance condition metrics, weightings and vesting levels for the 2018 awards will be as follows:

Performance condition	Weighting	Threshold (25% vesting EPS and TSR, 0% vesting ROCE)	Target (50% vesting)	Maximum (100% vesting)
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile
TSR vs. Bespoke Index[1]	1/6	Equal to Index	–	≥ Index + 10% pa
EPS	1/3	31.5p	33.3p	36.3
ROCE	1/3	9%	10%	12%

1 Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.

Performance for each element will be measured over the three-year financial period ending 31 December 2020 and awards will be subject to a two-year holding period post vesting and malus and clawback for two years from the date of vesting, including post cessation of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while the option remains unexercised.

For TSR measures, straight-line vesting will occur between Threshold and Maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between Threshold and Target, and Target and Maximum levels of performance.

10. Non-Executive Directors' fees

With effect from 1 January 2018, and to ensure that the annual fees paid to the Non-Executive Directors reflect the current roles, responsibilities and market rates for the positions held, the Committee and, in the case of other Non-Executive Directors, the Board has determined that:

- the Chairman's fee (including as Chair of the Nominations Committee) would be increased by £6,000 pa
- the Non-Executive Directors' base fee would be increased by £1,300 pa
- the Board Committee Chair fees would be increased by £1,000 pa
- the Senior Independent Director's fee would be increased by £1,000 pa.

Accordingly, the annual fees of the Chairman and Non-Executive Directors in 2018 are:

Role	Fees (gross)
Chairman	£246,000
Non-Executive Director (base fee)	£52,800
Chair of Board Committee (excluding Nominations)	£11,000
Senior Independent Director	£8,500

In addition, a travel allowance of £4,000 will continue to be payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander as overseas based Directors in respect of each Board meeting or other Board related matters they attend outside their continent of residence.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

11. Historical results of voting on the Annual Report on Remuneration and the Directors' Remuneration Policy

The votes cast on the resolutions seeking approval in respect of the Annual Report on Remuneration at the 2017 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld[1]
To approve the Annual Report on Remuneration for the year ended 31 December 2016 (advisory vote only)	85.07	14.2	87,867

The votes cast on the resolutions seeking approval in respect of the current Directors' Remuneration Policy at the 2015 AGM were as follows:

Resolution	% of votes For	% of votes Against	Number of votes withheld[1]
To approve the Directors' Remuneration Policy (binding vote)	98.91	1.09	16,293,308

1 A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against.

12. Retained advisers to the Committee

During the year, the Committee received remuneration and ancillary legal and governance advice from PwC, its external remuneration consultants. Apart from some input received on benchmarking roles below Board level for pay review purposes, and advice received in relation to tax, internal audit support and deal delivery, PwC has no other connection with the Group. PwC has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. The Committee is satisfied that the advice it receives from PwC is objective and independent. For the financial year under review, PwC received fees of £139,250 in connection with its work for the Committee.

13. Dilution

The Company has permitted new share dilution authorities reserved to it under the rules of its 2015 LTIP as previously approved by shareholders, which are in line with the Investment Association's guidelines. However, given that the Company's funding strategy has been and continues to be to satisfy all outstanding share awards granted under that plan (and its other incentive plans) through the delivery of market purchased shares held in the Company's Employee Benefit Trust, as opposed to the issue and allotment of new shares, the Company has not to date used up any of its dilution authority under the 2015 LTIP.

Appendix

The table below sets out the share awards granted to Executive Directors under the rules of the Company's 2005 LTIP, as amended (through to 2014) and the 2015 LTIP (since 2015) which either vested during 2017 or which remain outstanding as at 31 December 2017.

			During 2017					
LTIP award year/type	Date of grant	Awards held 01.01.17	Granted	Exercised	Lapsed	Awards held 31.12.17	Scheduled vesting/ Exercise date[1]	Lastest exercise date[1]
Dean Finch								
LTIP 3-year	09.04.14	204,520	–	201,862[2]	2,658	–	13.04.17	09.10.17
LTIP 3-year (Matching Shares)	09.04.14	245,424	–	242,233[2]	3,191	–	13.04.17	09.10.17
LTIP 3-year	11.06.15	356,303	–	–	–	356,303	05.03.18	05.03.20
LTIP 3-year (Approved CSOP)[4, 8]	11.06.15	9,526	–	–	–	9,526	05.03.18	05.03.20
LTIP 3-year	06.04.16	342,641	–	–	–	342,641	06.04.19	06.04.21
LTIP 3-year	18.04.17	–	341,476	–	–	341,476	18.04.20	18.04.22
LTIP 5-year	03.08.12	261,407	–	130,703[3]	130,704	–	03.08.17	03.08.18
LTIP 5-year	23.05.13	257,973	–	–	–	257,973	23.05.18	23.05.19
LTIP 5-year	09.04.14	204,520	–	–	–	204,520	09.04.19	09.04.20
		1,882,314	**–**	**574,798**	**136,553**	**1,512,439**		
Matt Ashley								
LTIP 3-year	09.04.14	68,793	–	66,629[2]	2,164		13.04.17	09.10.17
LTIP 3-year (Matching Shares)	09.04.14	82,548	–	80,205[2]	2,343		13.04.17	09.10.17
LTIP 3-year (Approved CSOP)[5, 8]	09.04.14	10,936	–	10,793[2]	143		13.04.17	09.10.17
LTIP 3-year	11.06.15	142,902	–	–	–	142,902	05.03.18	05.03.20
LTIP 3-year	06.04.16	141,797	–	–	–	141,797	06.04.19	06.04.21
LTIP 3-year	18.04.17	–	145,752	–	–	145,752	18.04.20	18.04.22
LTIP 3-year (Approved CSOP)[6, 8]	18.04.17	–	8,328	–	–	8,328	18.04.20	17.04.22
		446,976	**154,080**	**157,627**	**4,650**	**438,779**		
Chris Davies								
LTIP 1-year (Recruitment Incentive)	10.05.17	–	31,867	–	–	31,867	10.05.18	10.05.20
LTIP 2-year (Recruitment Incentive)	10.05.17	–	63,735	–	–	63,735	10.05.19	10.05.21
LTIP 3-year	10.05.17	–	143,403	–	–	143,403	10.05.20	10.05.22
LTIP 3-year (Approved CSOP)[7, 8]	10.05.17	–	8,194	–	–	8,194	18.04.20	18.04.22
			247,199	**–**	**–**	**247,199**		

1 Awards vesting under the 2015 LTIP are subject to a two-year holding and exercise period which run concurrently.
2 Share price on exercise was 356.2357p.
3 Share price on exercise was 367.3368p.
4 Exercise price is 314.9p per share.
5 Exercise price is 274.3p per share.
6 Exercise price is 360.2p per share.
7 Exercise price is 366.1p per share.
8 All LTIP awards are granted in the form of nil-cost options save for LTIP approved CSOP awards which are granted as a market value share option with an exercise price per share as set out in the notes above. LTIP approved CSOP awards are aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of set-off against any shares vesting under the corresponding LTIP award.

By order of the Board

Jane Kingston

Jane Kingston
Remuneration Committee Chair
1 March 2018

Relations with Shareholders

Investor Relations programme 2017

Jan	Shareholder meetings re corporate governance and AGM Chairman meeting with Cosmen family (largest shareholder)
Feb	Shareholder meetings re corporate governance and AGM 2016 full year results announcement and presentation to analysts and investors (London) Investor roadshow in respect of full year results (London and Edinburgh)
Mar	Investor meetings post full year results Chairman meetings with investors re strategy, corporate governance and AGM
Apr	Shareholder meetings re corporate governance and AGM
May	Q1 Trading Update and conference call with analysts and investors Annual General Meeting (Birmingham) Non-deal specific investor roadshows (London and Frankfurt)
Jun	Investor meetings at investor conference (London) Investor meetings
Jul	2017 half year results announcement and presentation to analysts and investors (London)
Aug	Investor meetings
Sep	Investor meetings at investor conferences (London)
Oct	Investor meetings at investor conference (London) Investor meetings Q3 Trading Update and conference call with analysts and investors
Nov	Non-deal specific investor roadshows (London and Madrid) €250 million 30-month Floating Rate Note placing with roadshow for bondholders
Dec	Investor meetings Consultation with major shareholders on proposed changes to the Company's Directors' Remuneration Policy

Investor engagement

The Board is committed to maintaining an open dialogue with the Company's equity institutional and debt investors and individual shareholders, and recognises the importance of those relationships in the governance process. This engagement allows the Board to better understand their views and ensure they are provided with timely and appropriate information on the Group's strategy, performance, objectives, financing and other key developments.

The Chairman, supported by the Executive Directors and the investor relations team, has overall responsibility for ensuring effective communication with shareholders.

The investor relations section of the Company's website, www.nationalexpressgroup.com/investors, includes all RNS announcements, share price information, annual and interim documents, AGM Notice and other similar corporate communication and shareholder materials available for download.

Institutional investors

The Company operates a comprehensive engagement programme, aligned to its financial reporting calendar and other key events, for institutional investors and research analysts, providing the opportunity for current and potential investors to meet with executive and operational management.

The Chairman, Group Chief Executive and Group Finance Director held a number of meetings with existing and prospective institutional shareholders during the year and gave presentations to them following the full year and half year results. These are designed to provide more information on the Group's strategy, financial and operational performance, strengths and capabilities and future plans. They have also met and given presentations to research analysts and investment banks' sales teams.

The Senior Independent Director and other Non-Executive Directors have made themselves available for meetings should that be requested by shareholders.

There were 13 analysts who published equity research notes covering the Company during the year. Details of the firms who currently follow the Company appear on the investor section of our website. It is anticipated that with the introduction of MiFID II, analyst coverage will reduce going forward.

The Company's brokers and investor relations advisers provide regular confidential feedback on investor views, perceptions and opinions and these are shared with the Board. During the year, the Board also received external analysis and positive feedback from advisers on shareholder and market perception of the Group's performance and strategy.

Details of the Company's substantial shareholders are set in the Directors' Report on page 103.

Debt investors

The Group Finance Director and Group Treasurer have met debt investors in the UK during the year to discuss various topics such as the full and half year results, future funding requirements, subsidiary security and guarantees and credit rating movements. They also met with debt investors in the UK and Europe as part of the marketing of the €250m 30-month Floating Rate Note which was successfully issued in November.

The treasury team maintains regular dialogue with the Group's key relationship banks and other potential lenders.

Further information on our debt investors can be found in the investor section of the Company's website.

Individual shareholders

Private shareholders, who represent more than 93% of the total number of shareholders on our register, are encouraged to give feedback to and communicate through the Company Secretary. The Company's website provides a direct link to Shareview (www.shareview.co.uk) which enables shareholders to view and manage their shareholder account online.

Annual General Meeting ('AGM')

The AGM provides all shareholders with an opportunity to meet with and ask questions of Directors regarding the business, the latest Annual Report and the matters before the meeting. Attending shareholders also receive a strategic progress update from the Chairman and a business performance review from the Group Chief Executive. The results of the AGM are published on the Company's website.

Details of the Company's 2018 AGM can be found on page 104.

Other disclosures

Other disclosures required by paragraph 7.2.6 of the Disclosure and Transparency Rules and the Companies Act 2006 are set out in the Directors' Report on pages 102 to 104.

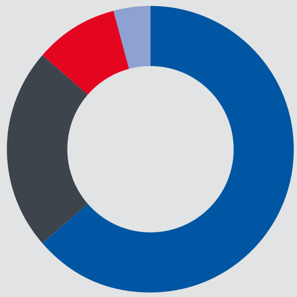
The Corporate Governance Report was approved by the Board on 1 March 2018.

Michael Arnaouti
Group Company Secretary
1 March 2018

Share register analysis – by size of holding

0.14%	1-500
0.20%	501-1,000
1.38%	1,001-5,000
2.97%	5,001-50,000
10.83%	50,001-1,000,000
84.48%	Over 1,000,000
100%	Total

Share register analysis – by geography



63.7%	UK
22.8%	Europe
9.5%	North America
4.0%	Rest of World

Share register analysis – by shareholder type

4.07%	Private shareholders
95.93%	Nominee and institutional investors
100%	Total

Directors' Report

The Directors present their report and audited accounts for the year ended 31 December 2017. This Directors' Report and the Strategic Report, which includes the trends and factors likely to affect the future development, performance and position of the business and a description of the principal risks and uncertainties of the Group (which can be found on page 38 and is incorporated by reference), collectively comprise the management report as required under the Disclosure and Transparency Rules ('DTR').

Additional disclosures

Other information that is relevant to this report, and which is incorporated by reference, including information required in accordance with the UK Companies Act 2006 ('Act') and Listing Rule 9.8.4R, can be located as follows:

Information	Page No
Business model and likely future developments	6
Viability Statement and going concern	41
Governance	42 to 105
Financial instruments	124
Related market transactions	125
Greenhouse gas emissions	35

Company status

National Express Group PLC is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index. The Company has branches in Spain.

Disclaimer

The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. A cautionary statement in respect of forward-looking statements contained in this Annual Report appears on the inside back cover.

Results and dividends

The results for the year are set out in the financial statements on pages 114 to 197.

The Board has recommended a final dividend for the year of 9.25p per ordinary share (2016: 8.41p) which, together with the interim dividend of 4.26p per ordinary share (2016: 3.87p) paid on 22 September 2017, gives a total dividend for the year of 13.51p per share (2016: 12.28p). Subject to shareholder approval, the final dividend will be paid on 21 May 2018 to ordinary shareholders on the register of members at the close of business on 27 April 2018.

Events since the balance sheet date

There have been no material post-balance sheet events since 31 December 2017.

Directors

The names and biographical details of the current Directors (all of whom held office throughout the year except for Chris Davies – see below), and the Board Committees of which they are members, are set out on page 48.

Chris Davies was appointed to the Board as an Executive Director on 10 May and as Group Finance Director on 1 June 2017. He replaced Matt Ashley who relinquished that position (but not his executive directorship) on 30 May to take up a new role as President and CEO, North America, effective from 1 September 2017.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Brief details of these, including inspection rights, are included in the Directors' Remuneration Report on page 68.

Powers of the Directors

The Board manages the business of the Company under the powers set out in the Companies Articles of Association ('Articles'). These powers include the Directors' ability to issue or buy back shares. Shareholders' authority to empower the Directors to make certain market purchases of its own ordinary shares is sought at the AGM each year (see below). The Articles can only be amended, or new Articles adopted, by a resolution passed by shareholders in general meeting by at least three quarters of the votes cast.

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors are set out in the Articles, the UK Corporate Governance Code ('Code'), the Act and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next AGM of the Company. In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act as a Director in their place.

In accordance with the Code and the Board's policy, all the Directors will retire at the forthcoming AGM and have offered themselves for re-election, with the exception of Chris Davies who, having been appointed to office since the last AGM, will stand for election. The Board is satisfied that each of the Directors standing is qualified by virtue of their skills, experience and contribution to the Board.

Directors' conflicts of interest

The Board operates a policy to identify and manage declared actual and potential conflicts of interest which Directors (or their connected persons) may have and are obliged to avoid under their statutory duties and the Company's Articles of Association. The Board considers each Director's situation and decides whether to approve any conflicts based on the overriding principle that a Director must at all times only be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year. Authorisations given by the Board are reviewed on a regular basis.

Directors' indemnities and insurance

The Company has granted indemnities to each Director in respect of any liabilities incurred in relation to acts or omissions arising in the ordinary course of their duties, but only to the extent permitted by law. The Company also maintains appropriate Directors' and Officers' liability insurance in respect of potential legal action instigated against its Directors.

Directors' interests

Save as disclosed:

- in the Directors' Remuneration Report, none of the Directors, nor any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries; and
- in note 36 to the consolidated accounts on page 175, none of the Directors had at any time during the year ended 31 December 2017 a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking (other than the Executive Directors in relation to their Service Agreements).

Equal opportunities

National Express is an equal opportunities employer and has in place an Equal Opportunities Policy. Our range of employment policies and guidelines reflect the legal and employment requirements of the territories in which we operate and safeguard the interests of employees, potential employees and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement (including recruitment, training, career development and promotion) regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religious or political beliefs. The Company recognises it has clear obligations to give fair consideration and selection to disabled applicants and to satisfy their training and development needs during employment. Where an employee becomes disabled, the objective is to retain their services wherever possible.

Employee engagement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. Senior management within the Group meet regularly to review strategic developments and management conferences are held at Group and business levels to bring senior managers together to share ideas and develop policy. Members of the Senior Management Group are also visible within the businesses and undertake a range of visits where they meet face to face with employees to gather feedback on safety and other issues. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues.

Employee views are also sought through regular employee satisfaction surveys, both within business units and across the Group. Following such surveys, results are shared with employees and action plans put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme to encourage and reward suggestions and employees' contributions.

Information regarding the Company's safeguarding of human rights is set out on pages 30 and 32.

Political contributions

It is the Group's policy not to make political donations and none were made in the year (2016: nil). However, the Company did attend party political conferences during the year for which total expenditure was £12,000 (2016: £14,000).

Substantial shareholders

As at 31 December 2017, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

	Number of ordinary shares	Percentage of total voting rights[1]
European Express Enterprises Limited[2]	66,481,891	12.99
Newton Investment Management Limited[3]	51,493,101	10.06
Prudential plc	45,956,649	8.98
Standard Life Aberdeen PLC	26,616,766	7.63
J O Hambro Capital Management Limited	25,617,754	5.01

1 The total number of voting rights attaching to the issued share capital of the Company on 31 December 2017 was 511,738,648.
2 The holding of European Express Enterprises Ltd forms part of the holding of Jorge Cosmen (Deputy Chairman) as shown in the Directors' Remuneration Report on page 94.
3 On 8 February 2018, the Company was notified that the holding of Newton Investment Management Limited was 51,043,618 ordinary shares (9.97% of total voting rights).

Other than as disclosed above, the Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 January to 28 February 2017, being the period from the year end through to the date on which this report has been signed. Information relating to notifications received under the DTR is publicly available to view via the regulatory information service on the Company's website.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of nominal value of 5 pence each all ranking pari passu. At 31 December 2017, there were 511,738,648 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Articles. Further details relating to share capital, including movements during the year, can be found in note 32 to the consolidated accounts on page 165.

The Company was granted authority at the 2017 AGM to make market purchases of its own shares up to 10% of its issued share capital and to allot shares within certain limits approved by shareholders. These authorities have not been used during the year and will expire at the 2018 AGM. Renewal of these authorities will be sought at the 2018 AGM.

First Names (Jersey) Limited is a shareholder who acts as Trustee of the National Express Group Employee Benefit Trust ('EBT'). It is used to purchase and hold Company shares in the market from time to time for the benefit of employees, including for satisfying outstanding awards under various share incentive plans. The EBT purchased a total of 1,700,000 shares in the market during the year for an aggregate consideration of £6.24m (including dealing costs) and released 2,316,546 shares to satisfy vested share plan awards.

Directors' Report continued

As at 31 December 2017, the EBT held 1,643,746 National Express Group PLC shares (0.32% of the issued share capital) in trust. The Trustee may vote the shares it holds at its discretion. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on the majority of the shares held in the EBT.

Further details regarding the EBT, and of shares issued during the year pursuant to the Company's various share incentive plans (whose rules, where relevant, reflect the current Investment Association guidelines for permitted dilution limits), are set out in note 32 to the financial statements on page 165.

Shareholder voting rights and restrictions on transfer of shares

Shareholders are entitled to attend and vote at any general meeting, where every member has one vote on a show of hands and one vote for each share held on a poll.

There are no special control rights attaching to the Company's ordinary shares save that the control rights over ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various share incentive plans.

The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the Articles and in the explanatory notes to the Notice of 2018 AGM which accompanies this document. Resolutions will be proposed at the 2018 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into shares, and approve a limited disapplication of statutory pre-emption rights.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

Under the terms of the Company's revolving credit facilities, upon a change of control, the Company would have five days to enter into negotiations with the lenders to alter the terms. Following ten days of negotiations, if no agreement has been reached, outstanding balances may become repayable.

Under the terms of the £1.5 billion Euro Medium Term Note Programme (as updated on 3 October 2017) under which the Company issued Medium Term Notes ('MTN') to various institutions on 15 June 2010, 11 November 2016 and 13 November 2017, there is a change of control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

The Company entered into a private placement Note Purchase Agreement on 30 July 2012 relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021. Under the terms of the Agreement the Company is required to offer to Note holders to repay to them the entire unpaid principal amount and interest thereon upon a change of control.

The Group's UK Bus business operates the Midland Metro tram service and the UK Bus operating subsidiary is party to a contract with Transport for West Midlands ('TfWM'), formerly known as Centro, governing certain aspects of such operation. The contract with TfWm contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by TfWM.

The Group's UK Coach business operates a number of coach and bus services from or at certain UK airports and the UK Coach operating subsidiary is also contracted to provide passenger transport services for certain other third parties. A number of these contracts contain rights for the counterparties to terminate them on a change of control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company).

The Company's various share incentive plans contain provisions that take effect on a change in control of the Company but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

While no one of these contracts is considered significant in the context of the Group's business as a whole, the impact on the Group if all such contracts were terminated could be significant.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Auditor and disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company's auditor. Each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that such information was provided to the auditor.

As recommended by the Audit Committee and endorsed by the Board, a resolution to reappoint Deloitte LLP as auditor of the Company will be proposed at the 2018 AGM.

2018 Annual General Meeting ('AGM')

This year's AGM will be held at 2.00pm on Wednesday, 16 May 2018 in The Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company's website at www.nationalexpressgroup.com.

The Directors' Report was approved by the Board on 1 March 2018.

By order of the Board

Michael Arnaouti
Group Company Secretary
National Express Group PLC
Company No. 2590560

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union and Article 4 of the IAS Regulation, and have elected to prepare the parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgement and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 1 March 2018 and is signed on its behalf by:

Dean Finch

Dean Finch
Group Chief Executive
1 March 2018

Chris Davies

Chris Davies
Group Finance Director
1 March 2018

Independent auditor's report to the members of National Express Group PLC

Opinion on financial statements of National Express Group PLC

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:
- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Statement of Cash Flows;
- the Group and Parent Company Statements of Changes in Equity;
- the related notes 1 to 39 for the Group financial statements; and
- the related notes 1 to 19 for the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Goodwill and fixed asset impairment; – North American insurance and other claims provisions; In the prior year we identified pensions and fuel hedge accounting as key audit matters. These have not been identified as key audit matters in the current year due to the low history of misstatement and a reduction in the complexity and risk in these balances during the current year.
Materiality	The materiality that we used for the Group financial statements in the current year was £10.0 million which was determined on the basis of normalised profit before tax. Materiality represents 5.0% of this profit metric (2016: 5.1%).
Scoping	– Full scope audit work was completed on a divisional sub-consolidation basis for UK, North America and Spain (including Morocco). – Full scope audit procedures have been performed on the Parent Company financial statements. – All other parts of the Group have been subject to analytical review procedures. The four operating divisions and the Group head office function contributed 100% (2016: 100%) of Group revenue and Group operating profit and 99% (2016: 99%) of Group net assets. The group is organised into four operating divisions, each of which has its own sub-consolidation, plus the head office function. Audit work for these components was completed to levels of materiality between £3.2 million and £7.2 million. The components account for 100% of Group revenue and operating profit and 99% of group assets.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement on page 41 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 38 to 40 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 36 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 41 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of National Express Group PLC continued

Impairment of goodwill and other fixed assets

Key audit matter description	Total goodwill, intangible assets and property, plant and equipment at 31 December 2017 were £2,601.6 million. The most significant balances relate to the Spain and Morocco division (£1,187.4 million) and the North America division (£1,174.4 million). There is a risk surrounding the recoverability of these balances, as assessed annually by management as part of their impairment review, using discounted cash flows on a value in use basis. The key judgements in assessing goodwill and other non-current assets for impairment are the discount rate, the perpetual growth rate used and more specifically ALSA's cash flow impact due to the Spanish concession renewals. The value in use models are sensitive to changes in these rates, both of which must reflect a long-term view of underlying growth in each respective economy. We note that estimating a value in use is inherently judgemental, and a range of assumptions can reasonably be applied in determining an appropriate discount rate and perpetual growth rate to use. In Spain the risk in relation to the Spanish concession renewals arises due to the potential pricing impact after the renewals and the subsequent margin recovery. The key judgements are around whether management will retain the concessions and what the margin will be if it does. *The Audit Committee Report on page 60 refers to goodwill and fixed asset impairment as a key judgement considered by the Audit Committee.* *Note 2 to the financial statements sets out the Group's accounting policy for testing goodwill for impairment. The basis for the impairment reviews is outlined in note 14 to the financial statements, including details of the pre-tax discount rate and terminal growth rate used. Note 14 to the financial statements also includes details of the extent to which the goodwill and fixed asset impairment test is sensitive to changes in the key inputs.*
How the scope of our audit responded to the key audit matter	Our procedures for challenging management's methodology and assumptions focused on the Group's interests in Spain (and Morocco) and North America and included: – validating the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions; – understanding the underlying process used to determine the risk adjusted discount rates; – assessing the appropriateness of any changes to assumptions since the prior period; – challenging the cash flow forecasts with reference to historical forecasts, actual performance and independent evidence to support any significant expected future changes to the business; – understanding and assessing the appropriateness of the key asumptions used in the Spanish concession renewals process and the expected margin impact in the Spanish division; – working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data. This involved consideration of the impact of territory-specific risk adjustments to the discount rate and perpetuity growth rates versus the risk adjustments made to the underlying cash flows; and – assessing the appropriateness of the disclosures included in the financial statements including the sensitivity analysis provided.
Key observations	We determined that there is currently sufficient headroom for both the Spain and Morocco division and the North America division such that we concur with management that no impairment is required. We conclude that the assumptions applied in the impairment models, when taken in aggregate, are within our acceptable range.

North American insurance and other claims

Key audit matter description	The company operates a transportation business and therefore requires third party insurance. The group operates two levels of insurance, a self-covering level and an outsourced level. Of the total Group claims provision of £114.1 million at 31 December 2017, £109.2 million relates to the North American division. This reflects historical claims being managed by the Group, as well as provision for new claims identified in the year, including amounts arising through acquisitions in the year that have required separate fair value consideration. Estimation of insurance and other claims provisions, including those arising on acquisition, is highly judgemental and is based on assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not reported at the balance sheet date. The measurement of the self-insured claims provision in North America uses a combination of actuarial assumptions around loss development and management judgement to ensure that the Group is appropriately provided. Given the level of complexity and judgement involved in making these estimations there is a risk of material misstatement, whether due to error or inappropriate management bias, and therefore the eventual outcome could be materially different from that estimated and provided for. *The Audit Committee Report on page 60 refers to North American insurance and other claims provisions as a key judgement considered by the Audit Committee. This area has also been highlighted as a key accounting estimate and judgement in note 2 to the financial statements.* *Details of the Group claims provision are given in note 26 to the financial statements.*
How the scope of our audit responded to the key audit matter	We used our actuarial specialists to challenge the assumptions inherent in the valuation produced by the Group's actuary in North America for the high-volume lower value claims, such as the loss development factors and ultimate expected losses, and to re-perform the actuarial calculation to develop a valuation range. Additionally we have assessed the expert's competence and considered their independence and objectivity. For the individually large claims not subject to actuarial review, we discussed the nature of each claim with the US general counsel and those responsible for claims handling and tested a sample of items to independent third party reports to assess the expected range of possible outcomes. This included testing the fair value of provisions recognised on acquisitions during the year. We compared the overall level of provision recorded to the range determined by management and the Group's actuary, to conclude whether the level of provision was appropriate. This involved consideration of the audit evidence supporting the range as well as the independent assessment of the range for higher-volume lower value claims produced by our actuarial specialists.
Key observations	As part of our detailed audit work testing the various aspects of the provision, including new amounts recognised at fair value on acquisition and the income statement charge for the year, we did not identify any material exceptions. As a result we believe the balance sheet provision is materially in line with our expectations.

Independent auditor's report to the members of National Express Group PLC continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	Group materiality as £10.0 million (2016: £8.9 million) Parent company materiality as £7.4 million (2016: £6.8 million)
Basis for determining materiality	5.0% (2016: 5.3%) of normalised profit before tax. This materiality level equates to less than 1% of equity. Normalised profit before tax is disclosed on the face of the Group income statement where it is reconciled to statutory profit before tax. Note 11 to the financial statements outlines profit before tax of £4.4 million for discontinued operations. Parent company materiality was set at 74% of Group materiality and equates to 0.8% of the Company's net assets.
Rationale for the benchmark applied	Normalised profit is a key performance measure for management, investors and the analyst community which facilitates the users' understanding of the underlying trading performance. Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses and profit for the year from discontinued operations and consequent UK restructuring. Net assets is considered an appropriate benchmark for the parent Company given that it is mainly a holding Company.

Materiality

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £350,000 (2016: £300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, as in the prior year, we focused our Group audit scope primarily on the audit work at the four operating divisions and the Group head office function. Each operating division produces its own sub-consolidation and was subject to an audit that was scoped relevant to its component materiality level, which was between £3.2 million and £7.2 million for both the current and prior year. This audit work was principally performed by Deloitte Touche Tohmatsu Limited member firms, with a number of non Deloitte component auditors reporting to Deloitte Spain for the Spain and Morocco divisional audit. The Group head office work was performed to a component materiality level of £6.4 million, consistent with the prior year.

The four operating divisions and the Group head office function contributed 100% (2016: 100%) of Group revenue and Group operating profit and 99% (2015: 99%) of Group net assets.

Group-level analytical review procedures were performed over the amounts held in the Bahrain joint venture.

At the Parent entity level we also tested the consolidation process.

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor and/or a senior member of the audit team visits each of the three non-UK divisions where the Group audit scope was focused at least once a year in addition to the work performed at the Group head office. In relation to the current year audit the Senior Statutory Auditor and/or a senior member of the audit team visited Spain, North America and Germany at least once. Likewise the Group audit team has maintained appropriate oversight over both UK divisions for component reporting and reviewing purposes.

Outside of the planned visits regular discussions were held with the component audit teams throughout the year to direct and supervise the planning and execution of their audit work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of National Express Group PLC continued

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and the Company'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 Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 14 June 2011 to audit the financial statements for the year ending 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7, covering the years ending 31 December 2011 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Stephen Griggs (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
1 March 2018

Group Income Statement
For the year ended 31 December 2017

	Note	Normalised result 2017 £m	Separately disclosed items 2017 £m	Total 2017 £m	Normalised result (restated) 2016 £m	Separately disclosed items (restated) 2016 £m	Total (restated) 2016 £m
Continuing operations							
Revenue	3,5	2,321.2	–	2,321.2	2,093.7	–	2,093.7
Operating costs before UK restructuring		(2,079.7)	(38.0)	(2,117.7)	(1,876.2)	(33.8)	(1,910.0)
UK restructuring	5	–	(5.6)	(5.6)	–	–	–
Operating costs	6	(2,079.7)	(43.6)	(2,123.3)	(1,876.2)	(33.8)	(1,910.0)
Group operating profit	5	241.5	(43.6)	197.9	217.5	(33.8)	183.7
Share of results from associates and joint ventures	18	(3.5)	–	(3.5)	1.1	–	1.1
Finance income	3,9	10.0	–	10.0	7.5	–	7.5
Finance costs	9	(48.0)	–	(48.0)	(57.5)	–	(57.5)
Profit before tax		200.0	(43.6)	156.4	168.6	(33.8)	134.8
Tax charge	10	(48.0)	20.0	(28.0)	(31.4)	11.5	(19.9)
Profit after tax for the year from continuing operations		152.0	(23.6)	128.4	137.2	(22.3)	114.9
Profit for the year from discontinued operations	11	–	5.9	5.9	–	5.1	5.1
Profit for the year		152.0	(17.7)	134.3	137.2	(17.2)	120.0
Profit attributable to equity shareholders		148.7	(17.7)	131.0	134.4	(17.2)	117.2
Profit attributable to non-controlling interests		3.3	–	3.3	2.8	–	2.8
		152.0	(17.7)	134.3	137.2	(17.2)	120.0
Earnings per share:	13						
– basic earnings per share				25.7p			23.0p
– diluted earnings per share				25.5p			22.8p
Normalised earnings per share:							
– basic earnings per share		29.1p			26.3p		
– diluted earnings per share		29.0p			26.2p		
Earnings per share from continuing operations:							
– basic earnings per share				24.5p			22.0p
– diluted earnings per share				24.4p			21.8p

Separately disclosed items includes intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 5.

Prior year comparatives have been restated in relation to the exit from UK rail, as described in note 11.

Group Statement of Comprehensive Income For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		**134.3**	120.0
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension plans	34	**(14.0)**	(45.6)
Deferred tax on actuarial losses	10(b)	**2.1**	8.0
		(11.9)	(37.6)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		**(15.2)**	189.6
Exchange differences on retranslation of non-controlling interests		**0.7**	2.5
(Loss)/gain on cash flow hedges		**(18.5)**	38.8
Less: reclassification adjustments for gains or losses included in profit		**23.6**	43.7
Tax on exchange differences	10(b)	**1.0**	14.3
Deferred tax on cash flow hedges	10(b)	**(3.4)**	(12.2)
		(11.8)	276.7
Comprehensive (expenditure)/income for the year		**(23.7)**	239.1
Total comprehensive income for the year		**110.6**	359.1
Total comprehensive income attributable to:			
Equity shareholders		**106.6**	353.8
Non-controlling interests		**4.0**	5.3
		110.6	359.1

Group Balance Sheet
At 31 December 2017

	Note	2017 £m	2016 £m
Non-current assets			
Intangible assets	14	**1,633.4**	1,548.6
Property, plant and equipment	15	**968.2**	983.6
Available-for-sale investments	17	**8.1**	7.8
Derivative financial instruments	17	**13.4**	31.1
Deferred tax assets	27	**41.4**	48.3
Investments accounted for using the equity method	18	**11.3**	13.7
Trade and other receivables	20	**20.1**	18.2
Defined benefit pension assets	34	**43.2**	44.5
		2,739.1	2,695.8
Current assets			
Inventories	21	**24.9**	25.0
Trade and other receivables	22	**356.3**	302.7
Derivative financial instruments	17	**15.4**	13.0
Current tax assets		**1.5**	2.3
Cash and cash equivalents	23	**314.3**	318.1
Assets classified as held for sale	11	**–**	78.0
		712.4	739.1
Total assets		**3,451.5**	3,434.9
Non-current liabilities			
Borrowings	28	**(1,058.0)**	(816.7)
Derivative financial instruments	28	**(1.3)**	(4.2)
Deferred tax liability	27	**(60.0)**	(82.9)
Other non-current liabilities	25	**(36.0)**	(21.2)
Defined benefit pension liabilities	34	**(137.7)**	(132.7)
Provisions	26	**(65.4)**	(57.2)
		(1,358.4)	(1,114.9)
Current liabilities			
Trade and other payables	24	**(672.4)**	(600.7)
Borrowings	28	**(167.4)**	(443.8)
Derivative financial instruments	28	**(9.8)**	(26.0)
Current tax liabilities		**(11.6)**	(6.7)
Provisions	26	**(65.5)**	(57.2)
Liabilities directly associated with assets classified as held for sale	11	**–**	(60.1)
		(926.7)	(1,194.5)
Total liabilities		**(2,285.1)**	(2,309.4)
Net assets		**1,166.4**	1,125.5
Shareholders' equity			
Called-up share capital	32	**25.6**	25.6
Share premium account		**532.7**	532.7
Capital redemption reserve		**0.2**	0.2
Own shares		**(6.0)**	(7.8)
Other reserves	33	**181.6**	194.1
Retained earnings		**410.9**	362.0
Total shareholders' equity		**1,145.0**	1,106.8
Non-controlling interests in equity		**21.4**	18.7
Total equity		**1,166.4**	1,125.5

D Finch
Group Chief Executive

C Davies
Group Finance Director

1 March 2018

Group Statement of Changes in Equity For the year ended 31 December 2017

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	194.1	362.0	1,106.8	18.7	1,125.5
Profit for the year	–	–	–	–	–	131.0	131.0	3.3	134.3
Comprehensive income for the year	–	–	–	–	(12.5)	(11.9)	(24.4)	0.7	(23.7)
Total comprehensive income	–	–	–	–	(12.5)	119.1	106.6	4.0	110.6
Shares purchased	–	–	–	(8.1)	–	–	(8.1)	–	(8.1)
Own shares released to satisfy employee share schemes	–	–	–	9.9	–	(9.9)	–	–	–
Share-based payments	–	–	–	–	–	6.3	6.3	–	6.3
Tax on share-based payments	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Dividends	–	–	–	–	–	(64.7)	(64.7)	–	(64.7)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(1.1)	(1.1)
Other movements with non-controlling interests	–	–	–	–	–	(0.3)	(0.3)	(0.2)	(0.5)
At 31 December 2017	25.6	532.7	0.2	(6.0)	181.6	410.9	1,145.0	21.4	1,166.4

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 32) £m	Other reserves (note 33) £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	25.6	532.7	0.2	(7.8)	(80.1)	345.6	816.2	14.9	831.1
Profit for the year	–	–	–	–	–	117.2	117.2	2.8	120.0
Comprehensive income for the year	–	–	–	–	274.2	(37.6)	236.6	2.5	239.1
Total comprehensive income	–	–	–	–	274.2	79.6	353.8	5.3	359.1
Shares purchased	–	–	–	(7.7)	–	–	(7.7)	–	(7.7)
Own shares released to satisfy employee share schemes	–	–	–	7.7	–	(7.7)	–	–	–
Share-based payments	–	–	–	–	–	4.1	4.1	–	4.1
Tax on share-based payments	–	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Dividends	–	–	–	–	–	(58.9)	(58.9)	–	(58.9)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.9)	(0.9)
Payments for equity in non-controlling interests	–	–	–	–	–	–	–	(0.6)	(0.6)
At 31 December 2016	25.6	532.7	0.2	(7.8)	194.1	362.0	1,106.8	18.7	1,125.5

Group Statement of Cash Flows
For the year ended 31 December 2017

	Note	2017 £m	2016 (restated) £m
Cash generated from operations	37	**359.0**	330.2
Tax paid		**(14.1)**	(13.6)
Interest paid		**(62.5)**	(51.8)
Interest received		**13.1**	7.1
Net cash flow from operating activities		**295.5**	271.9
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	19	**(48.2)**	(58.9)
Deferred consideration for businesses acquired	19	**(49.0)**	(24.4)
Proceeds from the disposal of business, net of cash disposed	19	**42.8**	0.9
Purchase of property, plant and equipment		**(124.6)**	(130.3)
Proceeds from disposal of property, plant and equipment		**17.9**	14.4
Payments to acquire intangible assets		**(11.9)**	(6.3)
Payments to acquire investments		**–**	(0.2)
Net cash flow from investing activities		**(173.0)**	(204.8)
Cash flows from financing activities			
Finance lease principal payments		**(34.4)**	(37.9)
Increase in borrowings		**328.1**	393.3
Repayment of borrowings		**(356.7)**	(50.3)
Receipts/(payments) for the maturity of foreign currency contracts		**5.7**	(46.3)
Purchase of own shares		**(8.1)**	(7.7)
Dividends paid to non-controlling interests		**(1.1)**	(0.9)
Payments for equity in non-controlling interests		**(0.2)**	(0.6)
Dividends paid to shareholders of the Company	12	**(64.7)**	(58.9)
Net cash flow from financing activities		**(131.4)**	190.7
(Decrease)/increase in cash and cash equivalents		**(8.9)**	257.8
Opening cash and cash equivalents		**324.4**	60.4
(Decrease)/increase in cash and cash equivalents		**(8.9)**	257.8
Foreign exchange		**(1.2)**	6.2
Closing cash and cash equivalents		**314.3**	324.4
Cash and cash equivalents in continuing operations	23	**314.3**	318.1
Cash and cash equivalents classified in assets held for sale		**–**	6.3
Closing cash and cash equivalents		**314.3**	324.4

Certain prior year comparatives have been recategorised following an amendment to IAS 7 ‘Changes in liabilities arising from financing activities’, as described further in note 2.

Notes to the Consolidated Accounts For the year ended 31 December 2017

1 Corporate information

The Consolidated Financial Statements of National Express Group PLC and its subsidiaries (the 'Group') for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 1 March 2018. National Express Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded on the London Stock Exchange.

The principal activities of the Group are described in the Strategic Report that accompanies these Financial Statements.

2 Accounting policies

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') as adopted by the European Union ('EU'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of preparation

These Financial Statements have been prepared on the going concern basis (see Group Finance Director's Review on page 19) under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments.

Prior year figures in the Group Income Statement and related notes have been restated to present separately the amounts relating to operations classified as discontinued in the current year. For further details see note 11.

These Financial Statements are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

A summary of the Group's accounting policies applied in preparing these Financial Statements for the year ended 31 December 2017 is set out below.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

i) Critical accounting judgements

Pensions – defined benefit assets

Judgement is required regarding the application of IFRIC 14 and the extent to which the Group can recognise defined benefit assets. Changes in this judgement could significantly impact the value of defined benefit pension balances recognised.

National Express Group PLC operates a defined benefit scheme, which at year end was in a net surplus position as disclosed in note 34. Based on the terms and conditions of the scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. The surplus has therefore been recognised in full.

ii) Key sources of estimation uncertainty

Pensions – assumptions

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires estimates to be made concerning long-term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these estimates could significantly impact the amount of the obligations or the cost of providing such benefits.

The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 34, to these Financial Statements along with their sensitivities.

Insurance and other claims

The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. The estimation of the claims provision is based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Group. The Group makes assumptions concerning these judgemental matters with the assistance of advice from independent qualified actuaries.

In certain rare cases, additional disclosure regarding these claims may unfairly prejudice the Group's position and consequently this disclosure is not provided. Given the differing types of claims, their size, the range of possible outcomes and the time involved in settling these claims, there is a reasonably possible chance that a material adjustment would be required to the carrying value of the claims provision in the next financial year. These different factors also make it impracticable to provide sensitivity analysis on one single measure and its potential impact on the overall claims provision.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

2 Accounting policies continued

Basis of consolidation

These Consolidated Financial Statements comprise the Financial Statements of National Express Group PLC and all its subsidiaries drawn up to 31 December each year. Adjustments are made to bring any dissimilar accounting policies that may exist into line with the Group's accounting policies.

On acquisition of a business, the purchase method of accounting is adopted, and the Group Income Statement includes the results of subsidiaries and businesses purchased during the year from the date control is assumed. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. On the sale of a business, the Group Income Statement includes the results of that business to the date of disposal.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Non-controlling interests represent the portion of comprehensive income and equity in subsidiaries that is not attributable to the parent Company shareholders and is presented separately from parent shareholders' equity in the Consolidated Balance Sheet.

Changes in accounting policies and the adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to existing Standards which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these Financial Statements.

Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses, and

Amendment to IAS 7 – Disclosure initiative 'Changes in liabilities arising from financing activities'

The amendment to IAS 7 requires a disclosure of changes in liabilities arising from financing activities. This has been presented in note 37(b). In order to provide a clear reconciliation to the new disclosure requirements of IAS 7, as well as to facilitate a clear reconciliation to the alternative cash performance measures in the Group Finance Director's Review, certain cash flows within the Group Statement of Cash Flows for the comparative period have been recategorised, with no net change to the total movement in cash and cash equivalents as previously reported.

Interests in joint ventures

The Group has a number of contractual arrangements with other parties to share control of other entities which represent joint ventures. The Group recognises its interest in the entities' assets and liabilities using the equity method of accounting. The Group Balance Sheet includes the appropriate share of these joint ventures' net assets or liabilities and the Income Statement includes the appropriate share of their results after tax.

Financial statements of joint ventures are prepared for the same reporting period as the Group. Adjustments are made in the Group's Financial Statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its joint ventures. The Group ceases to use the equity method from the date it no longer has joint control over the entity.

Interests in associates

Companies, other than subsidiaries and joint ventures, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associates. The Consolidated Financial Statements include the appropriate share of these associates' results and net assets based on their latest financial statements under the equity method of accounting.

Income Statement presentation

The Group Income Statement has been presented in a columnar format to enable users of the Financial Statements to view the normalised results of the Group. Normalised results are defined as the statutory results excluding intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 5.

2 Accounting policies continued

Revenue recognition

Rendering of services

Revenue comprises income from road passenger transport, train passenger services and related activities in the UK, North America, Morocco and Europe. Where relevant, amounts are shown net of rebates and sales tax. Revenue is recognised by reference to the stage of completion of the customer's travel or services provided under contractual arrangements as a proportion of total services to be provided.

UK and ALSA revenue comprises amounts receivable generated from ticket sales and revenue generated from services provided on behalf of local transport authorities, which is recognised as the services are provided. The relevant share of season ticket or travelcard income is deferred within liabilities and released to the Income Statement over the life of the relevant season ticket or travelcard.

Rail revenue in Germany comprises passenger revenues and subsidy income receivable from the Public Transport Authorities. Passenger revenue, which is allocated between the various transport providers in each region by the tariff authority responsible for that region, is recognised based on passenger counts, tariff authority estimates and historical trends. Subsidy income is recognised over the life of each franchise based on contractual entitlements including, where appropriate, indexation and other adjustments made or expected to be made to the subsidy entitlement. In accordance with IAS 20, the subsidy income recognised in each period reflects a systematic allocation of the total contractual subsidy entitlement, based on the expected profile of the underlying cost base which the subsidy is intended to compensate. Our revenue policy is to only recognise revenue where receipt is considered probable.

North America revenue from school boards and similar contracts is recognised as the services are provided.

Finance income

Finance income is recognised using the effective interest method.

Government grants

Government grants relating to costs are recognised in the Income Statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the Income Statement over the expected useful economic life of the assets concerned.

Segmental reporting

The Group's continuing reportable segments comprise: UK (operates bus and coach services); German Rail; ALSA (operates bus and coach services); and North America (operates school bus and transit services). These segments are described in more detail in the Business review accompanying these Financial Statements. Central Functions is not a reportable segment but has been included in the segmental analysis in note 5 for transparency and to enable a reconciliation to the consolidated Group.

Each of the Group's reportable segments provide services of a similar nature and with similar economic characteristics. For the UK and German Rail the distinct segments align directly with the geographical locations in which they operate. The North America and ALSA business segments operate across more than one geographical location and as a result further sub-classifications of revenue and non-current assets are provided.

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

Leases

Leases of property, plant and equipment where substantially all the risks and rewards of ownership of the asset have passed to the Group are capitalised in the Balance Sheet as property, plant and equipment. Finance leases are capitalised at the lower of the fair value of the leased property and the present value of the minimum lease payments. The capital element of future obligations under hire purchase contracts and finance leases is included as a liability in the Balance Sheet. The interest element of rental obligations is charged to the Income Statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease. Incentives received under operating leases and initial direct costs in negotiating the lease are amortised to the Income Statement on a straight-line basis over the term of the lease.

All material arrangements and transactions entered into by the Group are reviewed to check whether they contain elements that meet the accounting definition of a lease, although they may not follow the legal form of a lease.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

2 Accounting policies continued

Borrowing costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Current tax and deferred tax

Current tax is provided on taxable profits earned according to the local tax rates applicable where the profits are earned. Income taxes are recognised in the Income Statement unless they relate to an item accounted for in Other Comprehensive Income or Equity, in which case the tax is recognised directly in Other Comprehensive Income or Equity. The tax rates and tax laws used to compute the current tax are those that are enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill;
- where an asset or liability is recognised in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- in respect of investment in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each Balance Sheet date on the same basis.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale and either represents a separate major line of business or geographical area; is part of a plan to dispose of a separate major line of business or geographical area; or was an acquired subsidiary intended for resale.

Discontinued operations are excluded from the results of continuing operations and presented as a single amount after tax. Comparatives are also re-presented to reclassify the operation as discontinued.

Intangible assets

Intangible assets acquired separately that meet the recognition criteria of IAS 38 Intangible Assets are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. The amortisation expense is taken to the Income Statement through operating costs.

Finite life intangible assets have a residual value of £nil and are amortised as follows:

Customer contracts	– over the life of the contract (between 1 and 33 years)
Contract mobilisation costs	– over the life of the franchise (15 years)
Software	– over the estimated useful life (3-7 years)

Computer software that is integral to a tangible fixed asset is recognised within property, plant and equipment.

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The Group’s only indefinite life intangible asset is goodwill.

2 Accounting policies continued

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is stated at historical cost less any accumulated impairment. If an acquisition gives rise to an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously referred to as negative goodwill), this is credited immediately to the Income Statement.

In accordance with IFRS 3, goodwill is not amortised. All goodwill is subject to an annual test of impairment and an impairment charge recognised as required.

Fair value accounting adjustments are made in respect of acquisitions. Fair value adjustments based on provisional estimates are amended within one year of the acquisition if required, with a corresponding adjustment to goodwill, in order to refine adjustments to reflect further evidence gained post acquisition.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings comprise mainly vehicle depots and garages, and offices. Freehold land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	– 30 to 50 years
Long leasehold property improvements	– 15 to 40 years
Public service vehicles	– 8 to 16 years
Plant and equipment, fixtures and fittings	– 3 to 15 years

Useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the Income Statement in the period of derecognition.

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for goodwill which is reviewed annually. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows.

In assessing value in use, the estimated risk adjusted future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognised in the Income Statement in expense categories consistent with the function of the impaired asset.

Except for goodwill impairments, a review is made at each reporting date of any previous impairment losses to assess whether they no longer exist or may have decreased. If such indication exists, the asset's recoverable amount is estimated and any previously recognised impairment loss is reversed only if there has been a change in the estimates used to assess the recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased, subject to a limit of the asset's net book value had no previous impairment loss been recognised. Such reversal is recognised in the Income Statement. Future depreciation or amortisation is then adjusted to allocate the asset's revised carrying amount over its remaining useful economic life. Impairments to goodwill cannot be reversed.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

2 Accounting policies continued

Financial instruments

The Group determines the classification of its financial instruments at initial recognition. The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within finance costs in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

The Group's investments in entities that are not subsidiaries, associates or joint ventures are classified as available-for-sale financial assets. After initial recognition these assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the previously reported cumulative gain or loss is included in the Income Statement. Where there is no active market for the Group's investments, fair value is determined using valuation techniques including recent commercial transactions and discounted cash flow analyses. In the absence of any other reliable external information, assets are carried at cost or amortised cost as appropriate.

The Group assesses at each Balance Sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Income Statement. Impairment losses recognised in the Income Statement on equity instruments are not reversed through the Income Statement.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. In the case of a financial liability not at fair value through profit or loss, an adjustment is made for transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement depends on its classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading and derivative liabilities that are not designated as effective hedging instruments are classified as financial liabilities at fair value through profit or loss. These liabilities are carried on the Balance Sheet at fair value with gains or losses being recognised in the Income Statement.

Other

All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

2 Accounting policies continued

Derivative financial instruments

The Group uses derivative financial instruments such as fuel derivatives, interest rate derivatives, foreign currency forward exchange contracts and cross currency swaps to hedge its risks associated with fuel price, interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of the derivatives is calculated by reference to market exchange rates, interest rates and fuel prices at the period end.

The Group's fuel derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any material ineffective portion recognised in the Income Statement. The gains or losses deferred in equity in this way are recycled through the Income Statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the Income Statement.

The Group's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate.

Foreign currency derivatives and cross currency swaps are used to hedge the Group's net investment in foreign currency denominated operations and to the extent they are designated and effective as net investment hedges are matched in equity against foreign exchange exposure in the related assets and liabilities. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is partially disposed of or sold.

The Group also uses foreign currency forward contracts to hedge certain transactional exposures. These contracts are not hedge accounted and all gains and losses are taken directly to the Income Statement.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Income Statement in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Inventories

Inventories are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Contract mobilisation costs

Costs associated with securing significant new franchises or contracts are expensed as incurred up to the point when a bid is awarded. From this point in time, appropriate costs are recognised as an asset and are expensed to the Income Statement over the life of the contract. Costs associated with the commencement of all other new contracts are expensed as incurred.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Doubtful debts are provided for when collection of the full amount is no longer probable, while bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents as defined for the Statement of Cash Flows comprise cash in hand, cash held at bank with immediate access, other short-term investments and bank deposits with maturities of three months or less from the date of inception, and bank overdrafts. In the Consolidated Balance Sheet, cash includes cash and cash equivalents excluding bank overdrafts. Bank overdrafts that have no legal right of set-off against cash and cash equivalents are included within borrowings in current liabilities.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

All loans and borrowings are initially recognised at cost being the net fair value of the consideration received plus transaction costs that are directly attributable to the issue of the financial asset or liability. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

2 Accounting policies continued

Insurance

The Group's policy is to self-insure high frequency claims within the businesses. To provide protection above these types of losses, the Group purchases insurance cover from a selection of proven and financially strong insurers. The insurance provision is based on estimated exposures at the year end principally for claims arising in the UK and North America prior to the year end date, subject to the overall deductible within the Group's insurance arrangements. The majority of provisions will be utilised within five years, and the provisions have been discounted to take account of the expected timing of future cash settlements.

Pensions and other post-employment benefits

The Group has a number of pension schemes, both of a defined benefit and defined contribution nature. Full details are provided in note 34.

The Balance Sheet position in respect of defined benefit schemes comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. Recognition of a net asset is limited so that it does not exceed the economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. The trustees complete a full actuarial valuation triennially, separately for each plan, but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

Current service costs are recognised within operating costs in the Income Statement. Past service gains and losses are also recognised within operating costs and in the period in which the related plan amendment or curtailment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income in the period in which they arise.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Share-based payment

The Group awards equity-settled share-based payments to certain employees, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each Balance Sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material using a pre-tax discount rate. The amortisation of the discount is recognised as a finance cost.

Contingent liabilities are obligations that arise from past events that are dependent on future events. They are disclosed in the notes to the Financial Statements where the expected future outflow is not probable.

2 Accounting policies continued

Share capital, share premium and dividends

Where either the Company or employee share trusts purchase the Company's equity share capital, the consideration paid, including any transaction costs, is deducted from total shareholders' equity as own shares until they are cancelled or re-issued. Any consideration subsequently received on sale or re-issue is included in shareholders' equity.

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements on the date when dividends are approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Foreign currencies

The trading results of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling, the presentation currency of the Group and functional currency of the parent, using average rates of exchange for the year as a reasonable approximation to actual exchange rates at the dates of transactions.

The balance sheets of foreign currency denominated subsidiaries, joint ventures and associates are translated into Sterling at the rates of exchange prevailing at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the Income Statement. All other translation differences are taken to the Income Statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the Group net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the Income Statement.

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard also introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	The Group has reviewed its financial assets and liabilities and is expecting the following impacts from the adoption of the new standard on 1 January 2018. The new impairment model in IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses under IAS 39. For trade and other receivables we intend to apply the simplified approach as permitted by IFRS 9. For significant portfolios of receivables we will determine the expected credit losses using the matrix method. Based on initial assessment, our current expectation is that there will be a transitional increase in provisions of approximately £20m. This amount will be finalised as we refine the new approach during 2018. The change is primarily in relation to older dated contract receivables in ALSA and North America where the perceived risk of default is considered greater due to their age. However, the increase purely reflects the requirement under IFRS 9 to make a forward looking assessment of risk of future default on existing receivables and does not reflect an actual increase in incurred credit losses. Under IFRS 9 the Group will elect to recognise its available-for-sale investments at fair value through Other Comprehensive Income. Due to the unquoted nature of these investments and the limited amount of reliable external information, these assets have been historically recognised at cost less impairment. At 31 December 2017 the carrying value was £8.1m. Under IFRS 9, management anticipates applying a transitional reduction to this carrying value of approximately £1.0m, reflecting a prudent approach to estimating the fair value of the investments using limited external information. For hedge accounting we have assessed IFRS 9 and do not expect a material impact on the Group's financial statements, other than certain disclosure points as referred to below. We anticipate that our hedging instruments will remain highly effective under IFRS 9 and the Group confirms that its current hedge relationships will qualify as continuing hedges upon the adoption of the new standard. Changes in the fair value of certain hedging instruments relating to forward points and currency basis spread will continue to be deferred within equity and recognised against the related hedged transactions when they occur. However, under IFRS 9 these movements will be separately stated within the financial instrument disclosures. IFRS 9 introduces expanded disclosure requirements. These are expected to change the extent of the Group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.
Date of adoption	IFRS 9 will be adopted on 1 January 2018. The Group will apply the new rules prospectively from 1 January 2018, with the practical transition expedients permitted for retrospective application taken where applicable. No material restatements will be necessary for the comparative period.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

2 Accounting policies continued

Title of standard	IFRS 15 Revenue from Contracts with Customers
Nature of change	IFRS 15 replaces IAS 18 which currently covers the Group's accounting for contracts of goods and services. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.
Impact	The Group has performed an initial assessment of the effects of applying the new standard and has concluded that while there are minor areas of difference they are not expected to have a material impact on the Group's financial statements. Just over half of Group revenue is derived from documented contracts that cover periods of at least one year, with a significant remainder being ticket and other sales to travelling customers and shorter-term contracts such as private hire. A sample of contracts has been reviewed against IFRS 15, particularly concerning the documented contracts that cover periods of at least one year, and further reviews are taking place in 2018. The review to date has covered all major revenue stream contracts across the Group, including school bus and transit operations in North America, urban and intercity services in ALSA and subsidy and other contracted income in the UK. Based on the assessment, management has concluded that revenues are being appropriately recognised across the periods of the contract, as the services are transferred to the customer. Ticket sale revenue has also been assessed and confirmed to be compliant with the new standard, with revenue recognised when the passenger makes the journey or spread according to the term of the ticket, as appropriate. Small instances of variable consideration, such as customer loyalty points, discounts and refunds exist, and are appropriately accounted for under the new standard. Private hire operations are provided in the UK, ALSA and North America divisions and are typically of a short duration. A review of revenue recognition for these services confirmed that it is in accordance with IFRS 15, with revenue recognised in the period in which the private hire is provided to the customer.
Date of adoption	IFRS 15 will be adopted on 1 January 2018. We are not anticipating a material impact to the Group's revenue recognition in future periods or any restatement necessary in the comparative period.

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals will be recognised. The income statement will also be affected, with the operating lease expense being replaced by a combination of depreciation on the right of use asset and interest on the financial liability. Short-term and low-value leases are excluded and will continue to be charged to the income statement on a straight-line basis over the term of the lease.
Impact	IFRS 16 will affect primarily the accounting for the Group's operating leases. By way of reference, the Group has non-cancellable operating lease commitments at year end of £603.9m (see note 35). This is a gross value and does not reflect the discounting of the commitments to their present value as required by IFRS 16. The contracts will be assessed to ensure that these arrangements meet the definition of a lease under the new standard. The Group estimates that only a small proportion relate to payments for short-term and low-value leases. A project to assess the impact of IFRS 16 is underway and will complete in 2018. This assessment is focusing on all of the Group's existing operating and finance leases, as well as considering any other contractual arrangements that may constitute a lease under the definitions of the new standard. Due to the ongoing project, it is not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's income statement and classification of cash flows going forward.
Date of adoption	IFRS 16 will be adopted on 1 January 2019. As part of the ongoing assessment, the Group is considering the transitional options and will formally conclude on this in the second half of 2018.

3 Revenue

	2017 £m	(restated) 2016 £m
Rendering of services	**2,207.9**	1,994.0
Government grants and subsidies	**111.5**	98.3
Rental income	**1.8**	1.4
Revenue	**2,321.2**	2,093.7
Finance income	**10.0**	7.5
Total revenue from continuing operations	**2,331.2**	2,101.2

Government grants and subsidies comprises franchise support in German Rail and subsidy income for bus services in the UK and ALSA.

4 Exchange rates

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

	2017 Closing rate	2017 Average rate	2016 Closing rate	2016 Average rate
US Dollar	**1.35**	**1.29**	1.23	1.36
Canadian Dollar	**1.70**	**1.67**	1.66	1.80
Euro	**1.13**	**1.14**	1.17	1.22

If the results for the year to 31 December 2016 had been retranslated at the average exchange rates for the year to 31 December 2017, North America would have achieved normalised operating profit of £88.5m on revenue of £924.3m, compared with normalised operating profit of £84.0m on revenue of £877.2m as reported, and ALSA would have achieved a normalised operating profit of £90.8m on revenue of £640.5m, compared with normalised operating profit of £84.7m on revenue of £597.3m as reported.

5 Segmental analysis

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

The principal services from which each reportable segment derives its revenues are as follows:

UK – Bus and coach operations
German Rail – Rail operations
ALSA (predominantly Spain and Morocco) – Bus and coach operations
North America (USA and Canada) – School bus and transit bus operations

Further details on the activities of each segment are described in the Strategic Report.

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

Revenue is analysed by reportable segment as follows:

	Segment revenue 2017 £m	Segment revenue (restated) 2016 £m
UK revenue	**561.5**	557.9
German Rail	**79.0**	61.3
ALSA	**663.5**	597.3
North America	**1,017.2**	877.2
Overseas revenue	**1,759.7**	1,535.8
Total revenue	**2,321.2**	2,093.7

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

No single external customer amounts to 10% or more of the total revenue.

Due to the nature of the Group's businesses, the origin and destination of revenue is the same.

Revenue in ALSA comprises £610.5m (2016: £553.8m) in Spain, £45.7m (2016: £43.1m) in Morocco and £7.3m (2016: £0.4m) in Switzerland.

Revenue in North America comprises £934.1m (2016: £798.7m) in the USA and £83.1m (2016: £78.5m) in Canada.

Revenue in the UK comprises £273.8m (2016: £275.1m) of external revenue from bus operations and £287.7m (2016: £282.8m) from coach operations. Previously, these amounts were reported as the UK Bus and UK Coach segments respectively.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

5 Segmental analysis continued

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2017 £m	**Intangible amortisation for acquired businesses 2017 £m**	**UK restructuring 2017 £m**	**Segment result 2017 £m**	Normalised operating profit (restated) 2016 £m	Intangible amortisation for acquired businesses 2016 £m	Segment result (restated) 2016 £m
UK	**70.9**	**(0.7)**	**(5.6)**	**64.6**	67.3	(0.4)	66.9
German Rail	**5.2**	**(1.0)**	**–**	**4.2**	(1.5)	(0.8)	(2.3)
ALSA	**94.9**	**(10.0)**	**–**	**84.9**	84.7	(9.5)	75.2
North America	**94.3**	**(26.3)**	**–**	**68.0**	84.0	(23.0)	61.0
Central functions	**(23.8)**	**–**	**–**	**(23.8)**	(17.0)	(0.1)	(17.1)
Operating profit from continuing operations	**241.5**	**(38.0)**	**(5.6)**	**197.9**	217.5	(33.8)	183.7
Share of results from associates and joint ventures	**(3.5)**	**–**	**–**	**(3.5)**	1.1	–	1.1
Net finance costs	**(38.0)**	**–**	**–**	**(38.0)**	(50.0)	–	(50.0)
Profit before tax	**200.0**	**(38.0)**	**(5.6)**	**156.4**	168.6	(33.8)	134.8
Tax charge				**(28.0)**			(19.9)
Profit after tax for the year from continuing operations				**128.4**			114.9
Profit for the year from discontinued operations				**5.9**			5.1
Profit for the year				**134.3**			120.0

As disclosed in note 11, in February 2017 the Group disposed of its final UK rail franchise, c2c, as part of a broader UK strategic review in which the Group discontinued all activity in UK Rail. Consequent on this exit and given the simplified UK footprint, the Group also reorganised its UK management structure to reduce costs and facilitate better, clearer decision-making. The cost in the year relating to this restructuring was £5.6m.

Depreciation is analysed by reportable segment as follows:

	2017 £m	2016 £m
UK	**21.8**	20.0
German Rail	**0.2**	0.1
ALSA	**39.3**	35.6
North America	**73.6**	65.9
Central functions	**0.7**	0.8
Total	**135.6**	122.4

Included in note 15 for 2016 is deprecation of £0.6m in relation to discontinued UK rail operations.

5 Segmental analysis continued

Non-current assets and additions are analysed by reportable segment as follows:

	Intangible assets 2017 £m	Property, plant and equipment 2017 £m	Total non-current assets 2017 £m	Non-current asset additions 2017 £m	Intangible assets 2016 £m	Property, plant and equipment 2016 £m	Total non-current assets 2016 £m	Non-current asset additions 2016 £m
UK	**21.8**	**191.8**	**213.6**	**29.2**	13.3	200.1	213.4	42.9
Central Functions	**7.9**	**2.2**	**10.1**	**1.0**	10.9	2.8	13.7	0.5
Total UK	**29.7**	**194.0**	**223.7**	**30.2**	24.2	202.9	227.1	43.4
German Rail	**15.4**	**0.7**	**16.1**	**2.4**	14.0	0.2	14.2	4.7
ALSA	**866.2**	**321.2**	**1,187.4**	**49.8**	822.2	305.7	1,127.9	61.2
North America	**722.1**	**452.3**	**1,174.4**	**97.0**	688.2	474.8	1,163.0	80.5
Total overseas	**1,603.7**	**774.2**	**2,377.9**	**149.2**	1,524.4	780.7	2,305.1	146.4
Total	**1,633.4**	**968.2**	**2,601.6**	**179.4**	1,548.6	983.6	2,532.2	189.8

Included in note 15 for 2016 are non-current asset additions of £9.0m in relation to discontinued UK rail operations.

Total non-current assets in ALSA comprises £1,152.7m (2016: £1,096.6m) in Spain, £22.5m (2016: £26.2m) in Morocco and £12.2m (£5.1m) in Switzerland.

Total non-current assets in North America comprises £1,039.4m (2016: £1,017.9m) in USA and £135.0m (2016: £145.1m) in Canada.

Information reported to the Group Executive Team does not regularly include an analysis of assets and liabilities by segment.

6 Operating costs

		2017 £m	(restated) 2016 £m
Cost of inventories recognised in expense		**81.2**	72.1
Staff costs		**1,161.6**	1,020.7
Depreciation – Owned assets		**107.8**	101.4
– Leased assets		**27.8**	21.0
Intangible asset amortisation		**41.6**	33.8
Amortisation of fixed asset grants		**(1.0)**	(0.5)
Operating lease charges	Rolling stock: non-capital element	**13.2**	11.7
	Public service vehicles	**14.5**	11.9
	Other	**12.8**	11.4
	– Plant and equipment	**40.5**	35.0
	– Land and buildings	**29.0**	23.9
Foreign exchange differences		**(0.1)**	(0.1)
Other charges		**634.9**	602.7
Total operating costs		**2,123.3**	1,910.0

An analysis of fees paid to the Group's auditor is provided below:

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the consolidated and parent Company accounts	**0.4**	0.3
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.8**	0.8
Other services	**0.1**	0.2
	1.3	1.3

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

7 Employee benefit costs

(a) Staff costs

	2017 £m	(restated) 2016 £m
Wages and salaries	**1,010.8**	887.5
Social security costs	**136.8**	122.0
Pension costs (note 34)	**8.7**	7.4
Share-based payment (note 8)	**5.3**	3.8
	1,161.6	1,020.7

The average number of employees, including Executive Directors, during the year was as follows:

	2017	(restated) 2016
Managerial and administrative	**4,347**	4,237
Operational	**41,917**	40,740
	46,264	44,977

Included in the above costs are the following costs related to the Group's key management personnel who comprise the Executive Directors of the parent Company. For 2017, there are three Executive Directors (2016: two Executive Directors). Further details are disclosed in the Directors' Remuneration Report:

	2017 £m	2016 £m
Basic salaries	**1.2**	0.9
Benefits	**0.7**	0.3
Performance-related bonuses	**2.0**	1.4
Share-based payment	**2.1**	1.5
	6.0	4.1

(b) Share schemes

Details of options or awards outstanding at the end of the year under the Group's share schemes are as follows:

	Number of share options 2017	Number of share options 2016	Exercise price	Future exercise periods
Long-Term Incentive Plan	**6,162,640**	7,444,991	**nil**	**2018-2022**
WMT Long Service Option Scheme	**183,883**	215,367	**129p-590p**	**2018-2027**
Executive Deferred Bonus Plan	**123,341**	169,828	**nil**	**2018**
	6,469,864	7,830,186		

7 Employee benefit costs continued

(b) Share schemes continued

(i) Long-Term Incentive Plan ('LTIP')

The LTIP was introduced in 2005 on the recommendation of the Remuneration Committee to replace the annual award under the Executive Share Option Plan to Executive Directors and to certain senior employees. Under the LTIP, a Performance Award to acquire a specified number of free shares may be made to the employee or Director. Performance conditions are attached to the vesting of Performance Awards based on the achievement of target growth in earnings per share ('EPS'), return on capital employed ('ROCE') and the relative total shareholder return ('TSR') of the Company against a comparator group of companies. If the performance conditions are met, Performance Awards vest on the third anniversary of the grant date and remain exercisable for a period of up to two years following the vesting date. There are no cash settlement alternatives at present.

Since 2011, HMRC approved share option plans have been added as an appendix to the LTIP ('Approved Plan'). A participant can only hold an option under the Approved Plan over shares with a market value of up to £30,000 at the grant date. Options under the Approved Plan are granted in tandem with the usual options under the LTIP. The options are structured such that on exercise, the proportion of the gain in respect of the first £30,000 worth of shares (as measured at the date of grant) will be delivered under the Approved Plan and the LTIP option shall be scaled back to deliver the remaining gross gain that would have been delivered had the option been granted alone. The excess shares under the LTIP will be forfeited such that both awards will never become fully vested.

From 2012 to 2014, a supplementary five-year long-term incentive award was granted to the Chief Executive subject to targets linked to the Group's five-year plan. This comprised a Performance Award (with no matching element). If performance conditions are met, the Performance Award will vest on the fifth anniversary of the grant date and remain exercisable for a period of up to 12 months following the vesting date. There are no cash settlement alternatives at present.

(ii) West Midlands Travel Ltd ('WMT') Long Service Option Scheme

The WMT Long Service Option Scheme utilises a fixed amount of shares set aside for this purpose following the acquisition of WMT in 1995 and is open to all WMT employees who have been in service for more than 25 years. The options are exercisable between three and ten years following the grant date. There are no cash settlement alternatives.

(iii) TWM Share Incentive Plan (the 'SIP')

The TWM SIP exists for the benefit of WMT employees. At the end of the year, 1,079 (2016: 1,079) National Express Group PLC shares were held for the benefit of the Trustee. Dividends on shares held in the SIP forfeited shares account are waived. There are no cash settlement alternatives.

(iv) Executive Deferred Bonus Plan

As detailed in the Directors' Remuneration Report, the Committee considered it appropriate for bonuses awarded in respect of the calendar year to be deferred for a period of one year and that these would vest, subject to the terms of the award and the relevant Director's continuing employment. The deferred forfeitable ordinary shares are awarded under the terms of the National Express Group Executive Deferred Bonus Plan which was adopted by the Board of the Company on 10 March 2009.

The principal terms of awards under the Executive Deferred Bonus Plan are summarised below:

- Awards under the Plan may be cash awards, conditional awards or forfeitable shares awards
- Awards normally vest one year from the date of grant, subject to the relevant Director's continued employment with the Company
- The Committee may decide that participants shall be entitled to receive a benefit determined by reference to the value of the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting
- The awards will normally lapse on cessation of employment save in certain compassionate 'good leaver' circumstances (eg death or disability)

In the event of a variation of the share capital of the Company, the Committee may make such adjustments to the awards as it considers appropriate.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

8 Share-based payments

The charge in respect of share-based payment transactions included in the Group's Income Statement for the year is as follows:

	2017 £m	2016 £m
Expense arising from share and share option plans – continuing operations	**5.3**	3.8

During the year ended 31 December 2017, the Group had four share-based payment arrangements, which are described in note 7(b).

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price p**	Number of share options	Weighted average exercise price p
Options without a nil exercise price:				
At 1 January	**215,367**	**323**	266,592	359
Granted during the year	**12,600**	**364**	24,462	329
Forfeited during the year	**(4,693)**	**284**	(8,537)	299
Exercised during the year	**(13,789)**	**249**	(7,119)	253
Expired during the year	**(25,602)**	**583**	(60,031)	497
Outstanding at 31 December	**183,883**	**295**	215,367	323
Exercisable at 31 December	**84,986**	**275**	97,957	352
Options with a nil exercise price:				
At 1 January	**7,614,819**	**nil**	8,733,790	nil
Granted during the year	**2,205,273**	**nil**	2,244,630	nil
Forfeited during the year	**(606,359)**	**nil**	(185,626)	nil
Exercised during the year	**(2,759,291)**	**nil**	(2,415,519)	nil
Expired during the year	**(168,461)**	**nil**	(762,456)	nil
Outstanding at 31 December	**6,285,981**	**nil**	7,614,819	nil
Exercisable at 31 December	**–**	**nil**	–	nil
Total outstanding at 31 December	**6,469,864**		7,830,186	
Total exercisable at 31 December	**84,986**		97,957	

The options outstanding at 31 December 2017 had exercise prices that were between 129p and 590p (2016: between 129p and 599p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2017 Number**	2016 Number
0-350	**161,122**	178,704
351-600	**22,761**	36,663
	183,883	215,367

The options have a weighted average contractual life of one year (2016: one year). Options were exercised regularly throughout the year and the weighted average share price at exercise was 361p (2016: 347p).

8 Share-based payments continued

The weighted average fair value of the share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options without nil exercise price		Share options with nil exercise price	
	2017	2016	**2017**	2016
Risk free interest rate	**0.44%**	0.84%	**0.11%**	0.37%
Expected volatility	**25%**	26.0%	**22.0%**	22.0%
Peer group volatility	**–**	–	**28.0%-29.0%**	23.0%-25.0%
Expected option life in years	**5 years**	5 years	**3 years**	3 years
Expected dividend yield	**3.42%**	3.42%	**0.0%**	0.0%
Weighted average share price at grant date	**359p**	332p	**359p**	347p
Weighted average exercise price at grant date	**364p**	329p	**nil**	nil
Weighted average fair value of options at grant date	**49p**	52p	**291p**	312p

Experience to date has shown that approximately 24% (2016: 24%) of options are exercised early, principally due to leavers. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historical volatility over the last eight years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above.

9 Net finance costs

	2017 £m	2016 £m
Bond and bank interest payable	**(38.0)**	(50.3)
Finance lease interest payable	**(3.9)**	(3.5)
Other interest payable	**(2.7)**	(1.5)
Unwind of provision discounting	**(1.3)**	(1.2)
Net interest cost on defined benefit pension obligations	**(2.1)**	(1.0)
Finance costs	**(48.0)**	(57.5)
Other financial income	**10.0**	7.5
Net finance costs	**(38.0)**	(50.0)
Of which, from financial instruments:		
Financial liabilities measured at amortised cost	**(40.7)**	(51.1)
Derivatives	**9.3**	7.5
Loan fee amortisation	**(1.2)**	(2.7)

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

10 Taxation
(a) Analysis of taxation charge in the year

	2017 £m	2016 £m
Current taxation:		
UK corporation tax	5.0	0.5
Overseas taxation	14.5	9.9
Current income tax charge	19.5	10.4
Adjustments with respect to prior years – UK and overseas	1.2	(6.9)
Total current income tax charge	20.7	3.5
Deferred taxation (note 27):		
Origination and reversal of temporary differences – continuing operations	19.5	19.6
Adjustments with respect to prior years – UK and overseas	(13.7)	(1.9)
Deferred tax charge	5.8	17.7
Total tax charge for the Group	26.5	21.2
Amounts relating to discontinued items	1.5	(1.3)
Total tax charge for the continuing Group	28.0	19.9

The tax charge for the continuing Group is disclosed as follows:		
Tax charge on profit before separately disclosed items	48.0	31.4
Tax credit on separately disclosed items	(20.0)	(11.5)
	28.0	19.9

The tax credit on separately disclosed items of £20.0m comprises an £11.4m tax credit on intangibles, a £7.5m net credit in relation to the US tax rate reduction (see note 10(c)) and a tax credit of £1.1m for other items.

The tax relief relating to intangible amortisation is determined by reference to the tax rates in the jurisdiction to which the intangible amortisation relates. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19.25% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (40%) and Spain (25%).

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2017 £m	2016 £m
Current taxation:		
Credit on exchange movements offset in reserves	1.0	–
	1.0	–
Deferred taxation:		
Deferred tax credit on actuarial losses	2.1	8.0
Deferred tax charge on cash flow hedges	(3.4)	(12.2)
Deferred tax credit on foreign exchange differences	–	14.3
Deferred tax charge on share-based payments	(1.6)	(0.7)
	(2.9)	9.4

10 Taxation continued

(c) Reconciliation of the total tax charge

	2017 £m	2016 £m
Profit before income tax – continuing Group	156.4	134.8
Notional charge at UK corporation tax rate of 19.25% (2016: 20.00%)	30.1	26.9
Recurring items:		
Non-deductible goodwill impairment	1.6	0.2
Non-deductible intangible amortisation	0.1	1.3
Effect of overseas tax rates	11.0	9.2
Tax incentives	(4.9)	(4.2)
Non-recurring items:		
Overseas financing deductions	(3.0)	(6.2)
Adjustments to prior years within current and deferred tax (excluding movements in tax provisions)	(2.1)	(1.7)
Release of tax provisions	(0.8)	(7.3)
Effect of reduction in tax rates	(7.5)	1.2
Non-deductible expenditure	2.6	1.1
Non-taxable income	–	(0.5)
Non-creditable withholding tax	1.0	–
Utilisation of a deferred tax asset for previously unrecognised tax losses	(0.1)	(0.1)
Total tax charge reported in the Income Statement (note 10(a))	28.0	19.9

Included within the tax reconciliation are a number of non-recurring items, the effect of a reduction in tax rates and the release of tax provisions. Items expected to recur in the tax reconciliation for 2018 include the difference in rates between the UK and our overseas markets, tax incentives on re-investment credits and the merger of our Spanish businesses.

The UK corporation tax rates has reduced in the year from 20.00% to 19.25% due to a reduction in the UK statutory corporation tax rate from 20% to 19% from 1 April 2017.

On 22 December 2017, the US Tax Cuts and Jobs Act 2017 was signed into law. The main change was to reduce the US federal corporate income tax rate from 35% to 21% from 1 January 2018. At the Balance Sheet date, the 21% rate (2016: 35%) was substantively enacted. This change in rate has resulted in a net tax credit of £7.5m to the Income Statement. In the prior year, the tax charge arising from changes in tax rates of £1.2m related to UK tax rate changes.

(d) Tax provisions

At 31 December 2016, the Group held tax provisions of £5.4m to cover tax uncertainties across our various markets. All UK corporation tax returns up to 2015 have been submitted and agreed by HMRC except for one outstanding matter.

At 31 December 2017, the Group held tax provisions of £9.6m, representing a number of tax uncertainties such as the deductibility of interest expense in the UK and Spain and the Moroccan tax audits. There has been a net increase of £4.2m which represents the release of tax reserves where the statute of limitation has closed as well an increase of tax reserves relating to risks in our North American business. Based on the experience of the Group Tax department and after discussions of the various tax uncertainties with our tax advisers, the year end tax provision represents management’s best estimate of the tax uncertainties of which we are aware. The provision for the Group’s tax uncertainties of £9.6m is included in current tax liabilities.

(e) Temporary differences associated with Group investments

No deferred tax (2016: £nil) is recognised on the unremitted earnings of subsidiaries, associates and joint ventures, as the Group has determined that these undistributed profits will not be distributed in the near future. As a result of changes to tax legislation in 2009, overseas dividends received on or after 1 July 2009 are generally exempt from UK corporation tax, but may be subject to withholding tax. There are no temporary differences (2016: £nil) associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognised but for which a tax liability may arise.

(f) Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Based on current forecasts, it is estimated that the losses recognised for deferred tax purposes will be utilised within three to four years. UK and overseas deferred tax assets that the Group has not recognised in the Financial Statements relates to gross losses of £17.7m (2016: £16.5m), which arise in tax jurisdictions where the Group does not expect to generate sufficient suitable future taxable profits. The majority of the unrecognised losses relates to UK entities where it is uncertain when, or if, the losses will be utilised.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

10 Taxation continued

(g) Deferred tax included in the Income Statement

	2017 £m	2016 £m
Accelerated capital allowances	(4.8)	28.2
Other short-term temporary differences	4.2	0.9
Utilisation/(recognition) of losses	6.4	(11.4)
Deferred tax charge	5.8	17.7

Details on the Balance Sheet position of deferred tax are included in note 27.

(h) Factors that may affect future tax charges

There are no known significant factors that may affect future tax charges.

11 Discontinued operations and assets and liabilities held for sale

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

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

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

Details of the discontinued operations are as follows:

	2017 £m	(restated) 2016 £m
Revenue	29.7	185.5
Operating costs	(31.2)	(179.1)
Trading (loss)/profit before tax	(1.5)	6.4
One-off costs relating to discontinued operations	(7.0)	–
Gross profit on disposal of discontinued operations	12.9	–
Net profit from discontinued operations before tax	4.4	6.4
Attributable income tax credit/(expense)	1.5	(1.3)
Net profit from discontinued operations attributable to equity shareholders	5.9	5.1

Details of assets and liabilities held for sale in the prior year, which relate to c2c, are disclosed in the Financial Statements for the year ended 31 December 2016.

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

	2017 £m	(restated) 2016 £m
Cash outflow from operating activities	(14.8)	(10.4)
Cash outflow from investing activities	(0.5)	(6.7)
Net cash outflow	(15.3)	(17.1)

12 Dividends paid and proposed

	2017 £m	2016 £m
Declared and paid during the year		
Ordinary final dividend for 2016 paid of 8.41p per share (2015: 7.645p)	**42.9**	39.1
Ordinary interim dividend for 2017 of 4.26p per share (2016: 3.87p)	**21.8**	19.8
	64.7	58.9
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2017 of 9.25p per share (2016: 8.41p per share)	**47.3**	42.9

13 Earnings per share

	2017	(restated) 2016
Basic earnings per share	**25.7p**	23.0p
Normalised basic earnings per share	**29.1p**	26.3p
Basic earnings per share from continuing operations	**24.5p**	22.0p
Diluted earnings per share	**25.5p**	22.8p
Normalised diluted earnings per share	**29.0p**	26.2p
Diluted earnings per share from continuing operations	**24.4p**	21.8p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £131.0m (2016: £117.2m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust (note 32) which are treated as cancelled.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £125.1m (2016: £112.1m). Basic and diluted EPS in the year for discontinued operations was 1.2p (2016: 1.0p) and 1.1p (2016: 1.0p) respectively.

For diluted EPS, the weighted average number of ordinary shares in issue during the year 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 basic and diluted weighted average number of ordinary shares is as follows:

	2017	2016
Basic weighted average shares	**510,407,865**	510,255,410
Adjustment for dilutive potential ordinary shares	**2,336,951**	2,859,856
Diluted weighted average shares	**512,744,816**	513,115,266

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

13 Earnings per share continued

The normalised basic and normalised diluted earnings per share have been calculated in addition to the basic and diluted earnings per share required by IAS 33 since, in the opinion of the Directors, they reflect the underlying performance of the business' operations more appropriately.

The reconciliation of the earnings and earnings per share to their normalised equivalent is as follows:

			2017			2016
	£m	Basic EPS p	Diluted EPS p	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	131.0	25.7	25.5	117.2	23.0	22.8
Intangible amortisation for acquired businesses	38.0	7.4	7.4	33.8	6.6	6.6
UK restructuring costs	5.6	1.1	1.1	–	–	–
Separately disclosed tax	(20.0)	(3.9)	(3.9)	(11.5)	(2.3)	(2.2)
Profit for the year from discontinued operations	(5.9)	(1.2)	(1.1)	(5.1)	(1.0)	(1.0)
Normalised profit attributable to equity shareholders	148.7	29.1	29.0	134.4	26.3	26.2

14 Intangible assets

	Customer contracts £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2017	708.7	71.7	16.3	796.7	1,349.4	2,146.1
Acquisitions	59.6	–	–	59.6	64.5	124.1
Additions	1.2	8.8	1.7	11.7	–	11.7
Disposals	(2.9)	(1.1)	–	(4.0)	(46.1)	(50.1)
Reclassifications	5.2	23.2	(0.9)	27.5	–	27.5
Foreign exchange	(4.7)	(4.3)	0.7	(8.3)	(9.8)	(18.1)
At 31 December 2017	767.1	98.3	17.8	883.2	1,358.0	2,241.2
Amortisation and impairment:						
At 1 January 2017	462.7	49.5	0.8	513.0	84.5	597.5
Charge for year	32.2	8.4	1.0	41.6	–	41.6
Disposals	(2.9)	(1.3)	–	(4.2)	(46.2)	(50.4)
Reclassifications	1.8	10.5	–	12.3	0.3	12.6
Foreign exchange	7.3	(2.7)	0.1	4.7	1.8	6.5
At 31 December 2017	501.1	64.4	1.9	567.4	40.4	607.8
Net book value:						
At 31 December 2017	266.0	33.9	15.9	315.8	1,317.6	1,633.4
At 1 January 2017	246.0	22.2	15.5	283.7	1,264.9	1,548.6

14 Intangible assets continued

	Customer contracts £m	Software £m	Contract mobilisation costs £m	Total finite life assets £m	Goodwill £m	Total £m
Cost:						
At 1 January 2016	555.2	54.7	9.9	619.8	1,099.1	1,718.9
Acquisitions	53.1	3.7	–	56.8	65.0	121.8
Additions	0.3	3.9	4.6	8.8	–	8.8
Disposals	–	(0.3)	–	(0.3)	(0.4)	(0.7)
Foreign exchange	100.1	9.7	1.8	111.6	185.7	297.3
At 31 December 2016	708.7	71.7	16.3	796.7	1,349.4	2,146.1
Amortisation and impairment:						
At 1 January 2016	373.5	34.7	–	408.2	80.0	488.2
Charge for year	25.0	8.0	0.8	33.8	–	33.8
Disposals	–	(0.3)	–	(0.3)	(0.4)	(0.7)
Foreign exchange	64.2	7.1	–	71.3	4.9	76.2
At 31 December 2016	462.7	49.5	0.8	513.0	84.5	597.5
Net book value:						
At 31 December 2016	246.0	22.2	15.5	283.7	1,264.9	1,548.6
At 1 January 2016	181.7	20.0	9.9	211.6	1,019.1	1,230.7

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:

	2017 £m	2016 £m
UK	**16.7**	15.3
North America	**518.0**	508.1
ALSA	**782.9**	741.5
	1,317.6	1,264.9

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

14 Intangible assets continued

The calculation of value in use for each group of cash-generating units is most sensitive to the assumptions over discount rates and the growth rate used to extrapolate cash flows beyond the three-year period of the management plan.

The key assumptions used for the cash-generating units are as follows:

	Pre-tax discount rate applied to cash flow projections		Growth rate used to extrapolate cash flows beyond three-year period of management plan	
	2017	2016	**2017**	2016
UK	**7.5%**	8.2%	**2.6%**	2.6%
North America	**7.5%**	8.1%	**2.8%**	2.8%
ALSA	**8.6%**	8.2%	**2.8%**	2.6%

The growth rates used to extrapolate cash flow projections are derived from financial budgets and forecasts approved by senior management covering a three-year period. The assumptions in these forecasts, which include growth rates and operating margins, are based on historical experience and detailed budget plans as well as management's assessment of current market and economic conditions. Long term growth rates take into account any known events which would impact cash flows outside of the three year planning period and are set with reference to long term CPI rates and projected GDP growth.

The pre-tax discount rates applied are calculated from country-specific weighted average cost of capital ('WACC'). In 2016, the discount rate used was a single blended Group WACC. In 2017, management consulted with independent advisers and updated the approach, now applying country-specific discount rates to better reflect the prevailing economic risk to cash flows of each CGU.

The value in use of the North America division exceeds its carrying amount by £557.3m (2016: £252.2m); the significant increase in value in use being partially driven by the reduction in US corporation tax rate from 35% to 21%.

The value in use of the ALSA division exceeds its carrying amount by £189.7m (2016: £261.8m).

Sensitivities to key and other assumptions

The sensitivity analysis below has been presented in the interests of transparency and consistency only. It is not believed that any reasonably possible movement in key and other assumptions will lead to an impairment.

Sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use of the North America division will be equal to its carrying value with an increase in the pre-tax discount rate of 2.3% (2016: 1.5%) or a reduction in the growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 2.5% (2016: 1.5%).

In addition, for North America, a reduction in operating profit margin of 2.5% (2016: 1.6%) will result in the value in use of the division being equal to its carrying amount. North America's operating profit margin for 2017 was 9.3% (2016: 9.6%).

For ALSA, sensitivity analysis on each key assumption indicates that the value in use will be equal to its carrying amount following an increase in the pre-tax discount rate of 0.9% (2016: 1.4%) or a reduction in growth rates used to extrapolate cash flows beyond the three-year period of the management plan of 0.9% (2016: 1.6%).

A reduction in ALSA's operating profit margin of 1.5% (2016: 2.5%) will result in the value in use of the division being equal to its carrying amount. ALSA's operating profit margin for 2017 was 14.3% (2016: 14.2%).

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 and therefore that goodwill is not impaired.

15 Property, plant and equipment

	Freehold land and buildings £m	Long leasehold property improvements £m	Public service vehicles £m	Plant and equipment, fixtures and fittings £m	Total £m
Cost:					
At 1 January 2017	113.3	11.8	1,649.2	212.3	1,986.6
Acquisitions	–	–	10.4	0.2	10.6
Additions	1.3	3.3	136.4	26.7	167.7
Disposals	(4.5)	–	(67.8)	(5.7)	(78.0)
Reclassifications	–	–	–	(30.4)	(30.4)
Foreign exchange	2.8	0.3	(60.4)	1.4	(55.9)
At 31 December 2017	112.9	15.4	1,667.8	204.5	2,000.6
Depreciation:					
At 1 January 2017	29.4	7.8	800.0	165.8	1,003.0
Charge for the year	2.5	0.4	123.0	9.7	135.6
Disposals	(1.7)	–	(57.7)	(5.5)	(64.9)
Reclassifications	–	–	–	(12.5)	(12.5)
Foreign exchange	0.6	0.7	(31.5)	1.4	(28.8)
At 31 December 2017	30.8	8.9	833.8	158.9	1,032.4
Net book value:					
At 31 December 2017	82.1	6.5	834.0	45.6	968.2
At 1 January 2017	83.9	4.0	849.2	46.5	983.6

Notes to the Consolidated Accounts continued
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15 Property, plant and equipment continued

	Freehold land and buildings (restated) £m	Restated Long leasehold property improvements (restated) £m	Public service vehicles (restated) £m	Plant and equipment, fixtures and fittings (restated) £m	Total (restated) £m
Cost:					
At 1 January 2016	101.1	8.1	1,323.0	190.5	1,622.7
Acquisitions	–	–	27.1	0.4	27.5
Additions	1.6	2.3	155.0	31.1	190.0
Disposals	(0.6)	(0.2)	(61.6)	(3.3)	(65.7)
Reclassifications	0.2	–	–	(0.2)	–
Foreign exchange	11.0	1.6	205.7	14.0	232.3
Assets reclassified as held for sale	–	–	–	(20.2)	(20.2)
At 31 December 2016	113.3	11.8	1,649.2	212.3	1,986.6
Depreciation:					
At 1 January 2016	25.0	6.0	643.5	147.1	821.6
Charge for the year	2.5	0.8	108.2	11.5	123.0
Disposals	(0.3)	(0.2)	(53.5)	(3.2)	(57.2)
Foreign exchange	2.2	1.2	101.8	11.3	116.5
Assets reclassified as held for sale	–	–	–	(0.9)	(0.9)
At 31 December 2016	29.4	7.8	800.0	165.8	1,003.0
Net book value:					
At 31 December 2016	83.9	4.0	849.2	46.5	983.6
At 1 January 2016	76.1	2.1	679.5	43.4	801.1

Following a review of property, plant and equipment in the year, it was identified that a number of movements relating to past acquisitions had the effect of misstating brought forward balances and movements in the comparative year. For both the movements and the opening balances, cost and depreciation were misstated by equal and opposite amounts and therefore the effect on net book values was £nil. The above table has been restated to show revised movements in the comparative year and revised opening and closing balances for both cost and depreciation.

Property, plant and equipment held under finance lease agreements are analysed as follows:

		2017 £m	2016 £m
Public service vehicles	– cost	**341.5**	306.1
	– depreciation	**(135.4)**	(120.1)
Total net book value		**206.1**	186.0

Assets held under finance lease agreements are pledged as security for the related finance lease and hire purchase liabilities.

16 Subsidiaries

The companies listed below include all those which principally affect the results and net assets of the Group. A full list of subsidiaries, joint ventures and associates is disclosed in note 39, along with the addresses of their registered offices. The principal country of operation in respect of the companies below is the country in which they are incorporated.

National Express Group PLC is the beneficial owner of all the equity share capital, either itself or through subsidiaries, of the companies.

Incorporated in England and Wales	
National Express Limited	Administration and marketing of express coach services in Great Britain
The Kings Ferry Limited	Operation of coach services
West Midlands Travel Limited	Operation of bus services

Incorporated in Scotland	
Tayside Public Transport Co Limited (trading as Travel Dundee)	Operation of bus services

Incorporated in the US	
Durham School Services LP	Operation of school bus services
Petermann Ltd	Operation of school bus services
National Express Transit Corporation	Operation of transit bus services
National Express Transit Services Corporation	Operation of transit bus services

Incorporated in Canada	
Stock Transportation Limited	Operation of school bus services

Incorporated in Spain	
NEX Continental Holdings SL*	Holding company for operating companies
Tury Express SA*	Holding company for operating companies
General Tecnica Industrial SLU*	Holding company for operating companies

Incorporated in Morocco	
Groupe Alsa Transport SA	Operation of bus services
Transport de Voyageurs en Autocar Maroc SA	Operation of bus services
Alsa Tanger SA	Operation of bus services
Alsa City Agadir SA	Operation of bus services

Incorporated in Germany	
National Express Rail GmbH	Operation of train passenger services

* The main holding companies of the ALSA Group.

The Group has no material non-controlling interests that require separate disclosure.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

17 Derivative financial assets and available-for-sale investments

	2017 £m	2016 £m
Available-for-sale investments – Unlisted ordinary shares	**8.1**	7.8
Derivative financial instruments – Fuel derivatives	**2.5**	8.6
Derivative financial instruments – Interest rate derivatives	**10.0**	14.3
Derivative financial instruments – Cross currency swaps	**0.9**	8.2
Derivative financial instruments included in non-current assets	**13.4**	31.1
Derivative financial instruments – Fuel derivatives	**7.9**	3.6
Derivative financial instruments – Interest rate derivatives	**4.2**	8.4
Derivative financial instruments – Foreign exchange derivatives	**3.3**	1.0
Derivative financial instruments included in current assets	**15.4**	13.0

Further information on the Group's use of derivatives is included in note 31.

Available-for-sale investments

	2017 £m	2016 £m
Cost or valuation and net book value:		
At 1 January	**7.8**	6.5
Additions in the year	**–**	0.2
Foreign exchange	**0.3**	1.1
At 31 December	**8.1**	7.8

The principal available-for-sale investments are as follows:

Name	Country of registration	Class of share	2017 Proportion held %	2016 Proportion held %
Metros Ligeros de Madrid, S.A. (MLM)	Spain	Ordinary shares	**15**	15
Other small investments within ALSA	Spain	Ordinary shares	**1-16**	1-16

18 Investments accounted for using the equity method

Investments accounted for using the equity method are as follows:

	2017 £m	2016 £m
Joint ventures	8.5	11.8
Associates	2.8	1.9
Total investments accounted for under the equity method	11.3	13.7

The Group's share of post-tax results from associates and joint ventures accounted for using the equity method is as follows:

	2017 £m	2016 £m
Ibero-Eurosur S.L.	(3.6)	0.4
Bahrain Public Transport Company W.L.L.	0.9	1.4
Share of joint ventures' (loss)/profit	(2.7)	1.8
Share of associates' loss	(0.8)	(0.7)
Total share of results from associates and joint ventures	(3.5)	1.1

(a) Investments in joint ventures

The Group's interests in joint ventures are as follows:

Name	Country of registration	Activity	Proportion held %
Ibero-Eurosur S.L.	Spain	Holding company of Deutsche Touring	20
Bahrain Public Transport Company W.L.L.	Kingdom of Bahrain	Operation of bus services	50

The financial information of Ibero-Eurosur S.L. and Bahrain Public Transport Company W.L.L. is summarised below:

	Ibero-Eurosur S.L.		Bahrain Public Transport Company W.L.L.	
Share of the joint ventures' balance sheets and results	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets	0.2	3.7	16.9	19.8
Current assets	–	–	5.9	7.4
Share of gross assets	0.2	3.7	22.8	27.2
Non-current liabilities	(0.2)	(0.2)	(9.6)	(13.4)
Current liabilities	–	–	(4.7)	(5.5)
Share of gross liabilities	(0.2)	(0.2)	(14.3)	(18.9)
Net assets	–	3.5	8.5	8.3
Revenue	–	0.5	6.4	5.9
Operating (loss)/profit	(3.6)	0.4	0.7	0.5
(Loss)/profit after tax	(3.6)	0.4	0.9	1.4
(Loss)/profit for the year and total comprehensive income	(3.6)	0.4	0.2	2.8
Dividends received from the joint ventures during the year	–	–	–	–

A reconciliation of the above summarised information to the carrying amount in the consolidated Financial Statements is as follows:

	Ibero-Eurosur S.L		Bahrain Public Transport Company W.L.L.	
	2017 £m	2016 £m	2017 £m	2016 £m
Net assets of the joint venture	–	17.4	17.0	16.6
Proportion of interest belonging to joint venture partners	–	(13.9)	(8.5)	(8.3)
Group share of net assets	–	3.5	8.5	8.3

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

18 Investments accounted for using the equity method continued

(b) Investments in associates

The Group's interests in associates are as follows:

Name	Country of registration	Proportion held %
ALSA associates	Spain	20-50

ALSA's associates are generally involved in the operation of coach and bus services, management of bus stations and similar operations.

The aggregate amounts related to associates (of which none are individually material) are summarised below:

	2017 £m	2016 £m
Share of operating loss	**(0.8)**	(0.7)
Share of loss for the year and total comprehensive income and expenditure	**(0.8)**	(0.7)
Group share of net assets	**2.8**	1.9

The carrying amount of the investment in associates matches the Group's share of the net assets.

19 Business combinations

(a) Acquisitions – North America

During the year, the North America division acquired 100% control of three businesses in the US, none of which are material individually:

- Cook-DuPage Transport Co. Inc – paratransit bus services in Chicago, Illinois
- Queen City Transportation – school bus and charter bus services in Cincinnati, Ohio
- Monroe School Transportation Inc – school bus and paratransit services in Rochester, NY

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

	£m
Intangible assets	53.7
Property, plant and equipment	5.6
Trade and other receivables	4.7
Cash and cash equivalents	4.2
Trade and other payables	(11.4)
Provisions	(21.6)
Deferred tax assets	23.8
Net assets acquired	59.0
Goodwill	51.5
Total consideration	110.5
Represented by:	
Cash consideration	31.5
Payments for cash acquired in the businesses	4.2
Deferred consideration	74.8
	110.5

19 Business combinations continued

(a) Acquisitions – North America continued

Trade and other receivables had a fair value and a gross contractual value of £4.7m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £51.5m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our North American operations, along with synergy benefits expected to be achieved.

Included in the consideration shown above is contingent consideration of £38.4m relating to three acquisitions. For the first acquisition, the Group is required to pay consideration on renewal of contracts on a 5-year or 10-year basis. For the second acquisition, the Group is required to pay an indemnity contingent on the performance of seller's indemnification obligations or other post-closing obligations under the acquisition agreement. On the third acquisition, the Group is required to pay consideration on renewal of a significant contract and the contingent consideration is dependent on the renewed revenue level. The payment under these arrangements is dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £38.4m. Based on projections, management expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £25.7m of revenue and £6.0m to the Group's profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,367.6m and the Group's continuing operating profit would have been £205.7m.

(b) Acquisitions – ALSA

During the year the ALSA division acquired 100% control of six businesses in Spain and Switzerland, none of which are material individually:

- Odier Excursions SA – tourist charter and other transportation services in Geneva, Switzerland
- Transportes Santo Domingo S.L. – urban bus services in Madrid, Spain
- Tranvías Metropolitanos de Granada – regional bus services in Granada, Spain
- Maitours S.L. – charter and school bus transportation in Madrid, Spain
- Chamexpress – airport transfers from Geneva to French and Swiss mountain resorts
- GVA Transfers – airport transfers from Geneva to French and Swiss mountain resorts

In aggregate, the provisional fair values of the assets and liabilities acquired were as follows:

	£m
Intangible assets	5.9
Property, plant and equipment	5.0
Trade and other receivables	2.7
Cash and cash equivalents	1.6
Trade and other payables	(4.8)
Borrowings and finance leases	(4.3)
Deferred tax assets	0.8
Net assets acquired	6.9
Goodwill	11.6
Total consideration	18.5
Represented by:	
Cash consideration	16.7
Payments for cash acquired in the businesses	1.6
Deferred consideration	0.2
	18.5

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

19 Business combinations continued

(b) Acquisitions – ALSA continued

Trade and other receivables had a fair value and a gross contractual value of £2.7m. The best estimate at acquisition date of the contractual cash flows not to be collected was £nil.

Goodwill of £11.6m arising from the acquisitions consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired businesses and increased scale in our operations in Spain and Switzerland, along with synergy benefits expected to be achieved.

There are no contingent amounts within the consideration for the above ALSA acquisitions.

The acquired businesses contributed £6.8m of revenue and £1.5m to the Group's profit for the periods between the dates of acquisition and the Balance Sheet date. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,327.7m and the Group's continuing operating profit would have been £198.7m.

(c) Acquisitions – further information

Deferred consideration of £44.5m was paid in the year relating to acquisitions in North America in earlier years. Total cash outflow in the year from acquisitions in the North America division was therefore £76.0m, comprising consideration for current year acquisitions of £35.7m and deferred consideration of £44.5m, less cash acquired in the businesses of £4.2m.

In addition for North America, during the year there was reduction to the provisional fair values of businesses acquired in the prior year of £9.5m.

Total cash outflow in the year from acquisitions in the ALSA division was £16.7m, comprising consideration of £18.3m, less cash acquired in the businesses of £1.6m.

In December 2016, the UK division acquired E Clarke & Son (Coaches) Limited. The fair values of net assets were adjusted in 2017 resulting in additional goodwill of £1.4m. In addition, £4.5m of deferred consideration relating to the acquisition was settled during 2017.

(d) Disposals

On 10 February 2017, the Group disposed of the National Express Essex Thameside 'c2c' franchise to Trenitalia. The consideration received was £71.8m. Cash in the business on disposal was £14.9m and cash outflows in the year relating to costs of disposal were £14.1m, therefore the net cash inflow in the year from the disposal was £42.8m.

Further details of this disposal are disclosed in note 11.

20 Non-current assets – trade and other receivables

	2017 £m	2016 £m
Prepayments	**0.5**	1.5
Other receivables	**19.6**	16.7
	20.1	18.2

Other receivables includes amounts relating to insurance claims awaiting settlement, as described further in note 22.

21 Inventories

	2017 £m	2016 £m
Raw materials and consumables	**24.9**	25.0

The movement on the provision for slow moving and obsolete inventory is immaterial.

22 Current assets – trade and other receivables

	2017 £m	2016 (restated) £m
Trade receivables	**202.5**	176.9
Less: provision for impairment of receivables	**(13.5)**	(12.9)
Trade receivables – net	**189.0**	164.0
Amounts due from associates and joint ventures (note 36)	**1.6**	1.2
Amounts due from other related parties (note 36)	**0.7**	0.6
Grants and subsidies receivable	**49.8**	34.2
Other receivables	**63.4**	56.7
Prepayments	**28.6**	27.1
Accrued income	**23.2**	18.9
	356.3	302.7

An analysis of the provision for impairment of receivables is provided below:

	2017 £m	2016 £m
At 1 January	**(12.9)**	(10.8)
Charged to the Income Statement	**(0.8)**	(1.3)
Utilised in the year	**0.6**	0.9
Exchange difference	**(0.4)**	(1.7)
At 31 December	**(13.5)**	(12.9)

Amounts included within trade receivables which are past due at the reporting date are shown in note 30.

Certain amounts included within current and non-current other receivables are in relation to insurance claims awaiting settlement. Additional disclosure regarding these claims may unfairly prejudice the Group's position and consequently this disclosure is not provided. None of the remaining amounts within other receivables are individually material.

In order to provide greater clarity of receivables, grants and subsidies have been presented separately, with a recategorisation of the prior year comparatives. Specifically, £4.9m was recategorised from trade receivables and £29.3m from other receivables.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

23 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**100.7**	66.0
Overnight deposits	**4.9**	3.5
Other short-term deposits	**208.7**	248.6
Cash and cash equivalents	**314.3**	318.1

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.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

24 Current liabilities – trade and other payables

	2017 £m	2016 (restated) £m
Trade payables	258.5	196.9
Amounts owed to associates and joint ventures (note 36)	1.0	1.7
Amounts owed to other related parties (note 36)	1.3	0.8
Other tax and social security payable	27.3	24.8
Accruals and deferred income	197.7	178.1
Other payables	186.6	198.4
	672.4	600.7

Trade payables are normally settled on 30-day terms and other payables have an average term of four months.

Included within other payables are deferred fixed asset grants from government or other public bodies of £0.7m (2016: £0.4m), amounts payable for the purchase of property, plant and equipment of £101.7m (2016: £126.4m) and factoring of German Rail revenues of £12.5m (2016: £6.3m). Other payables also includes £54.0m (2016: £54.6m) of deferred consideration for businesses acquired, of which £49.2m (2016: £46.7m) relates to businesses acquired in the year (note 19).

Following a review of payables, management determined that it would improve the presentation to disclose payables relating to payroll-related payments within accruals and deferred income. Previously these were disclosed within other payables. A restatement of £40.6m has been made to the respective amounts in the comparative year.

25 Other non-current liabilities

	2017 £m	2016 £m
Deferred fixed asset grants	2.8	3.3
Other liabilities	33.2	17.9
	36.0	21.2

Other liabilities includes £32.5m (2016: £14.7m) of deferred consideration for businesses acquired, of which £25.8m (2016: £10.2m) relates to businesses acquired in the year (note 19).

26 Provisions

	Claims provision[1] £m	Other[2] £m	Total £m
At 1 January 2017	113.6	0.8	114.4
Charged to the Income Statement	36.5	16.6	53.1
Utilised in the year	(49.1)	(0.6)	(49.7)
Unwinding of discount	1.3	–	1.3
Acquired in business combinations	21.6	–	21.6
Exchange difference	(9.8)	–	(9.8)
At 31 December 2017	114.1	16.8	130.9
Current 31 December 2017	54.3	11.2	65.5
Non-current 31 December 2017	59.8	5.6	65.4
	114.1	16.8	130.9
Current 31 December 2016	56.4	0.8	57.2
Non-current 31 December 2016	57.2	–	57.2
	113.6	0.8	114.4

1 The claims provision arises from estimated exposures at the year end for auto and general liability, workers' compensation and environmental claims, the majority of which will be utilised in the next five years. It comprises provisions for claims arising in the UK and North America.

2 Other primarily relates to amounts provided for restructuring activities. The majority will be utilised within one year, with the remainder expected to be utilised within the next five years.

When the effect is material, the provisions are discounted to their net present value.

27 Deferred tax

	2017 £m	2016 £m
Net deferred tax liability at 1 January	(34.6)	(22.7)
Charge to Income Statement	(5.8)	(17.7)
(Charge)/credit to Other Comprehensive Income or Equity	(4.1)	9.4
Exchange differences	1.3	(10.7)
Acquired in business combinations	24.6	0.2
Less: amounts reclassified as held for sale	–	6.9
Net deferred tax liability at 31 December	(18.6)	(34.6)

Deferred tax movements in Other Comprehensive Income includes a £1.2m credit relating to brought forward assets held for sale and therefore excluded from the above reconciliation. The total net deferred tax charge to Other Comprehensive Income or Equity is £2.9m.

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax assets	2017 £m	2016 £m
Accelerated tax depreciation	(6.0)	(0.7)
Losses carried forward	30.7	27.7
Pensions	15.9	15.3
Other short-term temporary differences	0.8	6.0
Total	41.4	48.3

Deferred tax liabilities	2017 £m	2016 £m
Accelerated tax depreciation	(178.2)	(213.5)
Losses carried forward	43.4	64.4
Intangibles and deductible goodwill	73.6	64.4
Taxation credits	1.6	1.8
Other short-term temporary differences	(0.4)	–
Total	(60.0)	(82.9)

Deferred tax assets and liabilities within the same jurisdiction have been offset.

The UK and German businesses are included in deferred tax assets of £41.4m and the Spanish, US and Canadian businesses are included in deferred tax liabilities of £60.0m.

The deferred tax assets relating to losses carried forward are £74.1m (2016: £92.1m). This comprises £30.7m (2016: £27.7m) within deferred tax assets and £43.4m (2016: £64.4m) within deferred tax liabilities.

Deferred tax assets other short-term temporary differences of £0.8m (2016: £6.0m) comprises timing differences on share-based payments, fair value of hedging and other smaller items.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

28 Borrowings and derivative financial liabilities

	2017 £m	2016 £m
Non-current		
Bank loans	**8.4**	9.2
Bonds	**851.9**	631.8
Finance lease obligations	**124.1**	103.5
Other debt payable	**73.6**	72.2
Non-current borrowings	**1,058.0**	816.7
Fuel derivatives	**1.3**	4.2
Non-current derivative financial instruments	**1.3**	4.2
Non-current borrowings and derivative financial liabilities	**1,059.3**	820.9
Current		
Bank loans	**107.2**	4.1
Bonds	**–**	351.4
Finance lease obligations	**49.0**	56.0
Other debt payable	**–**	0.2
Accrued interest on borrowings	**11.2**	32.1
Current borrowings	**167.4**	443.8
Fuel derivatives	**3.9**	21.1
Cross currency swaps	**4.1**	–
Foreign exchange derivatives	**1.8**	4.9
Current derivative financial instruments	**9.8**	26.0
Current borrowings and derivative financial liabilities	**177.2**	469.8

An analysis of interest-bearing loans and borrowings is provided in note 29. Further information on derivative financial instruments is provided in note 31.

29 Interest-bearing borrowings

The effective interest rates on loans and borrowings at the Balance Sheet date were as follows:

	2017 £m	Maturity	Effective interest rate	2016 £m	Maturity	Effective interest rate
7-year Sterling bond	–	–	–	351.4	January 2017	6.54%
10-year Sterling bond	230.4	June 2020	6.85%	232.9	June 2020	6.85%
7-year Sterling bond	400.2	November 2023	2.54%	398.9	November 2023	2.54%
2.5-year Euro floating rate note	221.3	May 2020	EURIBOR + 0.40%	–	–	–
Bonds	851.9			983.2		
European bank loans	2.3	2018–2020	1.60%	2.0	2017-2020	1.40%
European bank loans	2.8	2018	EURIBOR + 1.26%	6.2	2017-2019	EURIBOR + 1.05%
Moroccan bank loans	11.5	2018–2020	4.75%	3.6	2017-2020	5.04%
US bank loans	96.2	April 2018	US Dollar LIBOR +0.75%	–	–	–
Other short-term bank loans	2.8	–	–	1.5	–	–
Bank loans	115.6			13.3		
US Dollar finance leases at fixed rate	156.9	various	2.72%	144.3	various	2.25%
European finance leases at fixed rate	6.8	2018–2023	3.02%	7.4	2017-2024	2.80%
European finance leases at floating rate	8.5	2018–2022	EURIBOR + 1.61%	4.6	2017-2022	EURIBOR + 1.61%
Sterling finance leases at fixed rate	0.9	2018	4.08%	3.2	2017-2019	4.08%
Finance leases	173.1			159.5		
Euro Private Placement	73.6	August 2021	4.55%	71.9	August 2021	4.55%
Euro loans	–	–	–	0.5	2017-2026	
Other debt payable	73.6			72.4		
Accrued interest – Bonds	9.5			30.8		
Accrued interest – Private Placement	1.2			1.3		
Accrued interest – US bank loans	0.5			–		
Accrued interest on borrowings	11.2			32.1		
Total	1,225.4			1,260.5		

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

29 Interest-bearing borrowings continued

In 2017, the Group entered into additional unsecured committed revolving credit facilities totalling £32.0m. The facilities are on the same terms as the Group's existing £512m bank facilities. All facilities mature in November 2021. At 31 December 2017, there was €nil (2016: €nil) drawn down on the facilities, with £2.0m of capitalised deal fees remaining.

In November 2016, the Group issued a £400m seven-year Sterling bond with a coupon of 2.5%. The proceeds were used to repay the £350m Sterling bond that matured in January 2017, with the remainder to be used for general corporate purposes.

In November 2017, the Group issued €250.0m two and a half year floating rate notes at EURIBOR +0.4% and in July 2017 entered into a $130.0m floating term loan at US Dollar LIBOR +0.75%, maturing in April 2018, both used for general corporate purposes.

Under the terms of the £1bn Euro Medium Term Note ('EMTN') programme, there is a change in control put option such that, upon a change of control event, any note holder may require the Company to redeem or purchase that MTN.

Details of the Group's interest rate risk management strategy and associated interest rate derivatives are included in notes 30 and 31.

The Group is subject to a number of financial covenants in relation to its syndicated credit facilities which, if contravened, could result in its borrowings under those facilities becoming immediately repayable. These covenants specify maximum net debt to EBITDA and minimum EBITDA to net interest payable.

The following table sets out the carrying amount, by maturity, of the Group's interest-bearing borrowings and deposits:

As at 31 December 2017	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(102.0)	(2.0)	(4.1)	(1.6)	(0.2)	(0.1)	(110.0)
Bonds	–	–	(451.7)	–	–	(400.2)	(851.9)
Finance leases	(45.8)	(38.2)	(25.5)	(17.8)	(17.6)	(19.7)	(164.6)
Other debt payable	–	–	–	(73.6)	–	–	(73.6)
Floating rate							
Cash assets	314.3	–	–	–	–	–	314.3
Other debt receivables	0.7	–	–	–	–	–	0.7
Bank loans	(5.2)	(0.4)	–	–	–	–	(5.6)
Finance leases	(3.2)	(2.6)	(1.2)	(0.9)	(0.5)	(0.1)	(8.5)

As at 31 December 2016	< 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m	Total £m
Fixed rate							
Bank loans	(1.4)	(3.2)	(0.8)	(0.1)	–	(0.1)	(5.6)
Bonds	(351.4)	–	–	(232.9)	–	(398.9)	(983.2)
Finance leases	(54.0)	(35.5)	(26.7)	(12.2)	(10.6)	(15.9)	(154.9)
Other debt payable	(0.2)	–	(0.3)	–	(71.9)	–	(72.4)
Floating rate							
Cash assets	318.1	–	–	–	–	–	318.1
Bank loans	(2.7)	(0.4)	(4.6)	–	–	–	(7.7)
Finance leases	(2.0)	(1.0)	(0.8)	(0.3)	(0.3)	(0.2)	(4.6)

30 Financial risk management objectives and policies

Financial risk factors and management

The Group's multinational operations and debt levels expose it to a variety of financial risks, of which the most material are market risks relating to fuel prices, foreign currency exchange rates, interest rates and the availability of funding at reasonable margins. The Group has in place a risk management programme that seeks to manage the impact of these risks on the financial performance of the Group by using financial instruments including borrowings, committed facilities and forward foreign exchange, fuel and interest rate derivatives.

The Board of Directors has delegated the responsibility for implementing the financial risk management policies laid down by the Board to the Group Finance Director and the Group Treasurer. The policies are implemented by the Group Treasury department with regular reporting to the Group Finance Director and the Audit Committee on its activities.

Foreign currency

The Group has major foreign operations in the USA, Canada, Spain and Germany and as a result is exposed to the movements in foreign currency exchange rates on the translation of these foreign currency denominated net assets and earnings. These movements can have a significant impact on the Group's reported results. The Group seeks to manage this foreign currency exchange movement risk by aligning its foreign currency denominated liabilities with the EBIT generated in each currency, such that some protection is afforded to the net debt: EBITDA covenant within the Group's core borrowing facility. This is achieved by a combination of foreign currency borrowings and finance leases, and entering into derivative financial instruments such as cross currency interest rate swaps and foreign exchange swaps. At the year end, the Group had outstanding foreign exchange derivatives for net investment purposes of €176.3m, USD158.3m and CAD92.0m, outstanding cross currency interest rate swaps of €222.7m and €114.6m and finance leases of USD212.0m and €17.3m.

Foreign exchange and cross currency interest rate swaps are derivative financial instruments designated as net investment hedges of foreign currency assets. The effective portion of the gain or loss on the hedge is recognised in the Group Statement of Comprehensive Income and recycled to the Income Statement at the same time as the underlying hedged net assets affect the Income Statement. Any material ineffectiveness is taken to the Income Statement.

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in foreign exchange rates, with all other variables held constant. This would affect the Group's profit before tax and translation reserve. The effect on the translation reserve represents the movement in the translated value of the foreign currency denominated loans and change in fair value of cross currency swap contracts. These movements would be offset by an opposite movement in the translated value of the Group's overseas net investments. It is estimated that a 10% change in the corresponding exchange rates would result in an exchange gain or loss in the translation reserve of £67.1m.

		2017		2016	
As at 31 December	Strengthening/ (weakening) in currency	**Effect on profit before tax £m**	**Effect on translation reserve £m**	Effect on profit before tax £m	Effect on translation reserve £m
US Dollar	10%	**–**	**(23.0)**	–	(27.6)
Euro	10%	**–**	**(39.2)**	–	(13.5)
Canadian Dollar	10%	**–**	**(4.9)**	–	(4.7)
US Dollar	(10)%	**–**	**23.0**	–	27.6
Euro	(10)%	**–**	**39.2**	–	13.5
Canadian Dollar	(10)%	**–**	**4.9**	–	4.7

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30 Financial risk management objectives and policies continued

Interest rate risk

The Group is exposed to movements in interest rates on both interest-bearing assets and liabilities. It is the Group's policy to maintain an appropriate balance between fixed and floating interest rates on borrowings in order to provide a level of certainty to interest expense in the short term and to reduce the year-on-year impact of interest rate fluctuations over the medium term. To achieve the desired fixed/floating ratio, the Group has entered into a series of interest rate swaps that have the effect of converting fixed rate debt to floating rate debt. The net effect of these transactions was that as at 31 December 2017 the proportion of the Group's gross debt at floating rates was 43% (2016: 24%).

The table below demonstrates the sensitivity of the Group's financial instruments to a reasonably possible change in interest rates, with all other variables held constant, on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis covers all floating rate financial instruments, including the interest rate swaps. If the interest rates applicable to floating rate instruments were increased by 100bps it is estimated that the Group's profit before taxation would increase by approximately £1.6m relating to Sterling, £0.2m relating to the US Dollar and decrease £2.8m relating to the Euro. The analysis assumes that the amount and mix of floating rate debt, including finance leases, remains unchanged from that in place at 31 December 2017.

		2017		2016	
As at 31 December	Increase/ (decrease) in basis points	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling	100	**1.6**	**–**	0.7	–
US Dollar	100	**0.2**	**–**	0.3	–
Euro	100	**(2.8)**	**–**	(0.6)	–
Sterling	(100)	**(1.6)**	**–**	(0.7)	–
US Dollar	(100)	**(0.2)**	**–**	(0.3)	–
Euro	(100)	**2.8**	**–**	0.6	–

30 Financial risk management objectives and policies continued

Commodity prices

The Group is exposed to movements in commodity prices as a result of its fuel usage. It is the Group's policy to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year-on-year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives. At 31 December 2017, the Group had hedged approximately 95% of its 2018 expected usage, 71% of its expected usage in 2019 and 35% of its expected usage in 2020 (see the Group Finance Director's review for further details).

The table below demonstrates the effect of a reasonably possible variation in fuel prices, with all other variables held constant, on the fair value of the Group's financial instruments and accordingly on the Group's profit before tax and on the Group's hedging reserve.

The sensitivity analysis includes all fuel derivatives. The effect on the hedging reserve arises through movements on the fair value of the Group's fuel derivatives. For these derivative contracts the sensitivity of the net fair value to an immediate 10% increase or decrease in all prices would have been £15.5m at 31 December 2017. The figure does not include any corresponding economic advantage or disadvantage that would arise from the natural business exposure which would be expected to offset the gain or loss on the derivatives.

		2017		2016	
As at 31 December	Increase/ (decrease) in price	**Effect on profit before tax £m**	**Effect on hedging reserve £m**	Effect on profit before tax £m	Effect on hedging reserve £m
Sterling denominated ULSD	10%	**–**	**6.0**	–	7.7
US Dollar denominated heating oil/diesel	10%	**–**	**3.2**	–	3.9
US Dollar denominated gasoline	10%	**–**	**1.0**	–	1.5
Euro denominated ULSD	10%	**–**	**5.3**	–	7.4
Sterling denominated ULSD	(10)%	**–**	**(6.0)**	–	(7.7)
US Dollar denominated heating oil/diesel	(10)%	**–**	**(3.2)**	–	(3.9)
US Dollar denominated gasoline	(10)%	**–**	**(1.0)**	–	(1.5)
Euro denominated ULSD	(10)%	**–**	**(5.3)**	–	(7.4)

Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. This risk is mitigated by a number of factors. Many of the Group's principal customers, suppliers and financial institutions with which it conducts business are local public (or quasi-public) bodies, including school boards in North America, municipal authorities in Spain and Morocco, Transport for London and the West Midlands Combined Authority in the UK, and regional authorities in Germany. The Group does not consider these counterparties to pose a significant credit risk. Outside of this, the Group does not consider it has significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

The only elements of the Group's financial assets which are not impaired but are past due are certain trade receivable items. An ageing of the assets which are past due is included in the following table. In terms of trade receivables that are neither impaired nor past due, there are no confirmed indications as at the year end reporting date that the debtors will not meet their payment obligations (see Risk and risk management section for details of how management manages this process).

			Of which: not impaired and past due in the following periods			
	Carrying amount £m	Of which: neither impaired nor past due £m	Less than 30 days £m	Between 30 and 60 days £m	Between 61 and 90 days £m	Over 90 days £m
Trade receivables at 31 December 2017	**189.0**	**113.9**	**33.1**	**10.2**	**6.0**	**25.8**
Trade receivables at 31 December 2016 (restated)	164.0	108.9	23.7	7.8	5.2	18.4

Trade receivables more than 90 days primarily relate to amounts receivable from public authorities in ALSA and receivables for school bus services in North America where amounts are settled on approval from the local governing bodies at the end of the school period. The Directors believe that based on the ongoing contractual relationships with predominantly public bodies these amounts will be collected.

Notes to the Consolidated Accounts continued
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30 Financial risk management objectives and policies continued

Liquidity risk

The Group's liquidity risk is centrally managed by the Group Treasury department with operating units forecasting their cash requirements. The Group actively maintains a mixture of medium and long-term committed facilities designed to ensure the Group has sufficient available funds to meet current and forecast funding requirements. In managing liquidity risk, the Group has access to a range of funding sources through the banking and capital markets.

In November 2017, the Group issued €250.0m two and a half year floating rate notes at EURIBOR +0.4% and in July 2017 entered into a $130.0m floating term loan at US dollar LIBOR +0.75%, maturing in April 2018, both used for general corporate purposes.

In December 2017, the Group entered into an additional unsecured committed revolving credit facility of £32m. This facility is on the same terms as the Group's existing £512m unsecured committed revolving credit facilities and mature in November 2021. At 31 December 2017, there was £nil (2016: £nil) drawn down on the facilities.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 based on the contractual undiscounted cash flows including interest cash flows. As such, the amounts in this table will not agree to the carrying amounts disclosed in the Balance Sheet or other notes. The table includes cash flows associated with derivative hedging instruments. Their amounts reflect the maturity profile of the fair value liability where the instrument will be settled net, and the gross settlement amount where the pay leg of a derivative will be settled separately to the receive leg.

Year ended 31 December 2017	On demand £m	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	–	107.3	8.3	–	115.6
Bonds	–	25.1	517.2	410.0	952.3
Finance lease obligations	–	53.5	112.5	20.5	186.5
Other debt payable	–	3.2	79.3	–	82.5
Trade and other payables	–	671.7	33.2	–	704.9
	–	860.8	750.5	430.5	2,041.8
Foreign exchange derivatives	–	1.5	–	–	1.5
Interest rate derivatives	–	4.0	10.2	–	14.2
Cross currency interest rate swaps	–	(2.7)	8.0	4.1	9.4
Fuel derivatives	–	3.8	1.5	–	5.3
	–	6.6	19.7	4.1	30.4

Year ended 31 December 2016	On demand £m	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
Bank loans	–	4.3	9.2	0.1	13.6
Bonds	–	396.8	309.7	420.0	1,126.5
Finance lease obligations	–	59.2	91.7	17.2	168.1
Other debt payable	–	3.5	79.4	0.1	83.0
Trade and other payables	–	600.7	17.9	–	618.6
	–	1,064.5	507.9	437.4	2,009.8
Foreign exchange derivatives	–	3.9	–	–	3.9
Interest rate derivatives	–	(8.4)	(14.2)	–	(22.6)
Cross currency interest rate swaps	–	(2.1)	(8.4)	(4.2)	(14.7)
Fuel derivatives	–	18.2	(5.9)	–	12.3
	–	11.6	(28.5)	(4.2)	(21.1)

Capital risk management

The Group seeks to adopt efficient financing structures that enable it to use its Balance Sheet strength to achieve the Group's objectives without putting shareholder value at risk. The Group's capital structure comprises its equity (refer to the Group Statement of Changes in Equity) and its net debt (refer to note 37).

The increase in the Group's net debt from £878.0m to £887.9m (excluding accrued interest) is explained in the Group Finance Director's Review. Information about the financial covenants in relation to the Group's borrowing facilities is included in note 29.

31 Financial instruments (including cash, trade receivables and payables)

Fair values

The table overleaf illustrates the fair values of all financial assets and liabilities held by the Group at 31 December 2017.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method and the carrying value in all cases approximates to the fair value.

Available-for-sale investments are non-derivative assets that are either designated as available for sale, or are not classified as loans and receivables or held to maturity investments. The Group's available-for-sale investments have no active market, and in the absence of any other reliable external information are carried at cost or amortised cost which approximates to the fair value.

The Group's derivatives are measured at fair value. The fair value of these instruments 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 use of valuation techniques using market data. Derivatives, other than those designated as effective hedging instruments, are classified as fair value through profit or loss and are carried on the Balance Sheet at their fair value with gains or losses recognised in the Income Statement. Derivatives designated as hedging instruments in an effective hedge are carried on the Balance Sheet at their fair value. For cash flow hedges and hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the Income Statement. Amounts taken to Other Comprehensive Income are transferred to the Income Statement when the hedged transaction affects profit or loss or when the foreign operation is sold or partially disposed. For fair value hedges, all gains or losses are recognised in the Income Statement.

The fair value measurement of derivative instruments is categorised within Level 2 (ie the fair values are derived based on observable market inputs). The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs, ie those that would be classified as Level 3 in the fair value hierarchy, other than the deferred contingent consideration disclosed in note 19. 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 movements.

The Group's bonds are held at a hybrid amortised cost with a fair value adjustment. After initial recognition at fair value, the bonds are measured at amortised cost using the effective interest rate method. A portion of the bonds is designated as the hedged item in an effective fair value hedging relationship. As such, the carrying value of this portion is adjusted for changes in fair value attributable to the risk being hedged. This net carrying value will differ to the fair value depending on movements in the Group's credit risk, movements in interest rates on the un-hedged portion and unamortised fees.

All other liabilities, including finance leases, bank loans, trade and other payables and other debt payable, are held at amortised cost. After initial fair value recognition, these instruments are measured at amortised cost using the effective interest rate method. The carrying value of these liabilities approximates to the fair value.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

31 Financial instruments (including cash, trade receivables and payables) continued

Fair values continued

Classification of financial instruments As at 31 December 2017	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	8.1	–	–	–	8.1
Fuel derivatives	–	–	10.4	–	–	10.4
Interest rate derivatives	–	–	14.2	–	–	14.2
Cross currency swaps	–	–	0.9	–	–	0.9
Foreign exchange derivatives	–	–	3.3	–	–	3.3
Cash and cash equivalents	314.3	–	–	–	–	314.3
Trade and other receivables	324.1	–	–	–	–	324.1
	638.4	8.1	28.8	–	–	675.3
Liabilities						
Bank loans	–	–	–	(116.1)	–	(116.1)
Bonds including accrued interest	–	–	–	(861.4)	–	(861.4)
Finance lease obligations	–	–	–	(173.1)	–	(173.1)
Other debt payable	–	–	–	(74.8)	–	(74.8)
Fuel derivatives	–	–	(5.2)	–	–	(5.2)
Cross currency swaps	–	–	(4.1)	–	–	(4.1)
Foreign exchange derivatives	–	–	(1.8)	–	–	(1.8)
Trade and other payables	–	–	–	(704.9)	–	(704.9)
	–	–	(11.1)	(1,930.3)	–	(1,941.4)

Classification of financial instruments As at 31 December 2016	Loans and receivables £m	Available-for-sale assets £m	Derivatives used for hedging £m	Liabilities measured at amortised cost £m	At fair value through profit or loss £m	Total £m
Assets						
Investments	–	7.8	–	–	–	7.8
Fuel derivatives	–	–	12.2	–	–	12.2
Interest rate derivatives	–	–	22.7	–	–	22.7
Cross currency swaps	–	–	8.2	–	–	8.2
Foreign exchange derivatives	–	–	1.0	–	–	1.0
Cash and cash equivalents	318.1	–	–	–	–	318.1
Trade and other receivables	273.4	–	–	–	–	273.4
	591.5	7.8	44.1	–	–	643.4
Liabilities						
Bank loans	–	–	–	(13.3)	–	(13.3)
Bonds including accrued interest	–	–	–	(1,014.0)	–	(1,014.0)
Finance lease obligations	–	–	–	(159.5)	–	(159.5)
Other debt payable	–	–	–	(73.7)	–	(73.7)
Fuel derivatives	–	–	(25.3)	–	–	(25.3)
Foreign exchange derivatives	–	–	(4.9)	–	–	(4.9)
Trade and other payables	–	–	–	(618.2)	–	(618.2)
	–	–	(30.2)	(1,878.7)	–	(1,908.9)

Other receivables and other payables are to be settled in cash in the currency they are held in.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. No embedded derivatives have been identified.

31 Financial instruments (including cash, trade receivables and payables) continued

Fair values continued

The Group assesses at each year end reporting date whether a financial asset or group of financial assets is impaired. In the financial year 2017, there was no objective evidence that would have necessitated the impairment of loans and receivables or available-for-sale assets except the provision for impairment of receivables (see note 22).

Hedging activities

The Group uses derivative financial instruments to manage exposures to market risk, such as movements in foreign exchange rates, fuel prices and interest rates. Such derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. In line with IAS 39 the Group classifies hedges as (a) fair value hedges used to hedge exposure to changes in the fair value of a recognised asset or liability, (b) cash flow hedges used to hedge exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction, and (c) hedges of a net investment in a foreign operation.

In 2017, the Group applied cash flow hedge accounting to hedge floating fuel price risks in highly probable forecast purchase transactions and for hedging net investments in its US Dollar and Euro foreign operations. The Group also applied fair value hedge accounting on £100m of the Group's fixed rate bonds and €78.5m Private Placement to hedge changes in fair value due to interest rate fluctuations.

The movement on derivative financial instruments is detailed below:

	Fuel swaps £m	**Interest rate swaps £m**	**Cross currency swaps £m**	**Foreign exchange forward contracts £m**	**Total £m**
Net asset/(liability) at 1 January 2017	**(13.1)**	**22.7**	**8.2**	**(3.9)**	**13.9**
Transfers to the Income Statement on cash flow hedges	**23.6**	**–**	**–**	**–**	**23.6**
Cash settlements	**–**	**–**	**–**	**(5.7)**	**(5.7)**
Revaluation through Income Statement	**–**	**(9.6)**	**–**	**–**	**(9.6)**
Revaluation through Other Comprehensive Income	**(5.3)**	**–**	**–**	**–**	**(5.3)**
Transfers	**–**	**1.1**	**–**	**–**	**1.1**
Exchange differences	**–**	**–**	**(11.4)**	**11.1**	**(0.3)**
Net asset/(liability) at 31 December 2017	**5.2**	**14.2**	**(3.2)**	**1.5**	**17.7**

	Fuel swaps £m	Interest rate swaps £m	Cross currency swaps £m	Foreign exchange forward contracts £m	Total £m
Net asset/(liability) at 1 January 2016	(83.8)	22.2	–	0.6	(61.0)
Transfers to the Income Statement on cash flow hedges	43.7	–	–	–	43.7
Cash settlements	–	–	–	46.3	46.3
Revaluation through Income Statement	–	0.5	–	–	0.5
Revaluation through Other Comprehensive Income	27.0	–	–	–	27.0
Exchange differences	–	–	8.2	(50.8)	(42.6)
Net asset/(liability) at 31 December 2016	(13.1)	22.7	8.2	(3.9)	13.9

The movement on the hedging reserve is detailed below:

	2017 £m	2016 £m
At 1 January	**2.8**	(67.5)
Transferred to Income Statement	**23.6**	43.7
Revaluation through Other Comprehensive Income	**(5.3)**	27.0
Exchange differences	**(13.2)**	11.8
Tax on revaluation	**(3.4)**	(12.2)
At 31 December	**4.5**	2.8

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

31 Financial instruments (including cash, trade receivables and payables) continued

Hedge of net investments in foreign entities

The Group uses foreign currency borrowings and derivative financial instruments to hedge the net investment in material foreign currency net assets of the Group which are used to reduce the exposure to foreign exchange rate movements. At 31 December 2017, the Group had designated €176.3m of synthetic debt in the form of foreign exchange derivatives, €222.7m in cross currency interest rate swaps, a €250.0m FRN, a €114.6m term loan and a €78.5m Private Placement as net investment hedges of the net assets of its Euro subsidiaries. Similarly, USD158.5m and CAD92.0m of synthetic debt in the form of foreign exchange derivatives were designated as a hedge of the net assets of the Group's North America subsidiaries. No ineffectiveness was recognised in relation to these hedges.

Fuel derivatives

The Group has a number of fuel derivatives in place to hedge the different types of fuel used in each division. Fuel swaps are used to match the timing, type of fuel and currency in which the domestic physical fuel is purchased as closely as possible, with hedges currently in place from 2018 through to 2020.

During the year £5.3m of fair value losses (2016: £27.0m gains) have been transferred to the hedging reserve due to movements in market fuel prices. A fair value loss of £23.6m (2016: £43.7m loss) has been transferred from the hedging reserve to the Income Statement following settlement of fuel trades, of which £2.8m was recognised in the hedging reserve at 1 January 2017 and the remainder was generated during the year due to the movement in market fuel prices. Due to immateriality, £nil was recognised in the Income Statement in relation to hedge ineffectiveness (2016: £nil).

Fuel derivatives can be analysed as follows:

	31 December 2017 Fair value £m	31 December 2016 Fair value £m	**31 December 2017 Volume million litres**	31 December 2016 Volume million litres
Hedge fuel derivatives				
Sterling denominated – UK	**0.7**	(2.2)	**74.6**	80.8
Euro denominated – ALSA	**0.8**	(7.7)	**76.0**	82.3
US Dollar denominated – North America	**2.5**	(7.6)	**52.4**	53.2
Fuel derivatives included in current assets/(liabilities)	**4.0**	(17.5)	**203.0**	216.3
Sterling denominated – UK	**(0.1)**	0.8	**97.2**	117.7
Euro denominated – ALSA	**(0.5)**	2.2	**77.1**	123.6
US Dollar denominated – North America	**1.8**	1.4	**63.1**	90.2
Fuel derivatives included in non-current assets/(liabilities)	**1.2**	4.4	**237.4**	331.5
Total hedge fuel derivatives	**5.2**	(13.1)	**440.4**	547.8

Interest rate swaps at fair value through profit or loss

In July 2010, the Group entered into two £50m interest rate swaps that pay floating interest (LIBOR + margin) semi-annually and receive fixed interest annually. These are designated as fair value hedges of interest rate risk with maturities matching the Group's £225m Sterling bonds maturing in June 2020. These swaps are measured at fair value through profit or loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free interest rate on the swapped portion of the bonds. As at 31 December 2017, a total fair value loss of £4.1m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value gain of £4.1m on the underlying hedged item, in this case changes in fair value on £100m of the Group's £225m bonds due to changes in the risk-free interest rate.

In September 2012, the Group entered into two €39.25m denominated interest rate swaps equal in value to the Euro Private Placement. These interest rate swaps all pay floating interest (EURIBOR + margin) semi-annually, receive fixed interest annually with maturities matching the Euro Private Placement and are designated as a fair value hedge of the interest rate risk on the Private Placement. These swaps are measured at fair value through profit and loss, with any gains or losses being taken immediately to the Income Statement to offset any fair value gains or losses due to changes in the risk-free rate on the Euro Private Placement. As at 31 December 2017, a total fair value gain of £1.1m was recognised in the Income Statement in relation to these swaps. This is offset by a fair value loss of £1.1m on the underlying hedged item, in this case changes in fair value of the Euro Private Placement due to changes in the risk-free interest rate.

32 Called-up share capital

	2017 £m	2016 £m
At 31 December:		
Authorised:		
800,000,000 (2016: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2016: 511,738,648) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 2,773,080 (2016: 2,422,638) of which 2,316,546 (2016: 1,981,675) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 1,643,746 (2016: 2,260,292) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 1,700,000 (2016: 1,746,500) shares and 2,316,546 (2016: 1,981,675) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2016: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2017 was £6.3m (2016: £8.0m). The dividends payable on 1,520,405 of these shares have been waived (2016: 2,090,464).

33 Other reserves

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2017	**15.4**	**2.8**	**175.9**	**194.1**
Hedge movements, net of tax	**–**	**1.7**	**–**	**1.7**
Exchange differences, net of tax	**–**	**–**	**(14.2)**	**(14.2)**
At 31 December 2017	**15.4**	**4.5**	**161.7**	**181.6**

	Merger reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2016	15.4	(67.5)	(28.0)	(80.1)
Hedge movements, net of tax	–	70.3	–	70.3
Exchange differences, net of tax	–	–	203.9	203.9
At 31 December 2016	15.4	2.8	175.9	194.1

The nature and purpose of the other reserves are as follows:

- The merger reserve includes the premium on shares issued to satisfy the purchase of Prism Rail PLC in 2000.
- The hedging reserve records the movements on designated hedging items, offset by any movements recognised in equity on underlying hedged items.
- The translation reserve records exchange differences arising from the translation of the accounts of foreign currency denominated subsidiaries offset by the movements on loans and derivatives used to hedge the net investment in foreign subsidiaries.

Notes to the Consolidated Accounts continued
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34 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

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

Subsidiaries in North America contribute to a number of defined contribution plans.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and ALSA, and maintains a small defined benefit scheme for National Express Services Limited, previously part of the UK Rail division. The principal UK Rail defined benefit scheme was transferred to Trenitalia as part of the disposal of NXET Trains Limited on 10 February 2017 (note 11). Post-employment benefits for North America, ALSA and UK rail have been combined into the 'Other' category.

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

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

In 2017, the UK division agreed a three-year annual deficit repayment plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2020 with an average contribution of £7.7m per annum. The plan remains open to accrual for existing members only.

The Group expects to contribute approximately £10.0m to its defined benefit pension plans in 2018.

The total pension cost charged to operating profit in the year for the continuing Group was £8.7m (2016: £7.4m), of which £3.9m (2016: £3.7m) relates to the defined contribution schemes.

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

	2017 £m	2016 £m
Company	43.2	44.5
Pension assets	43.2	44.5
UK	(133.8)	(128.5)
Other	(3.9)	(4.2)
Pension liabilities	(137.7)	(132.7)
Total	(94.5)	(88.2)

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

Key risks relating to the Group's defined benefit pension schemes are as follows:

Investment risk

The present values of scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if the return on scheme assets is below this yield, it will create a deficit. The UK scheme holds a significant proportion of return-seeking assets (equities and diversified growth funds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The Company scheme, which holds a net surplus position and is closed to future accrual, primarily holds bonds.

Interest risk

A decrease in bond interest rates will increase scheme liabilities but this will be partially offset by an increase in the returns on the scheme assets.

Inflation risk

A significant proportion of the schemes' obligations are linked to inflation, and higher inflation will lead to higher liabilities. The Group has some inflation linking in its revenue streams, which helps to offset this risk. In addition, the UK scheme holds a small proportion of index-linked bonds which will help to protect against this risk and the Company scheme holds a liability driven investment portfolio which seeks to hedge against inflation.

Longevity risk

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. The Company scheme is closed to future accrual, thereby reducing exposure to increases in longevity risk. The UK scheme includes a buy-in policy covering part of the pensioner members' liabilities, which partly helps to mitigate longevity risk.

Legislative risk

Future legislative changes are uncertain. In the past these have led to both increases in obligations; for example, reduced investment return through the ability to reclaim Advance Corporation Tax, and decreases in obligations; for example, through the ability to use CPI inflation instead of RPI to set pension increase rates. The Company scheme is closed to future accrual, thereby reducing exposure to legislative change. For the UK scheme the Group receives professional advice on the impact of legislative changes.

The valuations conducted for financial reporting purposes are based on the triennial actuarial valuations. A summary of the latest triennial actuarial valuations for the principal schemes, and assumptions made, is as follows:

	UK	Company
Date of actuarial valuation	31 March 2016	5 April 2016
Rate of investment returns per annum	4.5%	0%-2.1%
Increase in earnings per annum	2.3%	–%
Scheme assets taken at market value	£449.1m	£114.8m
Funding level	81%	97%

The most recent triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with IAS 19. The main actuarial assumptions underlying the IAS 19 valuations are:

	2017		2016	
	UK	**Company**	UK	Company
Rate of increase in salaries	**2.5%**	**2.5%**	2.5%	2.5%
Rate of increase of pensions in payment	**2.2%**	**3.2%**	2.4%	3.3%
Discount rate	**2.5%**	**2.5%**	2.7%	2.7%
Inflation assumption (RPI)	**3.2%**	**3.2%**	3.4%	3.4%
Inflation assumption (CPI)	**2.2%**	**2.2%**	2.4%	2.4%
Post-retirement mortality in years:				
Current pensioners at 65 – male	**21.5**	**23.1**	21.4	23.0
Future pensioners at 65 – male	**23.2**	**24.8**	22.8	24.9
Current pensioners at 65 – female	**23.5**	**25.9**	24.2	25.8
Future pensioners at 65 – female	**25.4**	**27.8**	25.7	27.5

The demographic assumptions reflect those adopted in the most recent triennial actuarial valuation.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

34 Pensions and other post-employment benefits continued

(a) Summary of pension benefits and assumptions continued

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:

(Increase)/decrease in the defined benefit obligation	UK £m	Company £m
Effect of a 0.1% increase in pensions in payment	(7.6)	(0.9)
Effect of a 0.1% increase in the discount rate	9.8	2.0
Effect of a 0.1% increase in inflation	(8.4)	(1.6)
Effect of a 0.1 year increase in mortality rates	(2.2)	(0.3)

Scheme assets are stated at their market values at the respective Balance Sheet dates. The expected rate of return on scheme assets is determined based on market returns on each category of scheme assets.

(b) Financial results for pension benefits

For the continuing Group, the amounts charged to the Group Income Statement and Group Statement of Comprehensive Income for the years ended 31 December 2017 and 2016 are set out in the following tables:

Group Income Statement	UK 2017 £m	Company 2017 £m	Other 2017 £m	Total 2017 £m
Amounts (charged)/credited:				
Current service cost	(4.3)	–	–	(4.3)
Net interest (expense)/income	(3.1)	1.2	(0.2)	(2.1)
Total continuing (charge)/credit to Income Statement	(7.4)	1.2	(0.2)	(6.4)

In addition, during the year £0.5m (2016: £0.2m) of administrative expenses were incurred in the continuing Group.

The net interest expense has been included within Finance Costs (see note 9).

Group Statement of Comprehensive Income	UK 2017 £m	Company 2017 £m	Other* 2017 £m	Total 2017 £m
Actuarial loss during the period from obligations	(22.7)	(1.9)	(5.7)	(30.3)
Expected return on plan assets greater/less than discount rate	20.2	(0.4)	0.2	20.0
Net actuarial loss prior to transfers	(2.5)	(2.3)	(5.5)	(10.3)
Transfers out – Tayside Transport Fund	(3.7)	–	–	(3.7)
Net actuarial loss	(6.2)	(2.3)	(5.5)	(14.0)

* includes £6.0m actuarial loss in the NXET Trains Limited Section of the RPS prior to disposal.

Group Income Statement – continuing Group	UK 2016 £m	Company 2016 £m	Other 2016 £m	Total 2016 £m
Amounts (charged)/credited:				
Current service cost	(3.2)	–	(0.3)	(3.5)
Net interest (expense)/income	(2.2)	1.3	(0.1)	(1.0)
Total continuing (charge)/credit to Income Statement	(5.4)	1.3	(0.4)	(4.5)

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

Group Statement of Comprehensive Income	UK 2016 £m	Company 2016 £m	Other 2016 £m	Total 2016 £m
Actuarial (loss)/gain during the period from obligations	(132.4)	(19.8)	10.0	(142.2)
Expected return on plan assets greater/less than discount rate	57.8	28.1	7.7	93.6
Change in asset ceiling	3.0	–	–	3.0
Net actuarial (losses)/gains	(71.6)	8.3	17.7	(45.6)

The amounts recognised in the Balance Sheet at 31 December are:

As at 31 December 2017	UK 2017 £m	Company 2017 £m	Other 2017 £m	Total 2017 £m
Equities	**101.6**	**–**	**1.8**	**103.4**
Bonds	**52.5**	**185.3**	**0.8**	**238.6**
Insurance policy	**237.7**	**–**	**–**	**237.7**
Diversified growth fund	**93.8**	**–**	**–**	**93.8**
Other	**0.6**	**(51.3)**	**0.2**	**(50.5)**
Fair value of scheme assets	**486.2**	**134.0**	**2.8**	**623.0**
Present value of liabilities and defined benefit obligation	**(620.0)**	**(90.8)**	**(6.7)**	**(717.5)**
Defined benefit pension (deficit)/surplus	**(133.8)**	**43.2**	**(3.9)**	**(94.5)**

As at 31 December 2016	UK 2016 £m	Company 2016 £m	Other 2016 £m	Total 2016 £m
Equities	131.8	–	1.8	133.6
Bonds	76.5	153.1	0.7	230.3
Property	4.9	–	–	4.9
Insurance policy	243.9	–	–	243.9
Diversified growth fund	81.1	–	–	81.1
Other	4.2	(18.9)	0.1	(14.6)
Fair value of scheme assets	542.4	134.2	2.6	679.2
Present value of liabilities and defined benefit obligation	(658.1)	(89.7)	(6.8)	(754.6)
Asset ceiling	(12.8)	–	–	(12.8)
Defined benefit pension (deficit)/surplus	(128.5)	44.5	(4.2)	(88.2)

The movement in the present value of the defined benefit obligation in the year is as stated below.

The Group's defined benefit obligation comprises £714.7m (2016: £751.9m) arising from plans that are wholly or partly funded and £2.8m (2016: £2.7m) from unfunded plans.

Based on the terms and conditions of the Company scheme, and from consultation with independent advisers, the Group determined that an ultimate future economic benefit exists in the form of a refund or a reduction in future contributions. Therefore, in accordance with IFRIC 14, the closing defined benefit surplus of this scheme has been recognised.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

The movement in the defined benefit obligations is as follows:

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2017	(658.1)	(89.7)	(6.8)	(754.6)
Current service cost	(4.3)	–	–	(4.3)
Benefits paid	27.8	3.1	0.1	31.0
Contributions by employees	(0.8)	–	–	(0.8)
Finance charge	(16.4)	(2.3)	(0.3)	(19.0)
Actuarial (loss)/gain from changes in financial assumptions	(6.9)	(1.9)	0.2	(8.6)
Actuarial loss arising from changes in demographics	(11.5)	–	0.1	(11.4)
Actuarial loss arising from experience adjustments	(4.3)	–	–	(4.3)
Transfers out – Tayside Transport Fund	54.5	–	–	54.5
Defined benefit obligation at 31 December 2017	**(620.0)**	**(90.8)**	**(6.7)**	**(717.5)**

	UK £m	Company £m	Other £m	Total £m
Defined benefit obligation at 1 January 2016	(529.4)	(70.2)	(90.4)	(690.0)
Current service cost	(3.2)	–	(3.2)	(6.4)
Past service credit	–	–	4.9	4.9
Benefits paid	27.8	2.9	2.8	33.5
Contributions by employees	(1.0)	–	(1.5)	(2.5)
Finance charge	(19.9)	(2.6)	(2.9)	(25.4)
Interest on franchise adjustment	–	–	1.4	1.4
Members' share of movement on liabilities	–	–	(20.9)	(20.9)
Actuarial (loss)/gain from changes in financial assumptions	(133.7)	(23.8)	20.4	(137.1)
Actuarial gain arising from changes in demographics	–	4.3	–	4.3
Actuarial gain/(loss) arising from experience adjustments	1.3	(0.3)	(10.4)	(9.4)
Movements arising from foreign exchange	–	–	(0.5)	(0.5)
Transferred to liabilities associated with assets held for sale	–	–	93.5	93.5
Defined benefit obligation at 31 December 2016	(658.1)	(89.7)	(6.8)	(754.6)

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

The movement in the fair value of scheme assets is as follows:

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2017	542.4	134.2	2.6	679.2
Expected return on plan assets	13.3	3.5	0.1	16.9
Expected return on plan assets greater/less than discount rate	20.2	(0.4)	0.2	20.0
Cash contributions – employer	8.2	–	0.1	8.3
Administrative expenses	(0.2)	(0.2)	(0.1)	(0.5)
Cash contributions – employee	0.8	–	–	0.8
Benefits paid	(27.8)	(3.1)	(0.1)	(31.0)
Transfers out – Tayside Transport Fund	(70.7)	–	–	(70.7)
Fair value of scheme assets at 31 December 2017	486.2	134.0	2.8	623.0

	UK £m	Company £m	Other £m	Total £m
Fair value of scheme assets at 1 January 2016	484.2	105.1	89.7	679.0
Expected return on plan assets	18.3	3.9	2.1	24.3
Expected return on plan assets greater/less than discount rate	57.8	28.1	7.7	93.6
Cash contributions – employer	9.1	–	2.3	11.4
Administrative expenses	(0.2)	–	(1.1)	(1.3)
Cash contributions – employee	1.0	–	1.5	2.5
Benefits paid	(27.8)	(2.9)	(2.8)	(33.5)
Members' share of return on assets	–	–	5.8	5.8
Transferred to assets held for sale	–	–	(102.6)	(102.6)
Fair value of scheme assets at 31 December 2016	542.4	134.2	2.6	679.2

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

34 Pensions and other post-employment benefits continued

(b) Financial results for pension benefits continued

History of experience gains and losses:	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
UK					
Fair value of scheme assets	**486.2**	542.4	484.2	493.4	456.4
Present value of defined benefit obligation	**(620.0)**	(658.1)	(529.4)	(544.0)	(497.2)
Asset ceiling	**–**	(12.8)	(15.2)	–	–
Deficit in the scheme	**(133.8)**	(128.5)	(60.4)	(50.6)	(40.8)
Experience adjustments arising on liabilities	**(4.3)**	1.3	3.2	(4.5)	(2.9)
Experience adjustments arising on assets	**20.2**	57.8	(7.9)	32.7	1.4
Company					
Fair value of scheme assets	**134.0**	134.2	105.1	101.8	74.6
Present value of defined benefit obligation	**(90.8)**	(89.7)	(70.2)	(71.2)	(62.0)
Surplus in the scheme	**43.2**	44.5	34.9	30.6	12.6
Experience adjustments arising on liabilities	**–**	(0.3)	–	–	(3.8)
Experience adjustments arising on assets	**(0.4)**	28.1	(2.2)	22.6	(2.8)
Other					
Fair value of scheme assets	**2.8**	2.6	89.7	84.4	75.0
Present value of defined benefit obligation	**(6.7)**	(6.8)	(90.4)	(89.6)	(87.3)
Members' share of deficit	**–**	–	13.6	13.3	10.4
(Deficit)/surplus in the scheme	**(3.9)**	(4.2)	12.9	8.1	(1.9)
Experience adjustments arising on liabilities	**–**	0.1	4.2	3.5	(0.1)
Experience adjustments arising on assets	**0.2**	0.3	1.1	3.1	2.0

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 January 2004 is a £128.2m loss (2016: £114.2m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity of £51.9m is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Statement of Comprehensive Income before 1 January 2004.

35 Commitments and contingencies

Operating lease commitments

The Group's total operating lease commitments are as follows:

		2017 £m	2016 £m
Future minimum rentals payable under non-cancellable operating leases:			
Within one year:	Land and buildings	**24.0**	25.3
	Plant and equipment	**31.2**	59.2
		55.2	84.5
After one year but not more than five years:	Land and buildings	**49.0**	65.9
	Plant and equipment	**156.2**	224.5
		205.2	290.4
More than five years:	Land and buildings	**40.7**	81.8
	Plant and equipment	**302.8**	484.0
		343.5	565.8
		603.9	940.7

Non-rail lease commitments

Excluding rail, which is analysed separately below, the Group has entered into operating leases on certain properties, public service vehicles and various items of plant and equipment as follows. The figures represent future minimum rental payments for these commitments:

	Land and buildings		Public service vehicles		Other	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Within one year	**23.8**	18.9	**16.1**	16.4	**1.9**	2.2
After one year but not more than five years	**48.3**	40.3	**24.9**	31.1	**1.2**	2.7
More than five years	**40.7**	31.0	**1.9**	2.6	**–**	–
	112.8	90.2	**42.9**	50.1	**3.1**	4.9

The average remaining life of operating lease commitments is 4.7 years (2016: 4.8 years) for land and buildings, 2.8 years (2016: 3.2 years) for public service vehicles and 1.7 years (2016: 2.3 years) for other plant and equipment.

Rail lease commitments

Commitments for future minimum rental payments under rail contracts are shown below:

		Land and buildings		Plant and equipment	
		2017 £m	2016 £m	2017 £m	2016 £m
Future minimum rentals payable under non-cancellable operating leases:					
Within one year:	Fixed track access	**–**	4.7	**–**	–
	Rolling stock	**–**	–	**13.1**	40.6
	Other	**0.2**	1.7	**0.1**	–
		0.2	6.4	**13.2**	40.6
After one year but not more than five years:	Fixed track access	**–**	18.7	**–**	–
	Rolling stock	**–**	–	**129.9**	190.6
	Other	**0.7**	6.9	**0.2**	0.1
		0.7	25.6	**130.1**	190.7
Over five years:	Fixed track access	**–**	37.5	**–**	–
	Rolling stock	**–**	–	**300.9**	481.2
	Other	**–**	13.3	**–**	0.2
		–	50.8	**300.9**	481.4
		0.9	82.8	**444.2**	712.7

Land and buildings have an average duration of 4.4 years (2016: 12.6 years). Rolling stock agreements have an average life of 14.8 years (2016: 11.3 years) and other plant and equipment 3.2 years (2016: 12.8 years).

Included in the above commitments for 2016 is £369.9m relating to the National Express Essex Thameside franchise that was disposed of in February 2017 (see note 11). This comprised £82.4m of land and buildings commitments, and £287.5m of plant and equipment commitments.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

35 Commitments and contingencies continued

Finance lease commitments

The Group has finance leases for public service vehicles and various items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

	2017		2016	
	Minimum payments £m	**Present value of payments £m**	Minimum payments £m	Present value of payments £m
Within one year	**53.5**	**49.0**	59.5	55.9
After one year but not more than five years	**112.5**	**104.3**	93.1	87.6
More than five years	**20.5**	**19.8**	16.4	16.0
Total minimum lease payments	**186.5**	**173.1**	169.0	159.5
Less future financing charges	**(13.4)**	**–**	(9.5)	–
Present value of minimum lease payments	**173.1**	**173.1**	159.5	159.5

Capital commitments

	2017 £m	2016 £m
Contracted	**32.7**	55.0

The Group is committed to vehicle purchases and various land and buildings improvements.

Contingent liabilities

Guarantees

The Group has guaranteed credit facilities totalling £24.7m (2016: £36.1m) of 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 31 December 2017, there were Rail performance bonds of £6.3m (2016: £64.1m) and Rail season ticket bonds of £nil (2016: £22.5m). The Group has other performance bonds which include performance bonds in respect of businesses in the US of £148.3m (2016: £159.5m) and in Spain of £41.9m (2016: £41.4m). There are also bonds of £5.9m relating to operations in the Middle East (2016: £6.5m). Letters of credit have been issued to support insurance retentions of £91.9m (2016: £91.5m).

Tax

Tax authorities in the markets in which we operate (UK, Spain, Germany, USA, Canada and Morocco) carry out tax audits from time to time. As was detailed in note 10(d) Tax provisions, the current ongoing tax audits relate to our Moroccan business where we expect an outcome with any tax payment made to be immaterial to the tax charge.

The Directors are satisfied that, based on current knowledge, adequate tax provisions are held to cover any tax uncertainties. The Group has tax provisions at 31 December 2017 of £9.6m (2016: £5.4m). There are no material contingent liabilities relating to tax.

36 Related party transactions

	Amount of transactions		Amounts due from related parties		Amounts due to related parties	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Joint ventures						
ALSA joint venture	**–**	–	**0.2**	–	**–**	–
Associates						
ALSA associates	**0.9**	2.5	**1.4**	1.2	**(1.0)**	(1.7)
Trade investments						
Alsa trade investments	**5.3**	4.8	**0.2**	0.2	**(0.9)**	(0.7)
Property transactions						
ALSA	**3.8**	3.9	**0.5**	0.4	**(0.4)**	(0.1)
Total other related parties	**9.1**	8.7	**0.7**	0.6	**(1.3)**	(0.8)
Total	**10.0**	11.2	**2.3**	1.8	**(2.3)**	(2.5)

A number of Spanish companies have leased properties from companies related to the Cosmen family. Jorge Cosmen is a Non-Executive Director of the Group and was appointed as Deputy Chairman in October 2008. These leases were in place before the Group's acquisition of ALSA and are for appropriate market rates.

The details of the post-employment benefit plans operated for the benefit of employees of the Group are disclosed in note 34.

Compensation of key management personnel of the Group

	2017 £m	2016 £m
Total compensation paid to key management personnel (note 7)	**6.0**	4.1

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

37 Cash flow statement

(a) Reconciliation of Group profit before tax to cash generated from operations

Total operations	2017 £m	2016 £m
Profit before tax from continuing operations	156.4	134.8
(Loss)/profit before tax from discontinued operations (note 11)	(1.5)	6.4
Total profit before tax	154.9	141.2
Net finance costs	38.0	50.0
Share of results from associates and joint ventures	3.5	(1.1)
Depreciation of property, plant and equipment	135.6	123.0
Intangible asset amortisation	41.6	33.8
Amortisation of fixed asset grants	(1.0)	(0.5)
Profit on disposal of property, plant and equipment	(5.4)	(5.9)
Share-based payments	5.3	4.1
(Increase)/decrease in inventories	(0.5)	1.1
Increase in receivables	(52.7)	(42.5)
Increase in payables	62.5	23.6
(Decrease)/increase in provisions	(22.8)	3.4
Cash generated from operations	359.0	330.2

(b) Analysis of changes in net debt

	At 1 January 2017 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2017 £m
Components of financing activities:						
Bank and other loans	(13.3)	(98.7)	(3.7)	0.8	(0.7)	(115.6)
Bonds	(983.2)	126.8	–	1.9	2.6	(851.9)
Fair value of interest rate derivatives	14.4	–	–	–	(4.1)	10.3
Fair value of foreign exchange swaps	(3.9)	(5.7)	–	11.1	–	1.5
Cross currency swaps	11.1	–	–	(10.1)	–	1.0
Finance lease obligations	(159.5)	34.4	(0.6)	13.0	(60.4)	(173.1)
Other debt payable	(72.4)	0.5	–	(2.8)	1.1	(73.6)
Total components of financing activities	(1,206.8)	57.3	(4.3)	13.9	(61.5)	(1,201.4)
Cash	72.3	38.7	(9.1)	(1.2)	–	100.7
Overnight deposits	3.5	1.4	–	–	–	4.9
Other short-term deposits	248.6	(39.9)	–	–	–	208.7
Cash and cash equivalents	324.4	0.2	(9.1)	(1.2)	–	314.3
Other debt receivables	0.5	0.2	–	–	–	0.7
Remove: Fair value of foreign exchange swaps	3.9	5.7	–	(11.1)	–	(1.5)
Net debt*	(878.0)	63.4	(13.4)	1.6	(61.5)	(887.9)

* Excludes accrued interest on long-term borrowings

37 Cash flow statement continued

(b) Analysis of changes in net debt continued

Short-term deposits included within liquid resources relate to term deposits repayable within three months.

Borrowings include non-current interest-bearing borrowings of £1,058.0m (2016: £816.7m) as disclosed in note 28.

Other non-cash movements in net debt include finance lease additions of £60.4m (2016: £39.5m) and a £1.2m reduction from the amortisation of loan and bond arrangement fees (2016: £2.7m). A £4.1m decrease to the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £3.2m fair value increase in bonds and a £1.1m fair value increase in other debt payable.

	At 1 January 2016 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Other movements £m	At 31 December 2016 £m
Components of financing activities:						
Bank and other loans	(45.3)	53.5	(0.2)	(19.9)	(1.4)	(13.3)
Bonds	(583.5)	(398.9)	–	–	(0.8)	(983.2)
Fair value of interest rate derivatives	14.3	–	–	–	0.1	14.4
Fair value of foreign exchange swaps	0.6	46.3	–	(50.8)	–	(3.9)
Cross currency swaps	–	–	–	11.1	–	11.1
Finance lease obligations	(127.6)	37.9	(6.0)	(24.3)	(39.5)	(159.5)
Other debt payable	(64.6)	2.4	–	(9.2)	(1.0)	(72.4)
Total components of financing activities	(806.1)	(258.8)	(6.2)	(93.1)	(42.6)	(1,206.8)
Cash	59.2	(2.2)	9.1	6.2	–	72.3
Overnight deposits	0.7	2.8	–	–	–	3.5
Other short-term deposits	0.5	248.1	–	–	–	248.6
Cash and cash equivalents	60.4	248.7	9.1	6.2	–	324.4
Other debt receivables	0.8	(0.4)	–	0.1	–	0.5
Fair value of foreign exchange swaps	(0.6)	(46.3)	–	50.8	–	3.9
Net debt*	(745.5)	(56.8)	2.9	(36.0)	(42.6)	(878.0)

* Excludes accrued interest on long-term borrowings.

(c) Reconciliation of net cash flow to movement in net debt

	2017 £m	(restated) 2016 £m
(Decrease)/increase in cash and cash equivalents in the year	**(8.9)**	257.8
Cash inflow/(outflow) from movement in other debt receivables	**0.2**	(0.4)
Cash inflow/(outflow) from movement in debt and finance leases	**58.7**	(311.3)
Change in net debt resulting from cash flows	**50.0**	(53.9)
Change in net debt resulting from non-cash movements	**(59.9)**	(78.6)
Movement in net debt in the year	**(9.9)**	(132.5)
Opening net debt	**(878.0)**	(745.5)
Net debt	**(887.9)**	(878.0)

38 Post Balance Sheet events

There are no post balance sheet events.

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

39 Subsidiary undertakings and other significant holdings

A full list of subsidiaries, joint ventures and companies in which National Express Group PLC has a controlling interest as at 31 December 2017 is shown below, along with the country of incorporation and the effective percentage of equity owned.

Name and country of incorporation	% equity interest
United Kingdom	
Airlinks The Airport Coach Company Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Altram LRT Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Central Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
E Clarke & Son (Coaches) Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Eurolines (UK) Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Helium Miracle 236 Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Inter-Capital and Regional Rail Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
London Eastern Railway Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	40
Maintrain Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Midland Main Line Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express East Anglia Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express European Holdings Limited (05652775)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Finance Company Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Group Holdings Limited (04339932)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Holdings Limited (02156473)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Intermediate Holdings Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express International Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Manchester Metrolink Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100

Name and country of incorporation	% equity interest
United Kingdom continued	
National Express North America Holdings Limited (07855182)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Operations (Stansted) Limited, *Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN*	100
National Express Operations Limited, *Heathrow Coach Centre, Sipson Road, West Drayton, Middlesex, UB7 0HN*	100
National Express Petermann UK Limited (07855188)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Rail Replacement Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Services Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Spanish Holdings Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express Transport Holdings Limited (04338163)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
National Express UK Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE Canada Limited (08596333)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE Durham UK Limited (08270480)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE Europe Finance Limited (07876047)*, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE No.1 Ltd, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE No.2 Ltd, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE No. 3 Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NE Trains South Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NX Bahrain Bus Company Plc, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NX Crossrail Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NX Services Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
United Kingdom continued	
NXEA Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NXEC Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
NXSR Trains Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
PTI Website Limited, *50 Eastbourne Terrace, Paddington, London, W2 6LG*	20
Scotrail Railways Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Silverlink Train Services Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Speedlink Airport Services Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Taybus Holdings Limited, *44/48 East Dock Street, Dundee, DD1 3JS*	100
Tayside Public Transport Co. Limited, *44/48 East Dock Street, Dundee, DD1 3JS*	100
The Kings Ferry Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
Travel Birmingham Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Travel Coventry Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Travel Dundee Limited, *44/48 East Dock Street, Dundee, DD1 3JS*	100
Travel Merryhill Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Travel West Midlands Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Travel WM Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Travel Yourbus Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
West Anglia Great Northern Railway Limited, *National Express House, Mill Lane, Digbeth, Birmingham, B5 6DD*	100
West Midlands Transport Information Services Limited, *Unit 8 – Pendeford Place, pendeford Business Park, Wobaston Road, Wolverhampton, WV9 5HD*	20
West Midlands Travel Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100

Name and country of incorporation	% equity interest
United Kingdom continued	
WM Card Systems Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
WM Property Holdings Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
WM Travel Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
WM Ventures Limited, *51 Bordesley Green, Birmingham, B9 4BZ*	100
Bahrain	
Bahrain Public Transport Company W.L.L., *Garage 1087, Road 4025, Isa Town 840, Southern Governorate, Kingdom of Bahrain*	50
Finland	
Ecolane Finland Oy, *Metsanneidonkuja 4, Espoo, 02130*	100
Germany	
National Express Germany GmbH, *Trakehner Strasse 7-9, 60487 Frankfurt am Main, Germany*	100
National Express Holding GmbH, *Vogelsanger Weg 38, 40470 Düsseldorf, Germany*	100
National Express Rail GmbH, *Maximinenstrasse 6, 50668 Cologne, Germany*	100
National Express Südwest GmbH, *Vogelsanger Weg 38, 40470 Düsseldorf, Germany*	100
Czech Republic	
National Express Cz s.r.o. (in liquidation), *Seifertova 327/85, 130 00 Praha, Zizkov, Czech Republic*	100
Netherlands	
National Express Holdings LLC BV, *Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands*	100
Texan Partner BV, *Dr Willem Dreesweg 2, 1st Fl. South Wing, 1185 VB Amstelveen, The Netherlands*	100
Andorra	
Estació 2017, *S.A. Carrer de la Cúria, s/n, Andorra la Vella*	
Estació d'Autobusos d'Andorra, *Av. de Tarragona, 42, AD500 Andorra la Vella*	100
Transports Dels Pirineus, *Av. de Tarragona, 42, AD500 Andorra la Vella*	100
France	
Iberolines, *41 Boulevard Poniatowski, 75012, Paris*	46
SARL Chamexpress.com, *498 Avenue des Algapes,74310 Les Houches*	100

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
Morocco	
Alsa City Agadir S.A., *153, Quartier Industriel Sidi Ghanem, Marrakech*	100
Alsa City Sightseeing Maroc, *Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech*	100
Alsa City Tour S.A.R.L., *Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech*	95
Alsa Education a la Sécurité Routière S.A.R.L., *Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech*	98
Alsa Khouribga S.A., *N° 22 Rue Meknes Hay Haboub, Khouribga*	100
Alsa Tanger S.A., *37 Rue Omar Ibn Khettab, Inmeuble Maspalomas 2, Tanger*	100
Centre de Formation Techn. Profes. Transport S.A.R.L., *Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech*	99
Groupe Alsa Transport S.A., *Rue Tehran, s/n, Quartier Industriel, Agadir (MR-80000)*	100
Immeubles,Vehicules Accesoires Maroc S.A.R.L., *153, Quartier Industriel Sidi Ghanem, Marrakech*	80
Interprovincial Maroc S.A.R.L., *Ahwaz, Ferme Ahzib Achayech Ferkat Ain Dada, Askedjour, Jamaat Et Kiadat Saada, Marrakech*	100
Transport de Voyageurs en Autocar Maroc S.A., *153, Quartier Industriel Sidi Ghanem, Marrakech*	100
Portugal	
Alsa Metropolitano do Porto, Lda, *Avenida das Forças Armadas, N 125, 12 Lisboa*	100
Tiac Viagens e Turismo Lda, *Rua de Pedro Numes, 39, Lisboa*	100
Slovakia	
Efc Spol s.r.o., *Tehelná 23 83103, Bratislava – Nové Mesto*	80
Spain	
Alianza Bus, S.L.U., *C/ Alcalá, 478, Madrid (28027)*	100
Almeria–Murcia Bus, *S.L., Avda Juan Pablo II, 33, Granada*	100
Alsa Atlántica, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Alsa Ferrocarril, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Alsa Granada Airport S.L., *Avda Juan Pablo II, 33, Granada*	100
Alsa Grupo Intercontinental, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100

Name and country of incorporation	% equity interest
Spain continued	
Alsa Grupo, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	98
Alsa Internacional, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Alsa Internacional, S.L.U. y Otros U.T.E., *C/ Alcalá, 478, Madrid (28027)*	100
Alsa Metropolitana, S.A.U., *C/ Alcalá, 478, Madrid (28027)*	100
Alsa Rail, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Aplic. y Sist. Integrales Para el Transporte, S.A., *Pol. San Mateo, Ctra Coll D' En Rabassa, Palma de Mallorca (07002)*	100
Aragonesa de Estacion de Autobuses, S.A., *Urbanización Plaza de Roma, F-1, Zaragoza*	23
Asturies Berlinas de Luxu, S.L., C/Jorge Juan, 19- 2° Izquierda, Madrid (28001)	100
Autedia, S.L., *Avda Juan Pablo II, 33, Granada*	50
Autobuses Urbanos de Bilbao, S.A., *C/ Tellaetxebidea 3, Bilbao*	75
Autobuses Urbanos de León, S.A.U., *Pol. Ind. Vilecha Oeste, León (24192)*	100
Autocares Castilla–León, S.A.U., *Estación de Autobuses, Av Ingeniero Saenz de Miera, León (24009)*	100
Autocares Discrecionales del Norte, S.L.U., *Alameda de Urquijo, nº 85, 1º –Dcha., Bilbao- Vizaya (48013)*	100
Automóviles Luarca, S.A.U., *Magnus Blikstad 2, Gijón (33207)*	100
Autos Pelayo, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Baleares Business Cars, S.L., *C/ Jorge Juan, 19- 2º Izquierda, Madrid (28001)*	100
Berlinas de Asturias, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Berlinas de Extremadura, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Berlinas Calecar, S.L.U., *Avenida Ingeniero Saenz de Miera, s/n (Estación de Autobuses), León (24009)*	100
Berlinas de Canarias, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Berlinas de Toledo, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Berlinas Tibus, S.L.U, *C/ Alcalá, 478, Madrid (28027)*	100
Berlinas VTC de Cantabria, S.L.U., *Avenida de Candina, nº 35, Santander (39011)*	100

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
Spain continued	
Buses de Palencia, S.L., *C/ Campaneros, 4, 1º Dcha, Palencia (34003)*	100
Bus Metropolitano de Granada, S.L. *Avenida Juan Pablo II, 33 (Estación de Autobuses), Granada (18013)*	50
Busturialdea Lea Artibai Bus, S.A., *Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagrán), Vizcaya (48510)*	65
Canary Business Cars, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Cataluña Business Cars, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Center Bus, S.L., *Paseo de Moret, 7, Madrid*	90
Cetralsa Formación, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Cía. del Tranvía Eléctrico de Aviles, S.A., *Avda Conde de Guadalhorce 123, Aviles (33400)*	87
Compañia Navarra de Autobuses, S.A., *C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona*	50
Compostelana, S.A.U., *Plaza San Cayetano, s/n. Estación Autobuses Taq. 10,Santiago de Compostela (La Coruña)*	100
Concesionario Estación Autobuses Logroño, S.A., *Avda de España, 1, Logroño- La Rioja*	21
Continental-Comercial 21, S.L.U., *Avda América 9-A, intercambiador de Autobuses, Madrid (28002)*	100
Dainco, S.A.U., *Avda Filiberto Villalobos, nº 71, Salamanca*	50
Ebrobus, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Estación Autobuses de Cartagena, S.A., *Avda Trovero Marín. Nº 3,(Estación Autobuses), Cartagena (30202)*	54
Estación Autobuses de Ponferrada, S.A., *Ctra de Asturias, Ponferrada*	49
Estación Central de Autobuses de Zaragoza, S.A., *Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)*	19
Estación de Autobuses de Siero, S.L., *C/ Ramón y Cajal, Pola de Siero*	50
Estación de Autobuses Aguilar de Campoo, S.L., *Avda de Ronda 52 Bis, Aguilar de Campoo (Palencia)*	67
Estación de Autobuses Chamartin, S.A., *Pº de la Castellana, 216, Madrid*	49
Estación de Autobuses de Aranda de Duero, S.L., *Avda Valladolid, Aranda de Duero (Burgos)*	43

Name and country of incorporation	% equity interest
Spain continued	
Estación de Autobuses de Astorga, S.L., *Avda Las Murallas, nº 52, Astorga-León (24700)*	79
Estación de Autobuses de Aviles S.L., *C/ Los Telares (Estación de Autobuses) Aviles (33400)*	100
Estación de Autobuses de Benavente, S.L., *Avda Primo de Rivera, Benaventa*	23
Estación de Autobuses de León, S.A., *Estación de Autobuses, Avda Ingeniero Saenz de Miera, León (24009)*	89
Estación de Autobuses de Plasencia, S.A., *C/ Tornavacas, 2, Plasencia*	52
Estación de Autobuses de Ribadeo, S.L., *Avda Rosalía de Castro, Ribadeo*	50
Estación de Autobuses de Vitoria, S.L., *C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)*	32
Estación de Lineas Regulares, S.L., *Plaza de las Estacones, Santander (Cantabria)*	46
Estaciónes Terminales de Autobuses, S.A., *Avda Menéndez Pidal, nº 13 (Estacción de Autobuses), Valencia (46009)*	79
Euska Alsa, S.L.U., *Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)*	100
Extremadura Business Limousines, S.L., *C/ Jorge Juan, 19-2º Izquierda, Madrid (28001)*	100
Ezkerraldea-Meatzaldea Bus, S.A., *Centro de Transportes de Vizcaya, Barrio el Juncal, Naves 3 y 4 (Valle de Trápaga-Trapagrán), Vizcaya (48510)*	65
G.S. Carretera, *Plaza de la Constitución, Estación de Autobuses, 2ª Planta, Oficina 26, Lugo*	25
General Técnica Industrial, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Gorbea Representaciones, S.L., *Alameda de Urquijo, nº 85, 1º –Dcha., Bilbao- Vizaya (48013)*	100
Grupo Enatcar, S.A., *C/ Alcalá, 478, Madrid (28027)*	100
Ibero-Euro Sur, S.L., C/ Alcalá, 478, *Madrid (28027)*	20
Inforcyl, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Informática, Comunicaciones y Logística, S.L.U., *Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizaya (48013)*	100
Intercambiadores Europeos, S.L., *C/ Miguel Fleta, 4, Madrid (28037)*	95
Internacional de Autocares, S.A.U., *C/ Alcalá, 478, Madrid (28027)*	93
International Business Limousines, S.A.U., *Pol. Ind. Las Fronteras. C/Limite,Torrejón de Ardoz (Madrid)*	100
Interurbana de Autocares, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Irubus, S.A.U., *C/ Alcalá, 478, Madrid (28027)*	100
Jimenez Lopera, S.A.U., *Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)*	100

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
Spain continued	
Julia Travel S.A., Automoviles Luarca S.A.U., *Transportes Bacoma S.A.U. U.T.E., C/ Puerto Used, 20, Madrid*	50
Julia Travel y Automoviles Luarca Sa Ute, *Avda Sancho El Sabio, 31, Donostia*	50
La Tafallesa, S.A.U., *C/ Yanguas y Miranda, 2 (Estación de Autobuses), Pamplona*	50
La Unión Alavesa, S.L., *C/ Los Herran, 50 (Estación de Autobuses), Alava (Vitoria)*	50
La Unión de Benisa, S.A., *C/ Comunicaciones, 10 (P. de Babel), Alicante (03008)*	98
Lineas Europeas de Autobuses, S.A., *C/Guillem de Castro, 77, Valencia*	43
Los Abades de la Gineta, S.L.U., *C/ Alcalá, 478, Madrid (28027)*	100
Mai Tours, S.L.U., *Avenida de la Hispanidad O- Parking P12, Barajas, Madrid*	100
Movelia Tecnologias, S.L., *C/ Santa Leonor, 65 –Avalón Parque Empresarial, Edificio A, Madrid*	78
Mundaka Consultoria, S.L.U., *Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizaya (48013)*	100
NEX Continental Holdings, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
NX Middle East, S.L.U., *C/ Inglaterra, 20-22, Palencia (34004)*	100
Proyectos Unificados, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Rapid Aeroport, S.A.U., *C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Representaciones Mecánica, S.A.U., *Alameda de Urquijo, n o 85, 1o –Dcha., Bilbao- Vizaya (48013)*	100
Rutas a Cataluña, S.A., *C/ Musico Gustavo Freire, 1 -1° Dcha, Lugo (27001)*	28
Rutas del Cantábrico, S.L., *Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizaya (48013)*	95
Semarvi, *C/ Miguel Fleta, 4, Madrid (28037)*	34

Name and country of incorporation	% equity interest
Spain continued	
Serviareas 2000, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Servicios Auxiliares del Transporte C.B., *C/Mendez Álvaro (Estación de Autobuses), Madrid*	100
Servicios Empresariales Especiales, S.L.U., *Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizaya (48013)*	100
Servicios Generales de Automoción, S.A.U., *Alameda de Urquijo, no 85, 1o –Dcha., Bilbao- Vizaya (48013)*	100
Servicios VTC Tibus, S.L.U., *C/ Alcalá, 478, Madrid (28027)*	100
Setra Ventas y Servicios, S.A.U., *Pol. Ind. Las Fronteras. C/ Limite, Torrejón de Ardoz (Madrid)*	100
Sociedad Anónima Unipersonal Alsina Graells de A.T., *C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Técnicas en Vehículos Automóviles, S.L.U., *C/ Alcalá, 478, Madrid (28027)*	100
Técnologias Formativas en Simuladores, S.L., *Newton, 6,Edificio 6, Nave, 6.P, Leganés, Madrid (28914)*	50
Terminal de Autobuses de Garellano, S.L., *Alameda de Mazarredo, 21, Bilbao*	41
Tibus, S.A., *C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Tibus Berlines de Luxe, S.L.U.,*C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Tibus Business Cars, S.L.U., *C/ Ali Bei, 80 (Estación de Autobuses) Barcelona, (08013)*	100
Tibus Business Limousines, S.L.U., *C/ Alcalá, 478, Madrid (28027)*	100
Tibus Luxury Services, S.L.U., *C/Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Transporte Colectivos, S.A.U., *Gran Vía de D. Ingacio de Haro, 81, Bilbao*	100
Transportes Accesibles Peninsulares, S.L., *C/Pepe Cosmen, (Estación de Autobuses), Oviedo (33001)*	100
Transportes Adaptados Andaluces, S.A.U., *Plaza Coca Piñera, s/n (Estación de Autobuses), Jaén*	100
Transportes Adaptados Regionales, S.L.U., *Estación de Autobuses, Av Ingeniero Saenz de Miera, León (24009)*	100
Transportes Adaptados Cántabros, S.A., *Avda Candina, 35-37, Santander (39011)*	98
Transportes Bacoma, S.A.U., *C/ Ali Bei, 80 (Estación de Autobuses), Barcelona (08013)*	100
Transportes de Viajeros de Aragón, S.A., *Avda de Navarra, 80 (Estación Central de Autobuses), Zaragoza (50011)*	59

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
Spain continued	
Transportes Santo Domingo, S.L.U. *C/ Investigación. Nº 2 – Getafe (Madrid)*	100
Viajes ALSA, S.A.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Transportes Terrestres Cantabros, S.A., *Avda Candina, 35-37, Santander (39011)*	93
Transportes Unidos de Asturias, S.L., *Pol. Ind. Espiritu Santo, Oviedo (33010)*	100
Transportes Unidos, S.L.U., *C/ Miguel Fleta, 4, Madrid (28037)*	100
Transportes Urbanos de Cantabria, S.L.U., *Avda Candina, 35-37, Santander (39011)*	100
Transportes Urbanos de Cartagena, S.A., *Paraje de la Asomada, Cartagena (Murcia)*	97
Tranvía de Velez, S.A.U., *Avda Juan Carlos I, s/n. Ronda del Ingeniero, Vélez Málaga (Málaga)*	100
Transportes Urbanos de Guadalajara, S.L., *Polígono Industrial del Henares, Calle Livorno, 55, Marchamalo, Guadalajara (19180)*	100
Tranvías Metropolitanas de Granada, S.A.U., *Avenida de Cádiz, número 70, 1º-B, Granada*	100
Tury Express, S.A., *Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)*	100
Ute Catamaranes Bahia Cadiz, *Avda José León de Carranza, nº 20, Cádiz*	23
Ute Ea Cordoba, *Glorieta de las Tres Culturas, Córdoba*	50
Ute Extremadura, *C/ Alcalá, 478, Madrid (28027)*	100
Ute Guadalajara, *C/ Miguel Fleta, 4, Madrid (28037)*	100
Ute Mundiplan, *C/ Ruiz Perelló, 15, Madrid*	17
Ute Murcia City Tour, *Magnus Blikstad 2, Gijón (33207)*	50
Ute Ea Alicante, *Muelle de Poniente, Alicante*	50
Viajes Por Carretera, S.A.U., *Alameda de Urquijo, nº 85, 1º -Dcha., Bilbao- Vizaya (48013)*	100
Voramar el Gaucho S.L.U., *S' Hort den Serral (San Agustín) San Josep de sa Talaia, Illes Balears*	100
Zamorana de Transportes, S.A.U., *Ctra Zamora-Salamanca Km 3,5. Pol. Ind., Morales del Vino (Zamora)*	100
Switzerland	
AlpyBus S.a.r.l., *8 Chemin de Morglas, 1214, Genève*	100
Eggmann Frey, *Rue du Mont Blanc 14, 1201, Genève*	100
GVA Transfers.com S.a.r.l., *8 Chemin de Morglas, 1214, Genève*	100
Linien Abfertigung GmbH, *Rue du Mont Blanc 14, 1201, Genève*	80
Odier Excursions, S.A., *Chemin Des Aulx 9 – Plan Les Ouates - Switzerland*	100

Name and country of incorporation	% equity interest
US	
"The Provider" Enterprises, Inc., *9 Capitol Street, Concord, NH 03301*	100
Beck Bus Transportation Corp., *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
Beck Bus Transportation III, LLC, *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
Beck Bus Transportation IV, LLC, *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
Beck Bus Transportation, LLC, *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
Bus Co., Inc., *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
Caravan Leasing Vehicles LLC, *8020 Excelsior Drive, Suite 200, Madison, WI 53717*	100
Carrier Management Corporation, *600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071*	100
Community Transportation, Inc., *600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071*	100
Cook-DuPage Transportation Company, Inc., *208 S. LaSalle Street, Chicago, IL 60604*	100
Diamond Transportation Services, Inc., *4701 Cox Road, Glen Allen, County of Henrico, VA 23060*	100
Durham D&M LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Durham Holding I, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Durham Holding II, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Durham School Services, L.P., *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Ecolane USA, Inc., *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Greensburg Yellow Cab Co., *600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071*	100
Haid Acquisitions LLC, *1242 Garden Circle, Wyoming,OH 45215*	100

Notes to the Consolidated Accounts continued
For the year ended 31 December 2017

39 Subsidiary undertakings and other significant holdings continued

Name and country of incorporation	% equity interest
US continued	
JNC Leasing, Inc., *40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675*	100
Meda-Care Vans of Waukesha, Inc., *301 S. Bedford St., Suite 1, Madison, WI 53703*	100
MF Petermann Investment Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
MV Student Transportation, Inc., *40 West Lawrence, Suite A, Helena, Montana 59601*	100
National Express Acquisition Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
National Express Durham Holding Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
National Express LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
National Express Transit Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
National Express Transit Services Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
New Dawn Transit LLC, *111 Eighth Avenue, New York, New York, 10011*	100
Petermann Acquisition Co., LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann Acquisition Corporation, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann Holding Co., LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann Ltd., *4400 Easton Commons Way, Columbus, County of Franklin, OH 43219*	100
Petermann Northeast, LLC, *4400 Easton Commons Way, Columbus, County of Franklin, OH 43219*	100
Petermann Northwest, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann Partners, Inc., *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann Southwest, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Petermann STS, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100

Name and country of incorporation	% equity interest
US continued	
Petermann STSA, LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
PM2 Co. LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Queen City Transportation, LLC, *1242 Garden Circle, Wyoming,OH 45215*	100
Rainbow Management Service, Inc., *111 Eighth Avenue, New York, New York, 10011*	100
Safeway Training and Transportation Services, Inc., *9 Capitol Street, Concord, NH 03301*	100
Septran, Inc., *150 West Market Street, Suite 800, Indianapolis, IN 46204*	100
Smith Bus Service, Inc., *2405 York Road, Ste. 201, Lutherville Timonium, MD 21093-2264*	100
Suburban Paratransit Services, Inc., *111 Eighth Avenue, New York, New York, 10011*	100
Trans Express, Inc., *111 Eighth Avenue, New York, New York, 10011*	100
Transit Express, Inc., *301 S. Bedford St., Suite 1, Madison, WI 53703*	100
Transit Express Services, Inc., *301 S. Bedford St., Suite 1, Madison, WI 53703*	100
Trinity, Inc., *40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675*	100
Trinity Cars, Inc., *40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675*	100
Trinity Coach LLC, *40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675*	100
Trinity Management Services Co. LLC, *4624 13th St., Wyandotte, MI 48192*	100
Trinity Student Delivery LLC, *40600 Ann Arbor Road E., Suite 201, Plymouth, MI 48170-4675*	100
TWB Transport, LLC, *208 S. LaSalle Street, Chicago, County of Cook, IL 60604*	100
White Plains Bus Co., Inc., *111 Eighth Avenue, New York, New York, 10011*	100
Whitetail Bid Co., LLC, *1209 Orange Street, Corporation Trust Center, New Castle County, Wilmington, DE 19801-1120*	100
Canada	
National Express Canada (Holdings) Ltd., *155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7*	100
National Express Canada Transit Ltd., *155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7*	100
Stock Transportation Ltd., *155 University Avenue, Suite 700, Toronto, Ontario, Canada, M5H 3B7*	100

* These subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Outstanding liabilities of the exempt companies at the Balance Sheet date are guaranteed pursuant to Sections 479A-C of the Act.

Company Balance Sheet At 31 December 2017

	Note	2017 £m	2016 £m
Fixed assets			
Tangible assets	5	–	0.1
Investments in subsidiaries	6	1,700.9	1,738.3
Derivative financial instruments	7	10.9	22.5
Deferred tax assets	13	15.6	15.8
Defined benefit pension asset	16	43.2	44.5
		1,770.6	1,821.2
Current assets			
Debtors	8	87.6	96.7
Derivative financial instruments	7	7.5	9.4
Cash at bank and in hand	9	204.7	263.0
		299.8	369.1
Creditors: amounts falling due within one year	10	(240.1)	(578.1)
Derivative financial instruments	7	(5.9)	(4.9)
Provisions for liabilities and charges	12	(13.0)	(2.6)
Net current assets/(liabilities)		40.8	(216.5)
Total assets less current liabilities		1,811.4	1,604.7
Creditors: amounts falling due after more than one year	11	(925.5)	(703.7)
Deferred tax liability	13	(7.3)	(7.6)
Net assets		878.6	893.4
Shareholders' equity			
Called-up share capital	15	25.6	25.6
Share premium account		532.7	532.7
Capital redemption reserve		0.2	0.2
Own shares		(6.0)	(7.8)
Profit and loss account		326.1	342.7
Shareholders' equity		878.6	893.4

The Company reported a profit for the financial year ended 31 December 2017 of £55.1m (2016: £52.0m).

D Finch
Group Chief Executive

C Davies
Group Finance Director

1 March 2018

Company Number 02590560

Company Statement of Changes in Equity For the year ended 31 December 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Profit and loss account £m	Total £m
At 1 January 2017	25.6	532.7	0.2	(7.8)	342.7	893.4
Profit for the year	–	–	–	–	55.1	55.1
Actuarial loss, net of tax	–	–	–	–	(1.8)	(1.8)
Total comprehensive income	–	–	–	–	53.3	53.3
Shares purchased	–	–	–	(8.1)	–	(8.1)
Own shares released to satisfy employee share schemes	–	–	–	9.9	(9.9)	–
Share-based payments	–	–	–	–	4.7	4.7
Dividends	–	–	–	–	(64.7)	(64.7)
At 31 December 2017	**25.6**	**532.7**	**0.2**	**(6.0)**	**326.1**	**878.6**

The Company's profit and loss account includes £289.5m (2016: £303.5m) that is available for distribution. Cumulative gains on the Company's defined benefit pension scheme, which is currently in a net surplus position, are deemed to be not distributable. In addition, own shares have been purchased out of distributable profits and therefore reduce the reserves available for distribution. The share premium and capital redemption reserves are not distributable.

Details of dividends paid, declared and proposed during the year are given in note 12 to the consolidated accounts.

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares (note 15) £m	Profit and loss account £m	Total £m
At 1 January 2016	25.6	532.7	0.2	(7.8)	349.0	899.7
Profit for the year	–	–	–	–	52.0	52.0
Actuarial gain, net of tax	–	–	–	–	7.2	7.2
Total comprehensive income	–	–	–	–	59.2	59.2
Shares purchased	–	–	–	(7.7)	–	(7.7)
Own shares released to satisfy employee share schemes	–	–	–	7.7	(7.7)	–
Share-based payments	–	–	–	–	1.1	1.1
Dividends	–	–	–	–	(58.9)	(58.9)
At 31 December 2016	25.6	532.7	0.2	(7.8)	342.7	893.4

Notes to the Company Accounts For the year ended 31 December 2017

1 Accounting policies

Basis of preparation

The separate accounts of the parent Company are presented as required by the Companies Act 2006. The accounts have been prepared on the going concern basis and under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments detailed below, and in accordance with applicable accounting standards in the United Kingdom.

In applying these policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are included within the consolidated accounts.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any impairment. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and equipment	– 3 to 5 years

The carrying value of fixed assets is reviewed for impairment if events or changes in circumstances indicate that the current carrying value may not be recoverable, and are written down immediately to their recoverable amount. Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Investments in subsidiaries

Investments are held at historical cost less any provision for impairment.

Notes to the Company Accounts continued
For the year ended 31 December 2017

1 Accounting policies continued

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Hedge accounting is adopted where derivatives such as fixed to floating interest rate swaps are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each Balance Sheet date by the change in fair value attributable to the interest rate being hedged.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

Pensions

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

For the defined benefit scheme, the Balance Sheet position comprises the net of the present value of the relevant defined benefit obligation at the Balance Sheet date and the fair value of plan assets. The trustees complete a full actuarial valuation triennially but the obligation is updated annually for financial reporting purposes by independent actuaries, using the projected unit credit method. The present value of the obligation is determined by the estimated future cash outflows discounted using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related liability.

The current service cost and gains and losses on settlements and curtailments are recognised as operating costs. Past service gains and losses are also recognised within operating costs and in the period in which the related plan amendment or curtailment occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset and is recognised within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the profit and loss reserve in the period in which they arise.

For the defined contribution scheme, the amount charged to the profit and loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

Share-based payment

The Company awards equity-settled share-based payments to certain employees, under which the Company receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Company over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each Balance Sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

Foreign currencies

Foreign currency assets and liabilities are translated into Sterling at the rates of exchange ruling at the year end. Foreign currency transactions arising during the year are translated into Sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

1 Accounting policies continued

Deferred tax

Deferred tax is provided in full in respect of all material temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, apart from where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the temporary differences reverse based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Deferred tax assets are recognised to the extent that it is considered more likely than not that future taxable profits will be available against which the underlying temporary differences can be deducted. Their carrying amount is reviewed at each Balance Sheet date on the same basis.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate derivatives, foreign currency forward exchange contracts and cross currency swaps to hedge its risks associated with interest rate fluctuations and foreign currency. Such derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value of the derivatives is calculated by reference to market exchange rates and interest rates at the period end.

The Company's interest rate derivatives are designated as fair value hedges. The gain or loss on the hedging instrument is recognised immediately in the Income Statement. The carrying amount of the hedged item is adjusted through the Income Statement for the gain or loss on the hedged item attributable to the hedged risk, in this case movements in the risk free interest rate. Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Foreign currency derivatives and cross currency swaps are used to hedge the Group's net investment in foreign currency denominated operations. For the Company, gains and losses are recognised immediately in the Income Statement. For the Group, to the extent that the derivatives are designated and effective as net investment hedges, they are transferred to equity on consolidation to match against foreign exchange exposure in the related assets and liabilities.

The Company also uses foreign currency forward contracts to hedge certain transactional exposures. Gains and losses on these derivatives are recognised immediately in the Income Statement.

2 Exchange rates

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

	2017		2016	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.35**	**1.29**	1.23	1.36
Canadian Dollar	**1.70**	**1.67**	1.66	1.80
Euro	**1.13**	**1.14**	1.17	1.22

3 Directors' emoluments

Detailed information concerning Directors' emoluments, shareholdings and options is shown in the Directors' Remuneration Report.

4 Intangible assets

	Software £m
Cost:	
At 1 January and 31 December 2017	**0.4**
Amortisation:	
At 1 January and 31 December 2017	**0.4**
Net book value:	
At 1 January and 31 December 2017	**–**

Notes to the Company Accounts continued
For the year ended 31 December 2017

5 Tangible assets

	Plant and equipment £m
Cost:	
At 1 January and 31 December 2017	**0.3**
Depreciation:	
At 1 January 2017	0.2
Charge in the year	0.1
At 31 December 2017	**0.3**
Net book value:	
At 31 December 2017	**–**
At 31 December 2016	0.1

6 Investments in subsidiaries

	£m
Cost or valuation:	
At 1 January 2017	2,690.4
Additions	37.1
At 31 December 2017	**2,727.5**
Provisions:	
At January 2017	952.1
Provided in the year	74.5
At 31 December 2017	**1,026.6**
Net carrying amount:	
At 31 December 2017	**1,700.9**
At 31 December 2016	1,738.3

The addition in the year represents an additional investment in National Express Intermediate Holdings Limited.

The amount provided in the year relates to National Express Trains Limited, following the exit from UK Rail and settlement of dividends from legacy rail companies within the Group.

The information provided below is given for the Company's principal subsidiaries. A full list of subsidiaries and investments can be found in note 39 to the consolidated accounts. The principal country of operation in respect of the companies below is the country in which they are incorporated and all holdings are 100% held directly by the Company:

Incorporated in England and Wales	
National Express Intermediate Holdings Limited	Holding company for the majority of the Group's operating companies
National Express Finance Company Limited	Finance company for Group fuel derivative arrangements

7 Derivative financial instruments

	2017 £m	2016 £m
Interest rate derivatives	10.0	14.3
Cross currency swaps	0.9	8.2
Derivative financial assets due over one year	10.9	22.5
Interest rate derivatives	4.2	8.4
Foreign exchange forward contracts	3.3	1.0
Derivative financial assets due under one year	7.5	9.4
Interest rate derivatives	0.2	–
Cross currency swaps	(4.3)	–
Foreign exchange forward contracts	(1.8)	(4.9)
Derivative financial liabilities due under one year	(5.9)	(4.9)

Full details of the Group's financial risk management objectives and policies can be found in note 30 to the consolidated accounts. As the holding company for the Group, the Company faces similar risks over foreign currency and interest rate movements.

8 Debtors

	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	75.4	77.1
Corporation tax recoverable	10.1	10.5
Other debtors	1.8	3.6
Prepayments	0.3	5.5
	87.6	96.7

9 Cash at bank and in hand

	2017 £m	2016 £m
Cash at bank	0.2	16.0
Short-term deposits	204.5	247.0
	204.7	263.0

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 Company, and earn interest at the respective short-term deposit rates. The fair value of cash equals the carrying value.

Notes to the Company Accounts continued
For the year ended 31 December 2017

10 Creditors: amounts falling due within one year

	2017 £m	2016 £m
Bank overdraft	15.5	–
Bank loans	94.2	1.4
Bonds	–	351.4
Trade creditors	24.2	4.8
Amounts owed to subsidiary undertakings	72.4	158.1
Accruals and deferred income	22.6	30.3
Accrued interest on borrowings	11.2	32.1
	240.1	578.1

Trade creditors are non-interest bearing and are normally settled on 30-day terms and other creditors are non-interest bearing and have an average term of six months.

11 Creditors: amounts falling due after more than one year

	2017 £m	2016 £m
Bonds	851.9	631.8
Other debt payable	73.6	71.9
	925.5	703.7

12 Provisions for liabilities and charges

	Claims provision[1] £m	Other[2] £m	Total £m
At 1 January 2017	2.6	–	2.6
Utilised in the year	(2.6)	–	(2.6)
Charged to the Income Statement	–	13.0	13.0
At 31 December 2017	–	13.0	13.0

1 The claims provision was for auto and general liability, workers' compensation and environmental claims and was utilised in the year.
2 Other relates to amounts provided for restructuring activities. The majority will be utilised within one year, with the remainder expected to be utilised within the next five years.

13 Deferred tax

Deferred tax included in the Balance Sheet is as follows:

	2017 £m	2016 £m
Deferred tax assets	15.6	15.8
Deferred tax liability	(7.3)	(7.6)
Net deferred tax asset	**8.3**	8.2

The major components of the provision for deferred taxation are as follows:

	2017 £m	2016 £m
Accelerated capital allowances	0.2	0.2
Other timing differences	0.2	–
Losses carried forward	15.2	15.6
Defined benefit pension	(7.3)	(7.6)
Net deferred tax asset	**8.3**	8.2

A reconciliation of the deferred tax balances is as follows:

	Deferred tax assets £m	Deferred tax liability £m
Deferred tax at 1 January 2017	15.8	(7.6)
Charge to income statement	(0.2)	(0.1)
Charge to other comprehensive income	–	0.4
Deferred tax at 31 December 2017	**15.6**	**(7.3)**

Timing differences associated with Group investments

No deferred tax (2016: £nil) is recognised on the unremitted earnings of subsidiaries and associates, as no dividends have been accrued as receivable, and no binding agreement to distribute the past earnings in future has been entered into by the subsidiaries.

Unrecognised tax losses

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit against future taxable profits is probable. Deferred tax assets that the Company has not recognised in the accounts amount to £nil (2016: £nil).

Notes to the Company Accounts continued
For the year ended 31 December 2017

14 Interest-bearing loans and borrowings

The effective interest rates at the Balance Sheet date were as follows:

	2017 £m	Maturity	Effective interest rate	2016 £m	Maturity	Effective interest rate
Current						
Bank overdraft	**15.5**	**–**	**–**	–	–	–
7-year Sterling bond	**–**	**–**	**–**	351.4	January 2017	6.54%
US bank loans	**94.2**	**April 2018**	**USD LIBOR 0.75%**	–	–	–
Other short-term loans	**–**	**–**	**–**	1.4	–	–
Accrued interest on borrowings	**11.2**	**–**	**–**	32.1	–	–
Total current	**120.9**			384.9		
Non-current						
10-year Sterling bond	**230.4**	**June 2020**	**6.85%**	232.9	June 2020	6.85%
7-year Sterling bond	**400.2**	**November 2023**	**2.54%**	398.9	November 2023	2.54%
2.5-year Euro floating rate note	**221.3**	**May 2020**	**EURIBOR + 0.4%**	–	–	–
Bonds	**851.9**			631.8		
Euro Private Placement	**73.6**	**August 2021**	**4.55%**	71.9	August 2021	4.55%
Other debt payable	**73.6**			71.9		
Total non-current	**925.5**			703.7		

US banks loans is shown net of deal fees of £2.0m.

Details of the Company's interest rate management strategy and interest rate swaps are included in notes 30 and 31 to the consolidated accounts.

15 Called-up share capital

	2017 £m	2016 £m
At 31 December:		
Authorised:		
800,000,000 (2016: 800,000,000) ordinary shares of 5p each	**40.0**	40.0
Issued called-up and fully paid:		
511,738,648 (2016: 511,738,648) ordinary shares of 5p each	**25.6**	25.6

The total number of share options exercised in the year by employees of the Group was 2,773,080 (2016: 2,422,638) of which 2,316,546 (2016: 1,981,675) exercises were satisfied by transferring shares from the National Express Employee Benefit Trust. The remaining exercises were settled via a direct purchase of shares from the open market.

Own shares

Own shares comprises 1,643,746 (2016: 2,260,292) ordinary shares in the Company that have been purchased by the trustees of the National Express Employee Benefit Trust (the 'Trust'). During the year, the Trust purchased 1,700,000 (2016: 1,746,500) shares and 2,316,546 (2016: 1,981,675) shares were used to satisfy options granted under a number of the Company's share schemes. No shares (2016: nil) were sold during the year to the open market.

The market value of the shares held by the Trust at 31 December 2017 was £6.3m (2016: £8.0m). The dividends payable on 1,520,405 of these shares have been waived (2016: 2,090,464).

16 Retirement benefits

The Company participates in both the National Express Group Staff Pension Fund (a defined benefit scheme) and a defined contribution scheme.

Defined benefit scheme

The defined benefit scheme is now closed to all future accrual.

The assets of the scheme are held separately from those of the Company.

The valuation as at 31 December 2017 is based on the results of the 5 April 2016 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Details of the latest actuarial valuation are included in note 34 to the consolidated accounts.

The relevant assumptions used are as follows:

	2017 £m	2016 £m
Rate of increase in salaries	**2.5%**	2.5%
Rate of increase of pensions	**3.2%**	3.3%
Discount rate	**2.5%**	2.7%
Inflation assumption (RPI)	**3.2%**	3.4%
Inflation assumption (CPI)	**2.2%**	2.4%
Post-retirement mortality in years:		
Current pensioners at 65 – male	**23.1**	23.0
Future pensioners at 65 – male	**24.8**	24.9
Current pensioners at 65 – female	**25.9**	25.8
Future pensioners at 65 – female	**27.8**	27.5

Sensitivities regarding key assumptions are disclosed in note 34 of the consolidated accounts.

The amounts charged to the Income Statement and comprehensive income for the years ended 31 December 2017 and 2016 are set out in the following tables:

Income Statement	2017 £m	2016 £m
Net interest income	**1.2**	1.3
Total credit to the Income Statement	**1.2**	1.3

During the year £0.2m (2016: £nil) of administrative expenses were incurred.

Comprehensive income	2017 £m	2016 £m
Actuarial loss during the period from obligations	**(1.9)**	(19.8)
Expected return on plan assets greater/less than discount rate	**(0.4)**	28.1
Net actuarial loss	**(2.3)**	8.3

The amounts recognised in the Balance Sheet at 31 December are:

	2017 £m	2016 £m
Bonds	**185.3**	153.1
Other	**(51.3)**	(18.9)
Fair value of scheme assets	**134.0**	134.2
Present value of scheme liabilities and defined benefit obligation	**(90.8)**	(89.7)
Defined benefit pension surplus	**43.2**	44.5

Notes to the Company Accounts continued
For the year ended 31 December 2017

16 Retirement benefits continued

Defined benefit scheme continued

The movement in the present value of the defined benefit obligation in the year is as stated below:

	2017 £m	2016 £m
Defined benefit obligation at 1 January	(89.7)	(70.2)
Benefits paid	3.1	2.9
Finance charge	(2.3)	(2.6)
Actuarial loss arising from changes in financial assumptions	(1.9)	(23.8)
Actuarial gain arising from changes in demographics	–	4.3
Actuarial loss arising from experience adjustments	–	(0.3)
Defined benefit obligation at 31 December	**(90.8)**	(89.7)

The movement in the fair value of scheme assets is as follows:

	2017 £m	2016 £m
Fair value of scheme assets at 1 January	134.2	105.1
Expected return on plan assets	3.5	3.9
Expected return on plan assets greater/less than discount rate	(0.4)	28.1
Cash contributions – employer	–	–
Administrative expenses	(0.2)	–
Benefits paid	(3.1)	(2.9)
Fair value of scheme assets at 31 December	**134.0**	134.2

History of experience gains and losses:	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of scheme assets	134.0	134.2	105.1	101.8	74.6
Present value of defined benefit obligation	(90.8)	(89.7)	(70.2)	(71.2)	(62.0)
Surplus in the scheme	43.2	44.5	34.9	30.6	12.6
Experience adjustments arising on liabilities	–	(0.3)	–	–	(3.8)
Experience adjustments arising on assets	(0.4)	28.1	(2.2)	22.6	(2.8)

17 Share-based payment

During the year ended 31 December 2017, the Company had a number of share-based payment arrangements, which are described in note 7(b) to the consolidated accounts.

The options have a weighted average contractual life of one year (2016: one year). Options were exercised throughout the year and the weighted average share price at exercise was 362p (2016: 346p).

18 Commitments and contingencies

Operating lease commitments

The Company had total commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2017 £m	2016 £m
Operating leases which expire:		
Within two to five years	**0.1**	0.1

Contingent liabilities

Guarantees

The Company has guaranteed credit facilities totalling £222m (2016: £232m) of certain subsidiaries. The Company has also guaranteed certain liabilities of a number of its subsidiaries under Section 479C of the Companies Act 2006. These subsidiaries are highlighted in the full subsidiaries listing in note 39 to the consolidated accounts.

Bonds and letters of credit

In the ordinary course of business, the Company is required to issue counter-indemnities in support of its operations. Letters of credit have been issued to support insurance retentions of £91.9m (2016: £91.5m).

19 Post Balance Sheet events

There are no post balance sheet events.

Five Year Summary

	2017	(restated) 2016	(restated) 2015	(restated) 2014	(restated) 2013
Group normalised					
Revenue	2,321.2	2,093.7	1,745.4	1,707.7	1,739.9
Normalised operating profit	241.5	217.5	190.6	173.9	173.8
Return on capital	11.9%	11.9%	11.7%	10.7%	10.8%
Basic EPS	29.1	26.3	23.4	18.9	19.2
IFRS					
Revenue	2,321.2	2,093.7	1,745.4	1,707.7	1,739.9
Operating profit	197.9	183.7	164.9	118.1	113.6
PBT	156.4	134.8	120.6	70.4	66.0
Basic EPS	25.7	23.0	20.9	11.6	11.1
Dividends per share	13.5	12.3	11.3	10.3	10.0
Net (debt)/funds					
Cash	314.3	324.4	60.4	83.7	40.9
Other debt receivable	0.7	0.5	0.8	0.8	1.0
Bonds	(851.9)	(983.2)	(583.5)	(585.3)	(579.5)
Bank loans	(115.6)	(13.3)	(45.3)	(5.2)	(19.3)
FV of derivatives	11.3	25.5	14.3	18.6	9.2
Finance lease	(173.1)	(159.5)	(127.6)	(110.5)	(132.9)
Other debt payable	(73.6)	(72.4)	(64.6)	(66.4)	(65.5)
Net debt	(887.9)	(878.0)	(745.5)	(664.3)	(746.1)
Gearing ratio	2.30	2.50	2.45	2.25	2.50

Shareholder Information

Ordinary shares

The Company's ordinary shares, each of nominal value 5p, are traded on the main market for listed securities on the London Stock Exchange (LON:NEX).

Company website: www.nationalexpressgroup.com

The Company website contains information about the Company, including results announcements and presentations, annual reports, AGM notices and other similar corporate communication and shareholder materials which are available to view and download. Information can also be found there about the latest National Express share price and dividends, news about the Group and its operations, and details and links to further information.

Registrar: Equiniti

For assistance and enquiries relating to the administration of shareholdings in National Express Group PLC, such as lost share certificates, dividend payments or a change of address, please contact the Company's Registrar:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone from UK:	0371 384 2152*
Telephone from overseas:	+44 (0) 121 415 7047*
Textel (for the hard of hearing):	0371 384 2255*

*Lines are open from 8.30am to 5.30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

If you are registered for online shareholder communications you can contact the Registrar and access details of your shareholdings electronically via www.shareview.co.uk.

e-Communication

National Express encourages shareholders to receive communications from the Company electronically as this will enable you to receive them more quickly and securely. It also allows the Company to communicate in a more environmentally friendly and cost-effective manner. To register for this service, you should go to www.shareview.co.uk.

Payment of dividends to UK resident shareholders

Shareholders whose dividends are currently sent to their registered address may wish to consider having their dividends paid directly into their personal bank or building society account. This has a number of advantages, including the crediting of cleared funds on the actual dividend payment date. If you would like your future dividends paid in this way, you should contact the Registrar or complete a mandate instruction available at www.shareview.co.uk and return it to the Registrar. Under this arrangement, dividend confirmations are still sent to your registered address.

Payment of dividends to non-UK resident shareholders

Instead of waiting for a sterling cheque to arrive by post, shareholders can request that their dividends be paid directly to a personal bank account overseas. This is a service which the Registrar can arrange in over 30 different countries worldwide, and in local currencies, and it normally costs less than paying in a sterling cheque. For more information, you should contact the Registrar on +44 (0)121 415 7049 or download an application form online at www.shareview.co.uk. Alternatively, you can contact the Registrar at the address given above.

Annual Dividend Confirmation

The Company issues Annual Dividend Confirmations ("ADC") to private shareholders. An ADC in respect of dividends paid by the Company during the tax year 2017/18 has been issued at the same time as this report.

Shareholder Information continued

Share dealing service

Equiniti provides both existing and prospective UK shareholders with an easy to access and simple-to-use share dealing facility for buying and selling shares in National Express Group PLC by telephone, online or post. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays in England and Wales). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. For online dealing, log on to www.shareview.co.uk/dealing. For postal dealing, call 0371 384 22481 for full details and a dealing instruction form. Existing shareholders will need to provide the account/shareholder reference number shown on their share certificate. Other brokers, banks and building societies also offer similar share dealing facilities

ShareGift

ShareGift is an independent charity share donation scheme administered by the Orr Mackintosh Foundation (registered charity number 1052686). Those shareholders who hold only a small number of shares, the value of which makes it uneconomic to sell them, can donate the shares to ShareGift who will sell them and donate the proceeds to a wide range of charities. For further information, contact:

Sharegift
PO Box 72253
London
SW1P 9LQ

Telephone:	020 7930 3737
Email:	help@sharegift.org
Website:	www.sharegift.org

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register ("UAR") programme which provides a search facility for shareholdings and other financial assets that may have been forgotten. For further information, contact:

Telephone:	0333 000 0182
Email:	uarenquiries@uk.experian.com
Website:	www.uar.co.uk.

Unsolicited mail

The Company is legally obliged to make its share register available on request, subject to a proper purpose test, to other organisations and this may result in shareholders receiving unsolicited mail. To limit the receipt of such unsolicited mail, contact:

The Mailing Preference Service
FREEPOST 29 LON20771
London
W1E 0ZT

Telephone:	0207 291 3310
Email:	mps@dma.org.uk.
Website:	www.mpsonline.org.uk (for online registration)

Share fraud warning!

Share fraud includes scams where investors receive unsolicited calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'. Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free reports into the Company. If you receive any such unsolicited calls, correspondence or investment advice:

- ensure you get the correct name of the person and firm
- check that the firm is on the Financial Conduct Authority (FCA) Register to ensure they are authorised at www.register.fsa.org.uk
- use the details on the FCA Register to contact the firm
- call the FCA Consumer Helpline (0800 111 6768) if there are no contact details in the Register or you are told they are out of date
- if you feel uncomfortable with the call or the calls persist, simply hang up
- if you have already paid money to share fraudsters you should contact ActionFraud on 0300 123 2040.

REMEMBER: if it sounds too good to be true, it probably is!

Financial Calendar

Financial Calendar 2018

2017 Final Dividend[1]

26 Apr	Ex-dividend date
27 Apr	Record date
21 May	Payment date

2018 AGM

16 May	Annual General Meeting[2]

2018 Interim Dividend

30 Aug	Ex-dividend date
31 Aug	Record date
21 Sep	Payment date

2018 Reporting Timetable

16 May	First quarter trading update
26 July	Half year results
18 Oct	Third quarter trading update

Financial Calendar 2019

28 Feb	Full year results[3]

1 The Board has recommended a final dividend of 9.25p per ordinary share, subject to shareholders' approval at the forthcoming Annual General Meeting.
2 The Annual General Meeting will be held at 2.00pm on Wednesday, 16 May 2018 in The Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company's website at www.nationalexpressgroup.com.
3 Provisional.

Definitions and Supporting Information

AGM	Annual General Meeting
Bps	Basis points
BSOG	Bus Service Operators Grant
CDP	Carbon Disclosure Project
Code	The UK Corporate Governance Code published by the Financial Reporting Council in September 2014
The Company	National Express Group PLC
CPI	Consumer Price Index
CRM	Customer Relationship Management
CTV	Consolidated Tax Voucher
DTRs	Disclosure and Transparency Rules
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, normalised profit on disposal of non-current assets and share-based payments
EFQM	European Foundation for Quality Management
EPS	Earnings per share – the profit for the year attributable to shareholders, divided by the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust which are treated as cancelled
ESOS	Energy Savings Opportunity Scheme
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Free cash flow	The cash flow equivalent of normalised profit after tax
FWI	Fatalities and Weighted Injuries index
GDP	Gross Domestic Product – used to determine the economic performance of a whole country or region
GDPR	General Data Protection Regulation
Gearing ratio	The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates
GHG	Greenhouse Gas
The Group	The Company and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
MAA	Moving Annual Average
Net capital expenditure	The increase in net debt arising on the purchase of property, plant and equipment and intangible assets less proceeds from disposals of property, plant and equipment. It excludes capital expenditure arising from discontinued operations, which are included in these headings. Growth capital expenditure reflects investment in new or nascent parts of the business that drive enhanced profit growth

Net debt	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)
Net interest expense	Finance costs less finance income
Normalised earnings per share	Earnings per share excluding separately disclosed items
Normalised operating profit	Statutory operating profit excluding separately disclosed items
Normalised result	The statutory result excluding separately disclosed items
Operating cash flow	The cash flow equivalent of normalised operating profit
Operating margin	Normalised profit divided by revenue, expressed as a percentage
RCF	Revolving credit facility
Return on assets (ROA)	The same calculation as ROCE, with the additional exclusion of intangible assets from capital employed
Return on capital employed (ROCE)	Normalised operating profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates
Return on invested capital (ROIC)	Normalised operating profit divided by invested capital. For acquisitions, invested capital is total consideration for the acquired business
RME	Rhine-Münster Express
RMS	Revenue Management System
RPI	Retail Prices Index
RRX	Rhine-Ruhr Express
Separately disclosed items	Intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring
SPAD	Signal Passed at Danger
TSR	Total Shareholder Return – the growth in value of a shareholding over a specified period assuming that dividends are re-invested to purchase additional shares
TUPE	Transfer of Undertakings (Protection of Employment)
ULSD	Ultra low sulphur diesel
Underlying revenue	compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency

In the UK, commercial revenue is that from fare-paying bus customers and excludes concessions and contracted services. Core express revenue is that from the scheduled National Express coach network.

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

Key contacts and advisers

Group Company Secretary

Michael Arnaouti, FCIS
michael.arnaouti@nationalexpressgroup.com

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www.nationalexpressgroup.com

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International dialling: +44 (0) 121 415 7047
Textel: 0371 384 2255
www.shareview.co.uk

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday excluding public holidays. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

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EC4A 3BZ

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2 King Edward Street
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EC1A 1HQ

Brokers

Bank of America Merrill Lynch
2 King Edward Street
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EC1A 1HQ

HSBC Bank plc
8 Canada Square
London
E14 5HA

Cautionary statement

This Annual Report and National Express's website may contain certain 'forward-looking statements' with respect to National Express Group PLC ('Company' or 'Group') and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Group operates (including the outcome of the negotiations to leave the EU); changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or National Express's website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or National Express's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

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