national express

1 March 2018

Full Year Results for the year ended 31 December 2017

Growth across every division of an internationally diversified business

- Strong performances in both international divisions, combined with growth in the UK, delivering significant increases in Group revenue, profit and cash and reduced gearing.
- Good start to 2018, with Group revenues and profits up in January, notwithstanding significant weather-related disruption in North America.
- Expect organic revenue growth in 2018 in every division and encouraging start to current North American School Bus bid season.
- Enter 2018 with tailwinds including £20 million lower fuel costs and a lower Group effective tax rate after recent US reform.
- Proposing a 10% increase in the final dividend and expecting annual free cash flow to be broadly the same as 2017.

Financial highlights

	2017	2016	Change	Change at constant currency
Continuing operations				
Group revenue	**£2.32bn**	£2.09bn	+10.9%	+6.1%
Group normalised operating profit	**£241.5m**	£217.5m	+11.0%	+6.0%
Group normalised PBT	**£200.0m**	£168.6m	+18.6%	+11.7%
Normalised basic EPS	**29.1p**	26.3p	+10.6%	
Statutory				
Group statutory operating profit	**£197.9m**	£183.7m	+7.7%	
Group statutory PBT	**£156.4m**	£134.8m	+16.0%	
Group PAT from continuing operations	**£128.4m**	£114.9m	+11.7%	
Statutory basic EPS	**25.7p**	23.0p	+11.7%	
Free cash flow	**£146.4m**	£138.6m	+5.6%	
Net debt	**£887.9m**	£878.0m	+1.1%	
Full year proposed dividend	**13.51p**	12.28p	+10.0%	

Our focus on operational excellence continues to deliver results

- North America grew revenue (10.1%) and normalised operating profit (6.6%) in constant currency. This has been delivered through a combination of organic growth, cost efficiencies and the benefit of recent acquisitions.
- ALSA has delivered revenue growth of 3.6% and a normalised operating profit increase of 4.4%, both in constant currency.
- Sophisticated pricing in our UK bus and coach businesses has delivered strong second halves to the year, reversing their first halves' declines. As a newly combined division, growth in both revenue of 0.6% and normalised operating profit of 5.3% has been achieved.
- German Rail saw big increases in constant currency revenue (20.4%) and normalised operating profit (€7.7m) in part due to a recognition of revenues we were unable to include in the 2016 accounts.

We continue to deploy technology to drive efficiency, growth and raise standards

- Our increasingly sophisticated real-time Revenue Management Systems (RMS) have helped drive both revenue and seat occupancy rate increases in UK coach and ALSA.
- We have seen further growth in our more cost-efficient digital sale channels, which also allow more sophisticated and targeted pricing.
- We continue to roll-out Lytx DriveCam smart safety cameras on our vehicles, improving safety performance, raising service standards and delivering cost savings.

Growing through new business opportunities, including bolt-on acquisitions

- We made a further nine acquisitions in the year, with targeted returns of at least 15% and have a strong pipeline of new opportunities.
- We continue to target new contract opportunities, in particular: North American transit and charter markets, as well as Morocco and German rail.

Dean Finch, National Express Group Chief Executive said:

"I am very pleased with our performance in 2017. Strong performances in our North American and ALSA divisions, combined with growth in our UK businesses, have delivered significant increases in Group profit, revenue and cash generation. We carried more passengers than we did last year reflecting the strong focus in all our businesses on good service and value for money. Our international diversity is an important asset, but it is particularly pleasing that all divisions contributed strongly to our Group performance. The second half performances of our UK businesses were particularly impressive.

"We continue to invest in the future success of our business, with our focus on operational excellence and the deployment of technology to raise standards and drive efficiency. We will continue to pursue new growth opportunities, including through further acquisitions to add to the nine we made in 2017. I believe our industry-leading position means we are well-placed for the upcoming concession renewals in Spain. Although the business has suffered weather disruption in North America at the start of 2018, I expect the missed days to be recovered later this year and I am so far pleased with the above inflation price increases in school bus contract renewals.

"Our strategy is simple: we focus on providing well run, safe, value for money services in and around some of the most affluent cities and regions in the world. This sustainable strategy is proving to be highly successful as the proposed 10% increase in the final dividend demonstrates. I am looking forward with optimism to the coming year, which I expect once again will deliver growth in revenue, profits, cash flow and dividends."

Enquiries

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There will be a presentation and webcast for investors and analysts at 0930 on 1 March 2018. Details are available from Mads Neumann at Maitland.

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

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 6 to the financial statements.

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

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

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

Dividend

If approved by shareholders at the AGM on 16 May 2018, the final dividend of 9.25p per ordinary share will be paid on 21 May to those shareholders registered on 27 April 2018.

Group Chief Executive's Review
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.

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 present 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.

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 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, amongst 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 nationalexpress.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 para-transit 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 '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 principle 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 to 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 have 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 in to 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, para-transit, transit and special education sectors. These acquisitions included Cook-DuPage Transportation, providing entry in to the US's largest para-transit market (Chicago). Para-transit 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, para-transit, 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 in to 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 recent 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 operate 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.

North America

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*
Operating margin	**9.3%**	9.6%

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

Overview

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 opportunty 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 on-going 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 on-going 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 Lytx 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 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. The business management system has already been used to revise our fleet management systems and has helped identify over 750 buses that can more effectively be deployed. 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 para-transit 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 para-transit operator in Chicago, the US' largest para-transit 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, para-transit, 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.

Whilst 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.

ALSA

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
Operating margin	**14.3%**	14.2%

Overview

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%) whilst 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. Amongst 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 – amongst 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 benefitted 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.

UK

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

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	**275.3**	276.8
Normalised operating profit	**36.7**	34.0
Operating margin	**13.3%**	12.3%

* 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
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 benefitting 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 – nationalexpress.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 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 amongst 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 Munster 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.

Group Finance Director's Review

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%.

	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 year	**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 6 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 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%**

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 6)	**(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 11)	**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 relates to 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's 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 United States of America.

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: £133.8million 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 (i.e. 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 (i.e. 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 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 on-going and we will formally conclude on this in 2018.

See 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

Group wide risks

Principal risks and uncertainties

The Group's principal risks and uncertainties summarised here are in line with those that are detailed in the 2017 Annual Report and Accounts:

- Economic conditions: parts of the business may be adversely affected by economic conditions as revenues in many of the businesses are historically correlated to GDP and employment. The terms on which Brexit is negotiated may affect the Group's ability to bid competitively within the EU.
- Political and regulatory changes: changes in political and regulatory environments can impact a regulated transport business through the operation of concessions; safety procedures; equipment specifications; employment requirements; environmental procedures and other operating issues.
- Increased competition from other modes of transport and/or in terms of increased price competition.
- Terrorism: the longer term impact of terrorism attacks potentially softening demand for travel.
- Safety: a major safety-related incident could impact the Group both financially and reputationally.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs.
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.
- Cyber security: loss of confidential data causing damage to brand reputation; major IT failure causing severe or sustained disruption to the business.
- Credit risk: the impact of customer payment default in the North America and ALSA divisions.
- Hazard risk: asset loss due to natural disaster which may also impact Group revenue and profits.
- Foreign exchange risk: the impact of foreign exchange or interest rate movements on profits and cash and counterparty risk.
- Fuel cost: changes in economic and political climate could drive changes in cost for the Group.
- Pension costs: scheme funding could rise should market conditions materially worsen.

Cautionary statement

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

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

Chris Davies
Group Finance Director

1 March 2018

Definitions

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

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

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 6 to the financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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.

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	**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	3	**–**	**(5.6)**	**(5.6)**	–	–	–
Operating costs		**(2,079.7)**	**(43.6)**	**(2,123.3)**	(1,876.2)	(33.8)	(1,910.0)
Group operating profit	3	**241.5**	**(43.6)**	**197.9**	217.5	(33.8)	183.7
Share of results from associates and joint ventures		**(3.5)**	**–**	**(3.5)**	1.1	–	1.1
Finance income	4	**10.0**	**–**	**10.0**	7.5	–	7.5
Finance costs	4	**(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	5	**(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	6	**–**	**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:	8						
– 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 3.

Prior year comparatives have been restated in relation to the exit from UK rail, as described in note 6.

Group Statement of Comprehensive Income
For the year ended 31 December 2017

	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	**(14.0)**	(45.6)
Deferred tax on actuarial losses	**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	**1.0**	14.3
Deferred tax on cash flow hedges	**(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		**1,633.4**	1,548.6
Property, plant and equipment		**968.2**	983.6
Available-for-sale investments		**8.1**	7.8
Derivative financial instruments		**13.4**	31.1
Deferred tax assets		**41.4**	48.3
Investments accounted for using the equity method		**11.3**	13.7
Trade and other receivables		**20.1**	18.2
Defined benefit pension assets	10	**43.2**	44.5
		2,739.1	2,695.8
Current assets			
Inventories		**24.9**	25.0
Trade and other receivables		**356.3**	302.7
Derivative financial instruments		**15.4**	13.0
Current tax assets		**1.5**	2.3
Cash and cash equivalents		**314.3**	318.1
Assets classified as held for sale		**–**	78.0
		712.4	739.1
Total assets		**3,451.5**	3,434.9
Non-current liabilities			
Borrowings		**(1,058.0)**	(816.7)
Derivative financial instruments		**(1.3)**	(4.2)
Deferred tax liability		**(60.0)**	(82.9)
Other non-current liabilities		**(36.0)**	(21.2)
Defined benefit pension liabilities	10	**(137.7)**	(132.7)
Provisions		**(65.4)**	(57.2)
		(1,358.4)	(1,114.9)
Current liabilities			
Trade and other payables		**(672.4)**	(600.7)
Borrowings		**(167.4)**	(443.8)
Derivative financial instruments		**(9.8)**	(26.0)
Current tax liabilities		**(11.6)**	(6.7)
Provisions		**(65.5)**	(57.2)
Liabilities directly associated with assets classified as held for sale		**–**	(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		**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		**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	**C Davies**
Group Chief Executive	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 £m	Other reserves £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 £m	Other reserves £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	11	**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	9	**(48.2)**	(58.9)
Deferred consideration for businesses acquired	9	**(49.0)**	(24.4)
Proceeds from the disposal of business, net of cash disposed	9	**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	7	**(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		**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'.

Notes to the Consolidated Accounts
For the year ended 31 December 2017

1 Basis of preparation

The results are based on the Group Financial Statements, which 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.

These results have been prepared on the going concern basis under the historical cost convention, except for the recognition of derivative financial instruments and available-for-sale investments, and using the accounting policies set out in the Group's 2017 statutory financial statements. The accounting policies adopted are consistent with those of the previous financial year and there have been no changes in accounting standards during the year that have had a material effect on the Group.

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 6.

2 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.

3 Segmental analysis

The Group's reportable segments have been determined based on reports issued to and reviewed by the Group Executive Team, and are organised in accordance with the geographical regions in which they operate and nature of services that they provide. Management consider 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.

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 6, 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 11 for 2016 is depreciation of £0.6m in relation to discontinued UK rail operations.

4 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)

5 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:		
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 a £11.4m tax credit on intangibles, a £7.5m net credit in relation to a US tax rate reduction 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

6 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 operation	**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)

7 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

8 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 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

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

9 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

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

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 6.

10 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 6). 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)

11 Cash flow statement

(a) Reconciliation of Group profit before tax to cash generated from operations

Total operations	2017 £m	2016 £m
Net cash inflow from operating activities		
Profit before tax from continuing operations	**156.4**	134.8
(Loss)/profit before tax from discontinued operations (note 6)	**(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**
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

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).

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)

13 Post Balance Sheet events

There are no post balance sheet events.

14 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2017 or 2016, but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditors have reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Annual Report will be posted to shareholders on 29 March 2018 and will also be available from the Company Secretary at National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham, B5 6DD. Copies are also available via www.nationalexpressgroup.com.