Press release

25 February 2016

Full Year Results for the year ended 31 December 2015

National Express delivering growth in all divisions

With revenues, profits and margins up in every division and a growing dividend underpinned by a strong and sustainable free cash flow, the Group enters 2016 in a good position. Our strategic focus on consistently delivering operational excellence to drive returns and generate new business opportunities has continued to secure good growth and market expansion in our existing businesses. At the same time, our successful entry into new markets has also demonstrated the significant future growth opportunities for the Group which complement the progress made in our established markets.

Financial highlights

	FY 2015	FY 2014	Change	Change at constant currency
Group revenue	£1.92bn	£1.87bn	+2.8%	+3.8%
Group normalised operating profit	£193.5m	£167.6m*	+15.5%	+18.2%
Group normalised PBT	£150.1m	£119.9m*	+25.2%	+29.3%
Group statutory PBT	£124.4m	£66.5m	+87.1%	
Group statutory PAT	£109.1m	£60.6m	+80.0%	
Normalised EPS	23.4p	18.9p*	+23.8%	
Free cash flow	£111.0m	£164.8m*	(£53.8m)	
Net debt	£745.5m	£664.3m	£81.2m	
Full year proposed dividend	11.33p	10.3p	+10.0%	

* FY2014 normalised results restated to adjust for the impact of Rail and Middle East bid costs previously treated as exceptional costs

Our focus on operational excellence continues to deliver results

- An excellent first full year of the new c2c franchise, including being named Passenger Operator of the Year and record passenger numbers, drove revenue growth of 9.5%
- A five-year “Bus Alliance” secured with local authorities in the West Midlands, a first for the UK. This award winning and industry-leading approach to partnership has helped drive 10.3% growth in operating profit
- Successful North American School Bus bid season, with an average price rise of 2.8% across all contracts, off-setting wage inflation. Further progress on new acquisitions, with five made in the year
- UK Coach’s further development of sophisticated marketing and revenue management, coupled with new strategic partnerships, saw operating profit increase by 15.4%
- A record year of passenger numbers in ALSA, with the Spanish revenue management system and further significant growth in Morocco both helping operating profit increase by 5.8% on a constant currency basis

This focus is driving strong returns and free cash flow

- Free cash flow of £111 million, £11 million ahead of target
- Net debt increased by £81.2 million to £745.5 million, reflecting £106 million spent on acquisitions and growth capex – all of which are accretive within 12 months
- Full year proposed dividend of 11.33 pence, up 10% year-on-year (2014: 10.3 pence)
- Growth in statutory profit before tax of 87% and statutory profit after tax of 80% with no exceptional costs in 2015
- ROCE improved from 10.7%* to 11.7%

Our reputation for excellence is also generating new growth

- Two successful launches of significant new services in new markets during the year:
    - German rail services, with the RME contract launched in December
    - Bahrain bus contract launched in February 2015
- €1 billion Rhine Ruhr Express (RRX) contract won during 2015, taking secured German rail revenues to €2.6 billion with a further appeal on Nuremberg due to conclude shortly
- ALSA won the Imserso contract for pensioner travel and launched services in a fourth Moroccan city, Khouribga
- Bid for East Anglia rail franchise submitted during December 2015, with a result expected in July
- All divisions now have excellence accreditations and plans to match c2c's five-star EFQM rating
- Our reputation for excellence is helping to drive further market expansion:
    - We are currently working on a further three bids in German rail, worth €3 billion in total revenue
    - We are developing a strong bid for the Manchester Metrolink tram system, with submission in early May
    - We have been shortlisted for other bus contract opportunities in Europe and the Middle East

Dean Finch, National Express Group Chief Executive said:

"This strong set of results demonstrates that our focus on operational excellence is generating excellent returns for our shareholders and customers. With our German rail and Bahrain bus contracts, we have successfully launched services in two new markets during the year. I am pleased that every division has increased revenue, helping to drive overall group profit growth and another strong free cash flow performance. Our commitment to our customers and safety has also been recognised in a record year of industry awards.

"With this year's strong cash performance and our confident outlook, and in-line with our previous commitment to now include rail profits in our dividend policy, we propose to raise the full year dividend by 10 per cent. We continue to draw on our international reputation for operational excellence to expand new market opportunities. We have an active pipeline of bids within Europe and the Middle East that will continue to deliver new growth opportunities."

Enquiries

National Express Group PLC

Matthew Ashley, Group Finance Director	0121 460 8655
Anthony Vigor, Director of Policy and External Affairs	07767 425822
Louise Richardson, Investor Relations Manager	07827 807766

Maitland

Rebecca Mitchell	020 7379 5151

There will be a presentation and webcast for investors and analysts at 0900 on 25 February 2016. Details are available from Rebecca Mitchell at Maitland.

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.

Unless otherwise stated, all operating profit, operating margin and EPS data refer to normalised results, which can be found on the face of the Group Income Statement in the first column. The definition of normalised profit is as follows: IFRS result found in the third column, excluding intangible asset amortisation, exceptional items and tax relief thereon. The Board believes that the normalised result gives a better indication of the underlying performance of the Group.

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

In UK Bus, commercial revenue is that from fare-paying customers and excludes concessions and contracted services. In UK Coach, core express revenue is that from the scheduled National Express network.

Constant currency basis compares the current year's results with the prior year's results translated at the current year's exchange rate.

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

'Return on capital employed' ('ROCE') is normalised operating profit divided by tangible and intangible assets.

'Return on assets' ('ROA') is normalised operating profit divided by tangible assets.

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. A reconciliation is set out in the table within the Finance Director's review.

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 twelve months, including any pre-acquisition EBITDA generated in that twelve month period by businesses acquired by the Group during the period.

The annual punctuality measure for c2c is the moving annual average (MAA) public performance measure (PPM) to 6 February 2016.

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.

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.

Group Chief Executive's Review

Introduction

National Express had a very successful year. Revenue, profits and margins have increased in every division on a constant currency basis. We continue to generate a strong and sustainable cash flow, which underpins a 10% increase in our proposed Full Year dividend and helps us to invest for further growth. Indeed, we started operations in two new markets, Germany and Bahrain, during 2015 and made a number of targeted acquisitions in North America and Spain in line with our growth strategy.

I believe these results demonstrate that our strategy of consistently focusing on operational excellence to drive cash and returns, as well as opening up new growth opportunities, continues to deliver. National Express has a uniquely diversified portfolio of industry-leading businesses which through careful management, have provided growing returns for shareholders and generated new expansion opportunities. I believe that by maintaining this management focus on consistently delivering our strategy we will continue to drive returns and open new growth opportunities. Before I expand in more detail on this, I would like to outline the highlights from our results during the year.

Highlights from the year

My first priority as Chief Executive is safety. It is one of our core values and is the first issue I discuss on my weekly call with Managing Directors, at each Divisional Board meeting and at the PLC Board. As long as I am Chief Executive of National Express, it will remain our priority. I am therefore pleased we have made further progress in improving on our key safety measure: the Fatalities and Weighted Injury index. Since 2011 we have reduced the harm caused by our business on this measure by 56%. We have also won important safety awards during the year, including UK Coach being awarded the prestigious British Safety Council's 'Sword of Honour' and our North American School Bus division being upgraded to the highest possible rating by the Federal Motor Carrier Administration, part of the US Department of Transportation.

Financially, the Group has performed well during 2015. With all divisions helping to drive increased revenues, profits and margins, I believe the whole business is benefitting from a focus on operational excellence that requires us to deliver consistently for our customers the services they want, at attractive prices. Across the Group we carried over 2% more passengers than in 2014, helping to increase Group revenue by 3.8% on a constant currency basis. Group profit before tax increased by 25.2% on a normalised basis and by over 87% on a statutory basis. We have again driven improved returns with Group ROCE up 100 basis points to 11.7% and a strong and sustainable free cash flow of £111 million, beating our target of £100 million. This strong performance allows the Board to propose an increase in the Full Year dividend to 11.33p, an increase of 10% and funded within our robust policy of two times earnings cover. With c2c and German rail securing our long-term future in rail, the Board announced a new policy at 2015's Half Year results, to include rail profits in the dividend calculation.

UK Coach's innovative digital marketing approach is being complemented with new partnership deals to both deliver our services more effectively to existing customers and reach new markets. This has been augmented by further contract wins, especially in the second half of the year. In the core coach business we carried nearly 2% more passengers in 2015 compared to 2014 and increased revenue across the division as a whole by 2.2% to £281.2 million. With a relentless attention to costs and efficiency, UK Coach has delivered a 15.4% increase in profit and a margin improvement of 130 basis points to 11.5%.

In UK Bus the emphasis on partnership is working, with, for example, our record investment in new vehicles during 2015 complemented by local authority investment at crucial pinch points. This is helping to drive strong passenger growth on these new Platinum routes. Alongside Centro we have helped lead the industry with the launch of the multi-operator, multi-modal Swift smartcard, which is also available as Pay As You Go. Together innovations and investment like this have helped secure our highest ever customer satisfaction scores in the independent Transport Focus survey. This is being reflected in our financial results with revenue increasing by nearly 2% to £286.4 million and profits growing by just over 10% to £37.5 million. Our margin has increased by 100 basis points to 13.1%.

Our Rail division has delivered an operating profit of £0.6 million compared to a £10.1 million loss in 2014. These figures reflect the fact bidding costs are included in our divisional results and are no longer taken as exceptional items. In 2015 we also absorbed over a three-fold increase in the premium paid to the government for the c2c service. Targeted, digital marketing, combined with the best punctuality in Britain, has helped revenues from c2c increase by nearly 10% to £166.0 million, with overall passenger numbers growing 5.3% and off-peak journeys increasing by 7.6%. We introduced the largest timetable change in a generation during December to meet both the significant passenger growth we have been experiencing and the improved central London connections specified in the Department for Transport's franchise agreement. We have made amendments to address some passenger concerns and are working hard to secure extra trains to provide additional capacity.

In North America we continue to see the benefits of our focus on improving contract pricing, including through our 'up or out' strategy. During the year we secured price increases of 5.3% in those contracts that went to market, which averaged out at a 2.8% increase across our whole portfolio. We have again maintained very high levels of customer retention. Our 'up or out' pricing strategy means we exit unprofitable contracts unless we secure a sufficient price increase to ensure profitability; with those tenders excluded, we retained 99% of all contracts re-bid during 2015; and if those tenders are included, we still retained 96% of contracts across our whole portfolio. Combined with further cost savings, including head office efficiencies, these have helped drive an increase in profit on a constant currency basis of 6.1% to $102.2 million despite rising pressure on driver wages, with our margin now at 9.8% (9.6% in 2014). Transit has also delivered significant growth in the year, with three new contracts secured, an extension to an existing contract and one bolt-on acquisition helping to increase annualised revenues by 45%.

In ALSA, our Spanish and Moroccan division, revenue grew by 3.6%, profit increased by 5.8% and a record number of passenger journeys were recorded in the year. This growth has been driven in particular by the continued successful roll out of our Revenue Management System (RMS) and our on-going growth in Morocco. RMS has now been extended to over 200 flows that compete directly with the discounted RENFE rail services, with revenues up 2% and passengers up 3% on these routes. Morocco continues its strong growth, with revenues up nearly 14% as we expanded our services in Tangier and started new operations in our fourth city, Khouribga. Following recent press reports on the Portuguese Government's proposed cancellation of our Porto bus contract – amongst others awarded by the previous government – we have just received official notification. We will analyse the arguments used to over-turn a previously awarded contract and then consider our next steps.

We also successfully launched new Bahrain bus and German rail services during the year. Our entry in to these new markets was secured, at least in part, because of our reputation for excellence in our existing operations. We believe both of these markets provide good growth potential and will help strengthen our international reputation.

Strategy

Our consistent strategy of focusing on operational excellence has demonstrably improved returns for shareholders and helps position us for further growth opportunities.

Delivering operational excellence

For a number of years I have made the case that our success as a business is dependent upon us securing and maintaining a reputation for operational excellence. For our existing customers this means consistently delivering the services that they want at competitive prices they can afford. For new customers it means demonstrating to them that we will provide to them the service they want in a convenient way while offering good value for money.

This has guided our operating philosophy for a number of years now, and I believe these results demonstrate the benefits of this approach. We carried more passengers in 2015 than in 2014, with both ALSA and c2c carrying record passenger numbers in the year. Our customer satisfaction ratings again are often market-leading: UK Coach is for the third year running the most trusted ground transportation brand in the UK Customer Service Institute's annual survey; UK Bus has secured its highest ever customer satisfaction scores in the independent Transport Focus survey; c2c again has the highest customer satisfaction scores for reliability and punctuality in London and South East franchises in the National Rail Passenger Survey; in our North American School Bus business 92% of customers say they would recommend us on the basis of our service, safety and value; and ALSA has achieved its best score in five years in the annual independent Customer Service Index survey conducted by GFK.

This philosophy will also drive growth in our existing businesses as we focus on delivering continuously improving, ever more punctual and value for money services. This means identifying opportunities to capture new markets, such as UK Coach's new Bristol Airport services launched in March 2015. It also means reforming our operations to ensure they meet customer aspirations and challenges, such as launching the largest timetable change in a generation on c2c to meet the significant passenger growth we have been experiencing and making significant progress in the 'digital' arena.

For some time we have been looking to harness new technology and approaches to enhance our customer service and operate more efficiently. Our targeted digital marketing has already delivered results in UK Coach: 88% of emails sent to our customer database are now targeted, compared to 69% in 2014 and 18% in 2013. We have already embedded a similar approach in c2c, with an increase in off-peak travel a particular benefit from this approach, and we are now rolling it out to UK Bus and Spain. We have already pioneered industry-leading innovations, such as the Personal Performance Promise supported by Automatic Delay Repay and Personalised Performance Reports, which c2c is launching this year.

Under a new Group Digital Officer, all divisions are auditing their existing digital strategies and setting out how they can make further, significant progress in the coming years. I believe these new technologies and approaches provide the opportunity to truly bring the customer into the heart of our business. They help create personalised and tailored relationships with our customers, helping to drive innovation and service efficiency so we can better target customer needs.

We have also been using new technology to improve our safety performance and believe there is the opportunity for substantial cost savings to be gained through this. Initial pilots of 'DriveCam' in UK Coach and North American School Bus have been very positive, already delivering in year cost savings and providing detailed performance reports for each driver allowing tailored training programmes to improve driving and safety performance. This technology will now be rolled out more widely in UK Coach and North America and also to UK Bus and ALSA. We are also looking to introduce 'collision avoidance' technology that could deliver further savings and safety improvements. I believe this is an area of real opportunity for our business, delivering both further safety improvements and meaningful cost reduction.

Embracing technology and approaches such as those outlined above demonstrate how we continue to invest where it makes a real difference to our services. In 2015 we invested a record £34 million in UK Bus, delivering 176 new buses, one third of which were our state-of-the-art Platinum buses. These buses are seeing strong passenger growth and customer satisfaction scores of 94%. We have also invested in a Revenue Management System in Spain to effectively counter the competitive threat from heavily-discounted rail services and are launching an enhanced version in UK Coach during the year. c2c has also been investing in leading-edge customer initiatives such as improved apps and WiFi provision, first-to-last staffing at all stations and the ground-breaking Automatic Delay Repay scheme for season ticket holders. This will provide compensation for every minute of delay beyond two minutes and, as the Secretary of State for Transport confirmed last year, has set a new standard for the rail industry as a whole to follow.

But, equally, these new technologies and approaches are part of our continued determination to operate as cost efficiently as possible. Operating efficiently helps us to maintain our prices as competitive as we can. We have continued to target 1% cost efficiency savings, with £19 million delivered in 2015. Over the last three years we have taken nearly £80 million out of our cost base through efficiency savings and are determined to continue to secure further savings in the future.

Our progress in embedding excellence across the business has been recognised by leading accreditation bodies. c2c has had its five-star rating under the European Foundation for Quality Management (EFQM) re-confirmed, with a higher mark this year than its last score. UK Bus, UK Coach and ALSA have all achieved four-star ratings in their initial assessments and are determined to emulate c2c's success. Our North American Division has also secured a Bronze Award in its first assessment from the Illinois Performance Excellence Center (ILPEx). 2015 also saw us win a record number of industry awards.

As I have already mentioned, safety is my priority and our Driving Out Harm programme introduced in 2010, continues to deliver progress in this crucial area. We have achieved a reduction in our key safety measure – Fatalities and Weighted Injury (FWI) index. Since 2011 we have reduced harm on this measure by 56% across our business. 2015's FWI is 12.242, compared to 12.307 in 2014 and this progress comes despite us carrying more passengers and running more services in 2015.

It is through this approach to operational excellence, combining service quality, customer satisfaction, cost efficiency, targeted investment and innovation and a fundamental focus on safety, that we believe we will deliver our vision of earning our customers' lifetime loyalty. As I have repeatedly said, passengers are more likely to use our services above other choices because they are receiving a good service at a good price. Equally, contracting authorities or businesses are less likely to retender services and are more likely to award us new contracts if we consistently deliver excellence.

I am particularly pleased that our reputation is helping to retain significant contracts and services. UK Bus have led the industry and secured a five year "Bus Alliance" in the West Midlands, building on our award winning partnership approach. ALSA successfully renewed one and obtained the highest score, pending award, in the other for the only two national franchises in our portfolio to come up for renewal during 2015. ALSA also extended the Bilbao Urban Transport contract by two years. I have already mentioned our industry-leading contract retention rate in North American School Bus, with a 99% success rate in those contracts we wanted to retain.

Superior cash and returns

The success of this strategy this year is also evident in our strong cash and returns.

We have again beaten our target for the year, delivering £111 million of free cash flow, £11 million ahead of our initial projection. Maintaining a strong and secure cash flow in the coming years is important for the dividends we pay shareholders and to fund future growth.

Our net debt has increased by £81 million in 2015 to £746 million, with a gearing ratio of 2.45 times EBITDA. This increase in net debt has been driven by £106 million spent on acquisitions and growth capital expenditure projects, all of which are accretive within the first 12 months and will continue to drive further profit growth. As we made clear last year, a period of debt reduction and a successful programme to embed a strong and sustainable cash flow within the business, provided a firm financial platform, allowing us to increase investment to capitalise on emerging growth opportunities.

Group ROCE has again increased, up 100 basis points to 11.7%, demonstrating that we continue to deploy capital in a disciplined manner, targeting enhanced returns. Our Group operating margin has also increased again this year, up 110 basis points to 10.1%. We continue to target both margin and ROCE improvement in the coming years.

As well as funding investment and growth, our strong performance is also delivering improved returns for shareholders. Our Group EPS has increased by nearly 24% to 23.4p and our strong and sustainable cash flow means the Board is able to recommend to shareholders at the Annual General Meeting a final dividend of 7.645 pence per Ordinary share (2014: 6.95p) giving a total dividend for the year of 11.33 pence (2014: 10.3p). This represents an increase of 10% over 2014 and reflects our new policy announced during the year of having two times total Group earnings cover.

Subject to shareholder approval at the Annual General Meeting to be held on 11 May 2016, the final dividend will be paid on 20 May 2016 to Ordinary shareholders on the register of members at the close of business on 29 April 2016.

Generating new growth opportunities

Last year we identified North America as the principal opportunity for increased investment to deliver strong growth over the medium term. Our experience in the last 12 months – including an encouraging pricing environment, with over 5% price increases secured on renewed contracts during the year – has confirmed this view and we will continue to target North America for further investment.

In a highly fragmented market, with over 1,300 private school bus businesses, we believe there is significant scope for the identification and integration of operations that are adjacent to our more than 220 sites across North America. In the last 12 months we have made 'bolt-on' acquisitions of this type, delivering management synergies and improved purchasing power, alongside operational improvements. Some of these acquisitions have also opened new markets to us – for example, shuttle services – providing credentials in growing sectors. From the integration of our significant Petermann acquisition four years ago, to these recent examples, our management team in North America have unparalleled experience and expertise in this area. We also believe our Transit business provides a good opportunity for further growth, building on the 45% increase in annualised revenues secured this year.

During the year we also started new services in two new markets. Our Bahraini bus services began in February and our German rail services in December. Both began successfully and demonstrate that operational excellence and working in partnership works internationally. These contracts are strengthening our international reputation and opening further opportunities in local markets. For example, our new services in Bahrain are opening other contract opportunities within the Middle East where we believe the prevailing fiscal climate is encouraging authorities to increasingly look at public transport as a cost effective investment. Across the region, we are actively involved in four bid processes with annualised revenues of around $220m. We believe there is a good pipeline of further opportunities here and are monitoring potential competitions in six countries in the Middle East.

In German rail we commenced our Rhine Munster Express (RME) services in December 2015. We are pleased with the first few months of trading and are targeting a break-even result a full year ahead of our original plan. Projected revenues for the existing RME services are expected to be around €72 million in 2016, with later years benefitting from the operation of the €1 billion Rhine Ruhr Express services from 2018, and subject to a further legal challenge the €1.4 billion Nuremberg S-Bahn contract. This latest appeal by Deutsche Bahn comes despite the local authority believing they had successfully demonstrated that the conditions set in the previous appeal had been met. We will continue to provide any necessary information and hope the new appeal is concluded quickly so we can provide the people of Nuremberg with the quality of service they deserve. The German rail market remains very attractive, worth €6 billion of revenues per year. overall. In 2016 we have three active bids, themselves worth a total of €3 billion in revenue over the lives of the contracts.

We submitted a bid in December 2015 for the East Anglia rail franchise. The outcome of the franchise competition, which is for up to 10 years, is due to be announced in July, with the contract due to start in October 2016. Our approach to UK Rail remains focused on delivering bids that combine improved services to customers and competitive prices to the government while, crucially, delivering an appropriate return to shareholders. We will continue to bid selectively. While we continue to monitor the UK rail market for any opportunities that meet our strict criteria, our current focus is on securing smaller, lower risk German rail franchises where the risk is acceptable and meets our capital-light investment criteria. We are also currently working on a bid for Manchester Metrolink, which is due to be submitted in May, with the contract starting in July 2017.

Board changes

During 2015 we appointed three new non-executive directors to replace Sir Andrew Foster and Jackie Hunt who stepped down in the year and to provide us with new insights in important strategic areas. Matthew Crummack, Mike McKeon and Dr Ashley Steel bring a wealth of experience that is already serving the board well and helping us to develop our plans in important areas such as the burgeoning digital agenda. I look forward to continuing to work with them in the coming years.

Outlook

During 2016 we expect all divisions to continue performing well, with good profit and cash performance secured as our strategy of operational excellence delivers the services our customers want. With both businesses firmly established, we expect our new services in Bahrain and Germany to support this as well. We will continue to target margin and ROCE improvement and are again not anticipating any exceptional items during the year. Our cash target for the year is again £100 million, reflecting our determination to maintain a strong and sustainable free cash flow to fund targeted investment in further growth and improving shareholder returns.

The principal focus for acquisitions will remain the North American school bus market, where our on-going strong performance and management expertise, the encouraging trends in pricing and nature of the market mean we are well placed to deliver further growth. Investment must always meet our strict financial and strategic criteria and we are already encouraged by the performance of our acquisitions made during 2015.

In Spain, we are still preparing for the concession renewal process to begin later this year. However, the delay in forming a new government coupled with the on-going legal challenges in Spain may serve to delay elements of the renewal process further. While we would expect some pressure on margins at renewal, as is normal, any impact from the larger concessions would not be felt until 2017 if they are indeed re-let this year. We expect the impact on our Spanish EBIT to be up to €2-3 million in 2017. Our industry-leading team and the on-going refinement of our competitive strengths such as our Revenue Management System, means we are determined to retain our market share and compete effectively.

We believe there are further growth opportunities within Morocco, the Middle East and German rail, and we will remain active in all these markets. With these markets well established, the Group is now considering entering other new markets. Our Business Development team continues to examine opportunities for further diversification where through targeted bids we can provide the authorities with a winning combination of high quality and price leadership.

In January 2016, the Group entered into new bank facilities totalling £450 million. This comprised a £350 million bridging facility, in anticipation of the refinancing of the Group's existing £350 million bond which matures in January 2017, and a £100 million general corporate purpose facility. These new facilities provide us with flexibility to the timing of the bond refinancing (until January 2019) and we would anticipate a significant reduction in our future interest charge of around £5 million at such time as we choose to refinance.

We anticipate significant savings of around £30 million from lower fuel costs in 2018 compared to 2015, where currently 42% of the Group's annual fuel requirement for that year is hedged at an average price of 31 pence. This compares to an average price of 42 pence in 2016.

We will also – of course – target further improvements in our safety results and look to further harness the opportunity and efficiency provided by new technology in delivering better safety performance and lower associated costs. We believe there is a real opportunity for progress here. New technology will continue to allow us to develop an increasingly personalised relationship with customers, generating demand and securing loyalty. But it will not deflect us from a continued focus on price leadership – including rolling out an ever more sophisticated revenue management system further – consistent attention on cost efficiency and maintaining our reputation as an excellent operator.

Our uniquely diversified portfolio of companies has provided both a stability of earnings and new sources of growth in recent years. We will continue to pursue targeted bolt-on acquisitions and selective new bidding opportunities that build on our recent successes in Bahrain, Germany and Spain. We believe that by continuing to applying our model of operational excellence in these markets, we will deliver the services our customers value, create new sources of growth and thereby continue to generate good returns for our shareholders.

Group Finance Director's Review

Presentation of results

We present our financial results on two bases. Normalised results show the performance of the business before exceptional items and intangible amortisation, since the Board believes this gives the reader a clearer understanding of existing business performance. IFRS results include these items to give the statutory results.

Revenue

Group revenue for the year was £1,919.8 million (2014: £1,867.4m), an overall increase of 2.8%. Underlying revenue (on a constant currency basis) increased by 3.8%, reflecting the strengthening of the US dollar against Sterling partially offsetting the weakening of the Euro.

We have delivered revenue growth in local currency in all five of our divisions, through a combination of pricing, volume growth and new business. Rail was the strongest performer, up 9.5% in the UK and 11.1% overall. This has included significant growth in off-peak revenues of 8%, driven by new fare promotions and an improved marketing programme. Commercial revenues in UK Bus increased by 2.6%, seeing very strong growth in the use of smartcards. UK Coach delivered revenue growth of 2.2% with core revenue growth of 3.1% and positive momentum in contract revenues in the second half of the year.

Revenue in Spain grew by 2.9% and we continue to see a positive response to the revenue management system installed on the main rail-competed corridors. Morocco has delivered another strong performance with a revenue increase of 13.8% driven by the upscaling of operations in Tangier, alongside the launch of services in September in a fourth city, Khouribga. Together these drove an overall increase in revenue for ALSA of 3.6%. Underlying revenue in North America was up 4.0% on a constant currency basis and up 2.2% on a reported basis as the depreciation of the Canadian dollar to the US dollar affected the translation of Canadian revenues. The 4.0% growth in constant currency reflects the rate increases and performance of new contracts, together with a number of acquisitions and business wins offset by exited contracts from our "up or out" programme.

Revenue bridge	£m	% Change
2014 full year revenue	1,867	
Currency translation	(17)	
2014 full year revenue at constant currency	1,850	
Organic growth	46	2.5%
Acquisitions	24	1.3%
2015 full year revenue	1,920	3.8%

Normalised profit

Group normalised operating profit increased by 18.2% to £193.5 million on a constant currency basis; up 15.5% on a reported basis (2014: £167.6m). Group like-for-like operating profit has increased by 7.5%, after excluding Rail and Middle East bid costs of £9.2 million (2014: £25.5m) and a £3.9 million adverse foreign exchange variance as set out below. This reflected our focus on driving organic growth and cost efficiency to protect and grow margin. The £19 million of cost efficiencies delivered in the year largely reflect the rationalisation and restructuring programme in 2014 which targeted annualised savings of around £15 million.

Group operating profit margin improved by 110 basis points to 10.1% (with like-for-like operating profit margin up 40 basis points after adjusting for lower incremental bid costs and foreign exchange), despite significantly increased franchise premium charges in our c2c franchise.

Profit bridge

	£m	% Change
2014 normalised full year operating profit	193.1	
Currency	(3.9)	
Rail and Middle East bid costs in 2014	(25.5)	
Restated operating profit at constant currency	163.7	
Incrementally lower Rail and Middle East bid costs in 2015	16.3	
Like-for-like operating profit	180.0	
Growth	27.5	
Acquisitions	3.4	
Cost inflation	(13.0)	
Cost efficiency	19.1	
Net rail charges (franchise premium)	(28.8)	
Fuel price benefit	4.7	
Weather	0.6	
2015 normalised full year operating profit	193.5	7.5%

Segmental profit performance

Our UK Coach and UK Bus businesses were the strongest performers, with UK Coach profit increasing by 15.4% to £32.3 million and operating profit margin improving by 130 basis points. UK Bus delivered profit growth of 10.3% with operating margin improving by 100 basis points. Profit in Rail was £0.6 million versus a loss of £10.1 million in 2014, reflecting the impact of lower incremental rail bid costs which combined with strong revenue growth in c2c more than offset the significantly increased premium charges.

Profit in ALSA was up 5.8% on a constant currency basis, reflecting strong revenue growth particularly in Morocco together with lower fuel costs and cost efficiencies. The reported result for ALSA has been adversely affected by the strengthening of Sterling versus the Euro over the last year, with the result that profit is down 4.7% on currency translation.

In North America profit was up 6.1% on a constant currency basis, with the benefit of rate increases and gains from the improvement in contract quality as a direct result from our “up or out” strategy, together with the benefit of acquisitions and new business wins. The strengthening of the US Dollar versus Canadian Dollar has adversely impacted the net operating profit for North America by $1.7 million during the year. On a reported basis North America profit grew by 12.3%, benefitting from the strengthening of the US Dollar against Sterling.

Central function costs were £1.9 million lower as a result of lower bid costs and cost savings delivered through the restructuring programme implemented in 2014.

Segmental operating profit

	2015 Local currency	2014* Local currency	**2015 £m**	2014* £m
Spain and Morocco	**98.5**	93.1	**71.5**	75.0
North America	**102.2**	96.3**	**66.8**	59.5
UK Bus			**37.5**	34.0
UK Coach			**32.3**	28.0
Rail			**0.6**	(10.1)
German Coach			**–**	(1.7)
Central functions			**(15.2)**	(17.1)
Group			**193.5**	167.6

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items
** Operating profit at constant currency, adjusting for Canadian Dollar to US Dollar foreign exchange rate movement in the year

Income from associates rose to £1.8 million (2014: £0.3m) and now includes the contribution from our joint venture in Bahrain.

Net finance costs decreased to £45.2 million (2014: £48.0m), benefitting from lower interest rates secured on the renewal of the Revolving Credit Facility in November 2014. Normalised profit before tax was £150.1 million (2014: £119.9m).

Summary income statement

	2015 £m	2014* £m
Revenue	**1,919.8**	1,867.4
Operating costs	**(1,726.3)**	(1,699.8)
Normalised operating profit	**193.5**	167.6
Share of results from associates	**1.8**	0.3
Net finance costs	**(45.2)**	(48.0)
Normalised profit before tax	**150.1**	119.9
Tax	**(28.5)**	(21.8)
Normalised profit after tax	**121.6**	98.1

*FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

The normalised tax charge was £28.5 million (2014: £21.8m), a normalised effective tax rate of 19.0% (2014: 18.2%). The tax charge for 2015 included a number of one-off items, with the main ones being a release of tax provisions following the conclusion of a Spanish tax audit together with movements in deferred tax balances due to changes in statutory tax rates in the countries in which we operate.

Looking forward, and depending on profit mix, new business opportunities and the future tax environment including possible restrictions on tax deductions for interest expense, we expect the normalised effective tax rate to gradually increase from 2017 to a range between 22% and 25%. We would expect the cash tax rate to be less than 15% for the next two to three years as we utilise brought forward tax losses, mainly in the US, during this period.

Normalised profit after tax for the year was £121.6 million (2014: £98.1m), giving a basic EPS of 23.4 pence (2014: 18.9p). An increase of 10% in the final dividend to 11.33 pence has been declared, reflecting our new policy of ensuring that full year dividends are covered around two times by Group earnings, including earnings from the Rail division.

Exceptional items

There were no exceptional items in the year: in line with our previously stated policy, business development costs associated with developing our rail and Middle East markets are no longer treated as exceptional items and are charged to the relevant business division. In 2014, £24.8 million was invested in the restructuring of existing operations in order to maintain their market leading positions and to respond to both opportunities and challenges.

Exceptional items

	2015 £m	2014* £m
Restructuring	**–**	(25.8)
Strategic rationalisation	**–**	(18.3)
Exceptional fuel credits	**–**	19.3
Exceptional items	**–**	(24.8)

* FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

IFRS results

Intangible amortisation decreased to £25.7 million (2014: £28.6m), due to intangible assets on some Spanish concessions becoming fully amortised. Profit for the period, after amortisation was £109.1 million (2014: £60.6m). Basic EPS, after amortisation was 20.9 pence (2014: 11.6p).

IFRS profit

	2015 £m	2014* £m
Normalised profit before tax	**150.1**	119.9
Exceptional items	**–**	(24.8)
Intangible amortisation	**(25.7)**	(28.6)
Profit before tax	**124.4**	66.5
Tax charge	**(15.3)**	(5.9)
Profit for the year	**109.1**	60.6

* FY2014 results restated to adjust for the impact of Rail and Middle East bid costs previously treated as exceptional items

Cash management

Cash generation is core to our strategy, representing a key driver of shareholder value. The Group's core bus and coach operations are strong cash generators, complemented by rail's capital-light model. In recent years the Group has targeted improved cash flow generation to drive better returns. We believe we have a strong, sustainable cash flow in place now that allows us to retain a focus on ROCE while supporting 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 2015, the Group delivered operating cash flow of £164.9 million (2014: £222.6m), reflecting the increased level of maintenance capital expenditure, net of disposals, of £111.7 million. This represents 107% of the depreciation charge and was £69 million higher than in 2014. The majority of the maintenance capital investment has been in fleet replacement in the UK, Spain and North America.

Working capital saw an outflow of £11.8 million (2014: inflow of £4.8m) reflecting organic growth, new business wins and acquisitions.

£111.0 million of free cash flow was generated over the year (2014: £164.8m), reflecting the higher level of maintenance capital expenditure described above. This free cash flow was ahead of our £100 million target. We will continue to target delivery of £100 million of free cash flow per annum, which we see as a sustainable level of cash generation going forward.

Free cash flow

	2015 £m	2014* £m
Normalised operating profit	**193.5**	167.6
Depreciation and other non-cash items	**104.6**	102.1
EBITDA	**298.1**	269.7
Net maintenance capital expenditure	**(111.7)**	(43.2)
Working capital (increase)/decrease	**(11.8)**	4.8
Pension contributions above normal charge	**(9.7)**	(8.7)
Operating cash flow	**164.9**	222.6
Receipts from associates and minorities	**0.7**	1.3
Net interest paid	**(43.4)**	(46.1)
Tax paid	**(11.2)**	(13.0)
Free cash flow	**111.0**	164.8
UK rail franchise exit outflow	**(2.5)**	(1.6)
Exceptional cash expenditure	**(10.0)**	(19.2)
Cash flow available for growth & dividends	**98.5**	144.0

*FY2014 results restated to adjust for impact of Rail and Middle East bid costs previously treated as exceptional items

From free cash flow, there was an outflow of £10.0 million from the run-off of 2014 exceptional items, leaving £98.5 million (2014: £144.0m) available to invest in growth capital projects, bolt-on acquisitions and capital return to shareholders. The majority of the £36.4m growth capital investment has been in growing our fleet on new services such as Tangier in Morocco, investment in revenue management systems for our coach services in the UK and Spain, and investment to support our growth in Rail, both in the UK and Germany.

During the year we invested in six acquisitions, five of which were in our North America School Bus and Transit operations, in line with our stated strategy to exploit new growth opportunities in this market. The acquisition in Spain was for an urban bus contract in Madrid. Total net consideration was £82 million for the acquisitions in North America and £16 million for the Spanish acquisition, with a total of £69.4 million being paid in 2015.

Return on capital employed is a key factor in our incremental investment decisions and we are pleased with the progress we have made. The Group's return on capital increased by 100 basis points to 11.7%, excluding Rail and Middle East bid costs.

With dividend payments of £54.4 million (2014: £51.6m), the net outflow of funds in the year after foreign exchange movements was £81.2 million (2014: inflow of £81.8m). Net debt increased to £745.5 million as at 31 December 2015 (2014: £664.3m) having invested £69.4 million on acquisitions and £36.4 million in growth capital expenditure during the period.

Net funds flow

	2015 £m	2014 £m
Cash flow available for growth & dividends	**98.5**	144.0
Net growth capital expenditure	**(36.4)**	(7.3)
Acquisitions and disposals	**(69.4)**	(5.9)
Dividends	**(54.4)**	(51.6)
Other, including foreign exchange	**(19.5)**	2.6
Net funds flow	**(81.2)**	81.8

In previous years the focus of our cash flow has been on debt reduction and growing our dividend. As we stated in last year's Full Year results, we are now in a strong position to exploit new growth opportunities with a focus on the North American market, where we have a strong track record of growing profits. We continue to believe that there are excellent opportunities in this market given its highly fragmented nature and the continuing trend in conversions, and we will continue to use our cash flow to generate further growth through acquisitions, driving future returns for shareholders.

Dividend

As announced at the Half Year, the strength of our cash flow and the continued growth of secure, long-term revenue from our expanding UK and German rail operations led us to review our policy of excluding rail earnings from our dividend cover. Our new policy is to include rail profits, so that our dividend is covered around two times by Group earnings. This new policy enables us to propose a 10% increase in the full year dividend to 11.33 pence.

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. Both Moody's and Fitch credit ratings have reaffirmed their investment grade rating in 2015.

The Group's key debt ratios as at 31 December 2015 were as follows:

- Gearing ratio: 2.45 times EBITDA (31 December 2014: 2.25x; bank covenant not to exceed 3.5x)
- Interest cover ratio: EBITDA 6.6 times interest (31 December 2014: 6.3x; bank covenant not less than 3.5x).

The Group has a strong funding platform that underpins the delivery of its strategy. Core funding is provided from non-bank sources, to provide improved certainty and maturity of funding. At the end of 2015, this represented £758.6 million of funding, primarily from two Sterling denominated bonds comprised of a £350 million bond maturing in 2017 and a £225 million bond maturing in 2020, a private placement of €78 million maturing in 2021 and £128 million of finance leases. The residual debt balance is funded from the Group's £416 million revolving credit facility (RCF), with a margin of 0.6% over LIBOR and maturing in 2020. At 31 December 2015, the Group had £440 million in cash and undrawn facilities available.

In January 2016, the Group entered into new bank facilities totalling £450 million, comprising a £350 million bridging-to-bond facility in anticipation of the refinancing of the Group's £350 million bond maturing in January 2017, together with a £100 million general corporate purposes facility, providing the Group with an appropriate level of medium-term liquidity and funding headroom. Both facilities are for an initial period of 18 months and include options to extend the maturity date until January 2019. This "bridging facility" gives the Group ample flexibility with respect to the timing of the refinancing of the bond, without incurring punitive refinancing charges.

At 31 December 2015, 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 2.2 times EBITDA earned in the US, held in US Dollars, and 2.1 times EBITDA earned in Spain and Germany, held in Euros. The Group hedges its exposure to interest rate movements to maintain a balance between fixed and floating interest rates on borrowings. It has therefore entered 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 2015, the proportion of Group net debt at floating rates was 34% (2014: 28%).

Group tax policy

We are committed to creating shareholder value through our strategic goals of operational excellence, generating superior cash and returns and creating new business opportunities, and the Group tax strategy supports these goals.

We pursue a cautious approach to our tax affairs which are aligned to business transactions and economic activity. Our approach to tax can be evidenced by the lack of outstanding tax audits as detailed in the Annual Report and Accounts.

In order to gain as much certainty as possible, tax matters are largely discussed in "real time" with the tax authorities in the markets in which we operate. We have a constructive and good working relationship with the various tax authorities. However, due to the complexity of tax legislation, the Group and tax authorities may sometimes have differing opinions. The Group manages these risks and accrues for areas of tax uncertainty in line with accounting standard requirements, where appropriate. The Group Tax Department reports on a regular basis on the Group's tax matters, with the Board and the Audit Committee apprised of any significant tax matters.

Pensions

The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS19 at 31 December 2015 was £12.6 million (31 December 2014: deficit of £11.9m). The Group has previously reached agreement with the trustees of its key schemes which have fixed the deficit payments, under most eventualities, to just under £10 million per annum until 2017, calculated on a scheme funding basis. 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.

The IAS19 valuations at 31 December 2015 were as follows:

- UK Bus (under the WM plan and the Tayside Transport Superannuation Fund): £60.4 million deficit (2014: £50.6m deficit);
- UK Group scheme: £34.9 million surplus (2014: £30.6m surplus)
- UK Rail/other: £12.9 million surplus (2014: £8.1m surplus). The Group's rail business participates in the Railways Pension Scheme. This exposure transfers to an incoming operator in the event of a franchise termination.

Fuel costs

The Group consumes approximately 220 million litres of diesel each year for which it is at risk (i.e. there is no direct fuel escalator in the contract or concession price). This relates to the non-rail divisions and represented a total cost (including delivery and taxes) to the Group in 2015 of £167 million (approximately 9% of related revenue), at an average fuel component cost of 44 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 2016 at an average price of 42 pence/litre (excluding delivery and tax), 94% fixed for 2017 at an average price of 41p and 42% fixed for 2018 at 31p. We anticipate fuel savings of around £30 million in 2018 when compared to 2015, assuming the balance of the fuel hedging for 2017 and 2018 is transacted around the current spot price for fuel.

The continuing drop in the price of crude oil throughout 2015 resulted in an adverse movement in the value of these hedges to a liability of £83.8 million, which will be offset by the lower price paid for fuel in 2016-2018.

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, up to the life of the contract, may be taken, subject to availability and liquidity in the hedging market. The latter is rarely available beyond three years from the trade date.

Matthew Ashley
Group Finance Director

25 February 2016

Spain and Morocco

Year ended 31 December	**2015 m**	2014* m
Revenue	**£502.2**	£538.1
Normalised operating profit	**£71.5**	£75.0
Revenue	**€691.8**	€667.7
Normalised operating profit	**€98.5**	€93.1
Operating margin	**14.2%**	13.9%

* FY2014 Normalised results restated to adjust for the impact of bid costs previously treated as exceptional costs

Overview of 2015

ALSA's continued roll out of its revenue management system (RMS), a record year for passengers and sustained strong growth in Morocco have helped drive increases in revenue, profit and margin in the division. Total divisional revenue grew by 3.6% to €691.8 million (2014: €667.7m) and normalised operating profit rose 5.8% to €98.5 million (2014: €93.1m), both in constant currency.

In Spain, revenues rose 2.9% driven by the implementation of revenue management systems on our main rail-competed routes which is driving growth in both revenue and passengers, whilst in Morocco we have seen another year of strong growth, with revenue growth of 13.8% driven by the upscaling of operations and services in Tangier, together with the launch of services in a fourth city, Khouribga. Operating margin rose to 14.2% (2014: 13.9%) driven by revenue growth, cost efficencies, lower fuel costs and additional income from fuel duty rebates. ALSA still achieves the best in class margin for a Spanish bus and coach operator.

During the year only two national franchises in our portfolio came up for renewal. ALSA successfully renewed one and has obtained the highest score, pending award, in the other. ALSA also extended the Bilbao Urban Transport contract by two years and was awarded one of the contracts to operate part of the Spanish Government's flagship Imserso pension holiday scheme.

With the appreciation of Sterling against the Euro during 2015, reported revenues and profit declined to £502.2 million (2014: £538.1m) and £71.5 million (2014: £75.0m) respectively.

Operational excellence

ALSA is widely recognised as an industry-leading operator and in 2015 received an award for Best Practice in Occupational Road Safety from the Spanish Foundation in Road Safety. In addition ALSA has been awarded a four-star rating by the European Foundation for Quality Management in a first EFQM assessment, and we are working towards achieving a five-star rating in the next assessment.

2015 has been a record year for the number of passengers that ALSA carries, with nearly 300 million passenger journeys on our services in Spain and Morocco.

We have continued to see a successful response to the RMS implemented on the nine corridors experiencing the most intense competition from RENFE's aggressive rail ticket discounting. With 216 long haul flows now within the RMS, nearly 80% of that sector's passengers and revenue are benefiting from this more sophisticated pricing approach. For the year as a whole, on those routes with RMS, we saw a two per cent increase in passenger numbers and three per cent increase in revenue. ALSA remains focused on delivering further cost efficiencies in order to mitigate the impact of lower fares and cost inflation. In 2015 we drove a higher proportion of sales through our digital channels and ticketing machines, with nearly a third of transactions now conducted this way, leading to a small reduction in headcount as we look to develop a more flexible sales structure.

We have delivered improvements in productivity with higher fleet utilisation, higher mileage per vehicle and improved maintenance standards resulting in a 20% reduction in breakdowns. The two per cent reduction in fuel consumption achieved in 2014 has been delivered again in 2015. This two per cent reduction has been driven by a programme of consumption improvement measures, including fuel efficient driver training.

Our ongoing focus on improving safety standards has delivered a reduction of 15% in the Fatalities and Weighted Injuries Index in the year, with a strong emphasis on training and driver assessments helping to drive the significant improvement in safety performance.

	€m
2014 normalised operating profit	94.1
Bid costs in 2014	(1.0)
Restated operating profit	93.1
Lower bid costs in 2015	0.6
Like-for-like operating profit in 2014	93.7
Net impact of revenue growth	4.9
Other cost inflation	(9.0)
Cost efficiencies	6.5
Fuel	2.4
2015 normalised operating profit	98.5

Cash and returns

In 2015 ALSA delivered another strong performance, generating operating cash of €114.6 million with operating cash conversion of 116%, with an improvement of €9 million in working capital. We have invested in a higher level of capital expenditure year on year, with growth capital expenditure focused predominantly on new fleet to support the upscaling of our operations in Tangier and the on-going development of the RMS.

Creating new opportunities

Following on from the very encouraging results we have seen with the implementation of revenue management on some of our intercity routes, we are introducing further enhancements to our systems that allow even faster decision making on fares, drawing on real time travel information and competitor information. We will look to roll out this enhanced revenue management process across the whole of our Spanish business to include both the commuter and regional routes.

We also see further opportunities to increase our digital capabilities leveraging the Group expertise in customised e-marketing, with the development of new Apps offering improved functionality, together with personalised journey planners, content and offers; building on UK Coach's leadership, similar programmes will be rolled out across the businesses.

In 2015 we invested in a bolt-on acquisition, 'Herranz', a business which operates around 70 buses through an urban contract as part of the Madrid consortium. This business offers synergy benefits with other contracts we operate within the city, with the contract running through to 2024. We expect this acquisition to be accretive within the first 12 months after transaction and synergy costs and we will consider further bolt-on acquisitions where they meet our strict financial criteria.

Following recent press reports on the Portuguese Government's proposed cancellation of our Porto bus contract – amongst others awarded by the previous government – we have just received official notification. We will analyse the arguments used to over-turn a previously awarded contract and then consider our next steps. We will continue to monitor future prospects for private sector development in the domestic rail market and liberalisation of other bus markets in Europe where we believe we can leverage our expertise and reputation to enter new markets.

We continue to see strong growth prospects in Morocco, where we started operations in Khouribga, our fourth city, in 2015. As well as continuing to grow our existing operations, we see further growth opportunities with the addition of services in new cities, building on our reputation for operational excellence and customer service standards. In 2016 we expect to carry more passengers in Morocco than in the whole of our Spanish business, demonstrating the significant growth experienced in recent years and the opportunity further expansion in the country provides. Our continuing focus is to ensure we are well placed for the upcoming concession renewal process which may continue to suffer delays resulting from legal issues. We still, therefore, do not expect any risk of significant impact on revenues or profits until 2017. We expect the impact on our Spanish operating profit to be up to €2-3 million in 2017. As a high quality, innovative and efficient operator, we believe that ALSA is well positioned to retain and secure concessions as and when contracts do come up for renewal. In 2015 we have successfully retained the two small intercity contracts which came up for renewal and our industry-leading bidding team will continue to focus on developing high quality bids in order to retain and win new contracts. When the main renewals process does begin, we do expect there to be pressure on margins, but have already begun programmes to mitigate this through, for example, further cost efficiencies, the ongoing roll out of revenue management in Spain and additional opportunities for growth in Morocco.

North America

Year ended 31 December	**2015 m**	2014 m
Revenue	**£683.2**	£620.2
Operating profit	**£66.8**	£59.5
Revenue	**US$1,044.3**	US$1,003.9*
Operating profit	**US$102.2**	US$96.3*
Operating margin	**9.8%**	9.6%

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

Overview of 2015

Our North American business has delivered another year of growth in revenue and operating profit. On a constant currency basis* revenue grew by 4.0% with operating profit increasing by 6.1% to $102.2 million (2014: $96.3m).

We continued to focus on increasing profitable growth and improving the quality of our portfolio, exiting those contracts that fall below our minimum return criteria (through an "up or out" strategy) and growing through acquisitions and winning new business which generate more attractive returns. We have had a successful bidding season, achieving price increases of 5.3% on those contracts up for renewal and an average price increase across the entire portfolio of 2.8%. This trend of increasing prices has continued into the current bid season.

We have added a further 450 buses from new contract wins in 2015 both in School Bus and Transit operations. We have had a particularly successful year in Transit, growing annualised revenues by 45% to around $110 million with three new contracts, an extension to an existing contract and one bolt-on acquisition.

In line with our strategy to increase investment in new growth opportunities in North America, we have made five small bolt-on acquisitions, with three of those made in the final quarter of the year. Over the period we have added a net 1,100 buses, with the new business wins and acquisitions more than offsetting the contracts we chose to exit.

Change in school bus numbers – 2015 bid season	Number of buses
Regretted losses	(100)
Exited per "up or out" strategy	(900)
Acquisitions	1,450
Conversion and share shift	450
Organic growth	200
Change in buses operated for 2015/16 school year	1,100

We have maintained a relentless focus on costs and the streamlining of operations and increased operating margin by 20 basis points to 9.8%, with the benefits of the "up or out" strategy helping to offset pressure on drivers' wages.

	$m
2014 normalised operating profit	98.0
Exchange movement (CAD to USD)	(1.7)
2014 normalised operating profit at constant currency*	96.3
Net impact of revenue growth	4.8
Acquisitions	5.2
Fuel cost	2.4
Other cost inflation	(16.0)
Cost savings including synergies	8.6
Weather	0.9
2015 normalised operating profit*	102.2

Operational excellence

Our North America operation already delivers best in class margins. Traditionally, the school bus industry is a capital-intensive, low cash generation business. In the past year we have continued to focus on increasing the return on capital across our portfolio of 500 contracts. By focusing on contracts which generate adequate capital returns, we have relationship-based contracts where our service quality is valued by the customer. Where we are not able to obtain financial returns above our minimum criteria, we have exited the contract – in the 2015/16 school year bid season we relinquished 8 contracts for 900 buses, which has contributed to the 20 basis point improvement in the operating margin to 9.8%. We have continued to cascade buses where they meet the appropriate age criteria, thereby increasing fleet utilisation.

We continue to deliver superior service standards, with 92% of our customers willing to recommend us on the basis of quality of service, safety and value. In 2014 we experienced pressures on driver recruitment with some shortages and wage pressure evident. During 2015 we reviewed our approach, including starting our targeted recruitment rounds earlier and improved wage packages in highly competitive markets. While we continue to see some wage pressure we are pleased that the success of our new approach is supported by a 3% improvement in the Back to School Survey, with 90% of customers satisfied with the service they receive. Our focus on service standards and our customers is also reflected in our industry leading contract retention rate which remains very high, achieving nearly 99% for the last bidding season, excluding those contracts which we have not contested as they do not meet our minimum returns criteria.

We continue to leverage our previous investment in technology in order to achieve further improvements in our operations and services, with further improvements in maintenance helping to drive cost efficiencies and higher service standards and our ability to monitor on-time performance is driving higher service standards for our customers, with a 1% improvement year on year in 2015 to 94.1%. In 2015 we piloted a “Where’s my Bus” App which provides parents with real-time tracking information and we will continue to roll this technology out across our business in response to positive customer feedback.

We have also built the first full-sized school bus simulator in the US, in our regional training centre in Memphis. The ongoing focus on safety is demonstrated by a reduction of 5% in the Fatalities Weighted Index accompanied by a reduction in lost time injuries. We will continue to strive for higher safety standards across our business.

We were delighted that our commitment to excellence and our pursuit of continuous improvement has been recognised with a Bronze Award from the Illinois Performance Excellence Center. This is a North American equivalent to EFQM and is presented to organisations that adopt and apply continuous improvement principles.

Cash and returns

Operating cash flow represented a conversion of 61% of operating profit with $62 million of operating cash delivered in the year. As previously indicated, we have returned to a constant level of fleet replacement in 2015, in line with depreciation. The lower level of cash conversion when compared to 2014 reflects the higher level of capital investment in fleet on both new and existing contracts together with increased working capital from growth in new contracts and acquisitions.

We continue to cascade fleet from our exited contracts and actively manage our spare capacity within our fleet in order to increase asset utilisation and improve returns. This drive for more efficient capital deployment has delivered a significant improvement in return on assets over the past three years rising from 17.2% in 2012 to 23.9% in 2015. We have delivered over $5 million of savings through new strategic relationships with suppliers and driven further efficiencies in maintenance (through increased standardisation of procedures) and headquarter costs (through the merger of Transit and School Bus corporate functions). Alongside disciplined contract management and bidding and asset management programmes, these measures have helped further grow our industry leading operating margin by 20 basis points to 9.8%. We will continue to employ pricing discipline in order to ensure we deliver an appropriate return on capital.

Creating new opportunities

Last year we highlighted the attractive growth opportunities available in the North American school bus market and indicated our intention to increase our level of investment. The school bus market remains highly fragmented with over 1,300 private school bus businesses in the US. Our experience in the last year has only confirmed our belief that there is real opportunity in the market.

In 2015, in line with this strategy, we invested £82 million in five small bolt-on acquisitions that are either close to our existing business and we can therefore drive synergies and operational improvements, or provide strategic entry to new markets. The acquisitions included four school bus businesses and one transit employee shuttle business, with all acquisitions expected to be accretive within the first 12 months after transaction and synergy costs. In January 2016 we have acquired another business which operates both school bus and transit contracts and we have an active pipeline of further opportunities.

We continue to see the transit market as a strong business development opportunity and look forward to building on a very successful year in 2015, where we grew annualised revenues by 45%. In most bids, vehicles are funded either by the Federal government or local authority, resulting in a low capital investment requirement and high returns on capital. Using our operational expertise and superior track record of service delivery, we will continue to seek further bid opportunities in this attractive market.

The increasing standardisation of procedures across the business will help drive further efficiencies. From maintenance and purchasing, through to scheduling and electronic clocking on, we believe there is further progress to be made. We will again approach the upcoming bid season in a disciplined manner, including addressing the ongoing wage pressure the industry is experiencing. We will also continue to seek further capital light opportunities through conversions and further improve the quality of the existing portfolio.

UK Bus

Year ended 31 December	**2015 £m**	2014 £m
Revenue	**286.4**	281.0
Operating profit	**37.5**	34.0
Operating margin	**13.1%**	12.1%

Overview of 2015

UK Bus had a good year, leading the industry with the signing of a five year “Bus Alliance” in the West Midlands and this pioneering approach to partnership is driving strong financial results. Commercial revenue growth of 3% has been partially offset by a reduction in concessionary revenues, but has delivered total revenue growth for our UK Bus division of 1.9%. The reduction in concessionary revenues reflects local government austerity pressures on Centro leading to a new agreement which has reduced reimbursement rates. We anticipate a further reduction in income from concessions in 2016.

	Growth %
Like-for-like commercial revenue	3
Mileage	0
Underlying commercial revenue	3
Concession and other revenue	(1)
Total revenue	2

Normalised operating profit was strong, with growth of 10.3% to £37.5 million (2014: £34.0m), reflecting both revenue growth and cost efficiencies. The operating margin has increased by 100 basis points to 13.1% (2014: 12.1%).

	£m
2014 normalised operating profit	34.0
Net impact from revenue growth	3.0
Fuel cost	0.9
Other cost inflation	(4.4)
Cost efficiencies	4.0
2015 normalised operating profit	37.5

Operational excellence

Nationally there has been a reduction in regional commercial passenger numbers as the effects of congestion, reduced petrol prices and some changes in shopping habits appear to have suppressed demand. In the West Midlands our commercial passenger numbers are broadly flat, and we believe that the actions we are taking in partnership with Centro and the local authorities in the West Midlands – including combining the introduction of premium services with local authority investment in bus prioritisation - are the right ones to drive future increases.

We believe our partnership approach is a key driver of our success, alongside investment in quality service standards and industry-leading safety. Building on our award winning “Transforming Bus Travel 3” partnership with Centro – where we successfully launched all 83 of our pioneering commitments - we have recently signed an industry-leading “Bus Alliance” with West Midlands ITA for five years.

We are delighted that our continued focus on delivering operational excellence and superior service standards has been recognised with a number of further industry awards, including the National Transport Award for Improvement to Bus Services. During 2015 we also achieved our highest ever Transport Focus customer satisfaction score of 87%, 1 percentage point higher than 2014, and 9 percentage points higher than 2012.

In 2015, we reinforced our leadership credentials on smart ticketing with the further roll-out of the Swift smartcards to all of our buses and trams, in partnership with Centro. Swift now provides the industry-leading capability of multi-operator, multi-modal season tickets, alongside Pay As You Go and carnets. This is the first such card in an ITA and is again a demonstration of the strength of our partnership working with Centro. We continue to see strong growth in the use of Swift across our network, with growth of 172% in the year, and a smartcard transaction every four seconds on our buses.

Extending our approach to partnership, we launched “Transforming Tram Travel” in 2015, with Centro. This partnership contains 50 commitments to improve the Midland Metro and was recognised at the Light Rail Awards for “Vision of the Year”. Towards the end of 2015, Her Majesty The Queen opened the first of the city centre extensions, with services due to extend to Birmingham New Street soon.

In Dundee we relaunched our services with new branding designed by the local community. Our Xplore Dundee services are leading the way with smartcards – for example we are the first operator in Scotland to allow users to load travel passes onto the widely-held National Entitlement Cards. In line with our approach to partnership we hope to shortly launch a similar ‘Transforming Bus Travel’ agreement in Dundee.

We also continued our strong track record of improving safety, both for customers and employees, resulting in a lower number of injuries and assaults and reduced cost of claims. A key focus is occupational health, and our “Health Bus” was recognised by several industry and HR awards.

UK Bus has been awarded a high four-star rating by the European Foundation for Quality Management in its first ever EFQM assessment, demonstrating a commitment to achieving excellent operational standards. UK Bus is working towards achieving a five-star rating in its next assessment.

Finally UK Bus was the first privately-owned public transport company to introduce the Living Wage Foundation Living Wage for all staff.

Cash and returns

The UK Bus business generates an excellent return on capital, delivering good asset utilisation and profitable returns on investment. As we highlighted last year, capital investment has risen significantly in 2015, reflecting a record level of investment in new buses. This resulted in a lower level of operating cash of £17 million. Our new Platinum buses in particular are already driving strong growth in passenger volumes.

We continue to maintain our disciplined approach to investment, targeting areas which will deliver the greatest returns.

Creating new opportunities

As mentioned above, building on our West Midlands partnership, we have unlocked local authority funding to complement our record investment in new buses during 2015. On key routes in Birmingham and Solihull, the local authorities are investing in bus priority measures that will significantly improve journey times. Platinum growth is already strong and when completed this additional priority will increase demand further. We will also deploy further Platinum routes on these corridors.

Investment will continue to be targeted where it makes the most significant difference to the business. As well as more state-of-the-art Platinum buses, the digital marketing lessons learned in c2c and UK Coach are being applied to UK Bus. We are refocusing advertising spend to digital channels and developing an enhanced CRM approach to improve targeted marketing and personalised communication with customers. This will be combined with further innovation in pricing to target specific groups, for example off peak travellers and families. Further progress on ticketing is also targeted with the introduction of contactless payment and mobile tickets towards the end of this year.

There are further opportunities for cost efficiency, with the continued roll out of fuel efficiency measures (alongside the continued investment in more fuel efficient buses) and driver scheduling optimisation software. Sophisticated data analysis is also being applied to our engineering processes to proactively target vehicles for repair. Again, drawing on experience from across the Group where its use has already delivered cost savings and safety improvements, UK Bus is piloting 'DriveCam' and investigating the use of collision avoidance technology to achieve similar benefits.

In 2015, our tram service was extended into the centre of Birmingham, with the first phase of the Midland Metro extension opening in December and the next phase due to open in March 2016. The new longer trams have added nearly 50% additional capacity.

We have also invested in new services and additional routes responding to changing patterns in demand. This includes new express services to Warwick University and routes into Staffordshire, as well as contracts to serve new business parks and distribution centres for companies such as Amazon. We are currently working on a bid for Manchester Metrolink, with submission in May and the seven year contract, plus a possible three year extension, is due to commence in July 2017.

Despite the regional market challenges experienced nationwide, UK Bus provides a good opportunity for further growth as we look to benefit from the stability of a five year "Bus Alliance", combined with investment in new vehicles and technology and a continued focus on cost efficiency.

UK Coach

Year ended 31 December	**2015 £m**	2014 £m
Revenue	**281.2**	275.2
Operating profit	**32.3**	28.0
Operating margin	**11.5%**	10.2%

Overview of 2015

UK Coach continues to focus on delivering frequent, value for money services efficiently and marketing them in an increasingly personalised and targeted way using sophisticated digital technologies and techniques. This has again been complemented by new partnership deals that help customers access our services more easily and efficiently and reach new markets.

This approach has delivered another year of excellent performance, with profit growth of 15.4% to £32.3 million (2014: £28.0m). This means that since the difficult year of 2012, UK Coach has delivered a 57% increase in operating profit. Operating margin has also shown a further increase following on from the strong gains in the previous two years, rising 130 basis points in the year to 11.5% (2014: 10.2%). Passenger numbers on the core network also grew by nearly two percent.

	Growth %
Passenger yield	1
Passenger volume	2
Change in Core Express revenue	3
Other revenues	(1)
Total revenue	2

Total revenue increased by 2.2% to £281.2 million (2014: £275.2m). Core network revenue increased by 3.1% with new partnership arrangements, digital initiatives, additional routes and our enhanced marketing and CRM activities more than offsetting reduced rail replacement revenues and lower contract income during the first half of the year.

	£m
2014 normalised operating profit	28.0
Net impact of growth and new routes	4.2
Cost inflation	(4.2)
Cost efficiencies	3.8
Fuel	0.5
2015 normalised operating profit	32.3

Operational excellence

Our customer service strategy has continued to focus on providing frequent coach services at low prices. Lower prices were sustained throughout the year and passenger growth has been achieved through an active pricing strategy that optimises revenues by responding to changing market conditions. This has been supported by increasing our sales distribution through the development of existing relationships and the creation of new partnership arrangements with companies such as Trainline, Singapore Airlines, Webloyalty and RBS.

During 2015 we continued to leverage our enhanced CRM capabilities, with strong price initiatives and targeted marketing campaigns – where customer communications are more tailored to the individual – helping to drive record passenger numbers in our core network and a very strong year in festivals and events. Of the emails we send to our database, 88% are now targeted compared to 69% in 2014 and 18% in 2013.

Following the success of Christmas Day services, first launched in 2013, we achieved significant further growth in 2015 with additional routes and services resulting in a 47% increase in revenues on the day and significantly enhancing our customer offer.

While lower in the first half of the year, we have secured new contracts in the last six months of 2015. For example: we won a new three year contract with British Airways to provide buses for Heathrow staff together with inter-airport transfer services for both passengers and crew; we secured a five year contract for airport work at Stansted, bussing passengers between the car parks and terminals; and signed a ten year contract with University of West London for student transportation between campuses.

During the year we have further reduced the level of vehicle accidents and employee injuries and our commitment to high safety standards has been recognised with two significant safety awards. We were delighted to be presented with the prestigious British Safety Council Sword of Honour and National Express has also been recognised by the Royal Society for the Prevention of Accidents with a gold award. We are the first coach operator in the UK to invest in "DriveCam", a leading safety and driver-aid technology, demonstrating our commitment to driving up safety standards. The results from the initial pilot have been very encouraging, including a reduction in costs. Alongside the introduction of collision avoidance technology, the roll-out of these safety measures will – we are confident – drive a reduction of both accidents and the associated costs. We believe this is an opportunity for real progress in the coming years.

Cash and returns

The UK Coach business model has a particularly strong return on capital and cash generation, outsourcing the majority of fleet provision and services to its partner operators in a capital-light model. In 2015, we delivered another strong performance, generating operating cash of £38 million with cash conversion of 117% of operating profit. Capital expenditure remains primarily focused on enhancing our retail systems, aimed at delivering improved CRM capabilities, enhanced mobile and online booking options for customers and a more sophisticated revenue management system. We will also invest further in technology to deliver enhanced safety results and lower associated costs.

Creating new opportunities

Attractive pricing, coupled with improved yield management, will allow the division to continue to grow volume, improve load factors and drive profitability. We will continue to exploit our enhanced CRM capabilities developing further tailored and customised offers for our customers.

We see significant opportunities to engage with our customers on an increasingly personalised level as we implement further improvements to our digital platforms, providing improved functionality across all our digital channels. This is driving higher conversion rates for online transactions, for example with the introduction of a PayPal payment system which significantly reduces the transaction times for customers. In 2016 we will launch an enhanced mobile App with greater functionality including personalised journey planners and the ability to track and share journey progress, together with personalised content and offers which should help drive incremental revenue growth.

2016 will see the introduction of an even more sophisticated revenue management system across our network which will significantly enhance our capability to actively manage pricing on a real time basis through the use of dynamic pricing technology. This will not only drive load factors but also improve route profitability. We will also complement this with targeted promotional offers and the drive to a greater personalised relationship with customers.

As well as reviewing our network efficiency, we also look to add new routes where we see growth opportunities. In 2015 we launched new services serving passengers between Kent and Gatwick and new services to Bristol Airport which should drive further growth in 2016 and beyond.

By leveraging the strength of our brand, we will continue to grow the number of distribution channels to customers, together with an ongoing focus on operational efficiency. We remain committed to maintaining our competitive position against rail, our key competitor.

Rail

Year ended 31 December	**2015 £m**	2014* £m
Revenue	**168.4**	151.6
Operating profit	**0.6**	(10.1)
Operating margin	**0.4%**	(6.6%)

* FY2014 results restated to adjust for the impact of rail bid costs previously treated as exceptional items

Overview of 2015

National Express' Rail division has had another successful year with the first full year of the new c2c franchise maintaining its position as the most punctual operator, further success in securing German rail contracts and the launch of our first German rail services on the Rhine Munster Express (RME) network.

Total revenue in 2015 increased by 11.1% to £168.4 million (2014: £151.6m) supported by strong passenger growth of 5.3%. Normalised operating profit was £0.6 million (2014: loss of £10.1m), with the results in 2014 restated to reflect the change in accounting treatment for bid costs which had previously been treated as exceptional items. The improvement in operating profitability is also after incurring a significant increase in franchise premiums of £29 million under the new c2c franchise agreement.

The contribution from our German rail business has been minimal given that our first services began in mid-December; we are pleased with the initial response to our services. Although we are only in the first few weeks of trading in a new market, we are targeting a break-even result a full year ahead of our original plan. Projected revenues for the existing RME services are expected to be around €72 million in 2016, with later years benefitting from the operation of the €1 billion Rhine Ruhr Express services from 2018, and subject to further legal challenge the €1.4 billion Nuremberg S-Bahn contract.

Operational excellence

Our rail division is at the forefront of the Group's drive for operational excellence. In 2015 c2c maintained its position as the most punctual UK franchise with an annual average of 97.1%. We were delighted to be recognised with the National Rail Award for Passenger Train Operator of the Year, demonstrating our ambition and capability to be at the forefront of standards for customer service.

We have also been awarded a five-star rating for the European Foundation for Quality Management for a second successive assessment, recording our best ever score, demonstrating once again our commitment to achieving the highest operational standards. This remains an important credential for rail bidding.

We continue to introduce industry-leading initiatives including pioneering the introduction of an automatic compensation scheme for smartcard customers. We have seen a very strong uptake of c2c smartcards since their introduction, with nearly a quarter of all season-ticket holders now using them, we believe the highest level for any train operator.

We continue to expand our offering to customers and will be the first operator outside the Transport for London boundary to introduce new contactless payment systems next year. Later this year we will be introducing digital media screens and content on all our trains and enhancing the free WiFi services already available, helping to keep our passengers connected, productive and entertained during their journey.

We have introduced first-to-last staffing at all our stations which not only enhances service levels for our customers, but also improves revenue protection across our network with associated margin benefits.

Our strong destination-inspired marketing campaigns have helped to drive significant incremental growth with off peak revenues up 8%, almost double the average growth rate for London and the South East, and weekend revenues up 15%, resulting in improving load factors and driving higher profitability. We also introduced the largest timetable change in a generation to meet both the significant passenger growth we have seen and the improved London connections required in our franchise agreement with the Department for Transport. We have responded to customer feedback and amended the timetable to address some concerns and are seeking to introduce additional trains as quickly as possible to meet the current and projected future demand.

In December 2015 we saw a successful start to the operation of services for our first two German rail contracts in Nord Rhine Westphalia and we are pleased with the initial response, where we are already seeing an improved performance in terms of punctuality relative to other operators.

Cash and returns

Rail offers a capital-light model with relatively lower margins but high returns on capital. In 2015 our Rail division delivered £8.2million of operating cash. In the current year, we anticipate a higher level of growth capital expenditure than normal as we commence a programme of further service improvements, in line with our bid plan commitments for c2c.

Creating new opportunities

We will continue our digital marketing approach to increase passenger numbers and revenue on off-peak services. This will be complemented with the enhanced personalised services we are rolling out this year, including the automatic compensation for delays, personalised performance reports and live journey information available through the c2c Live App.

We have had another successful year in Germany, securing a further €1 billion of future revenues with the award of two contracts to operate services on the Rhine Ruhr Express, in the Nord Rhine Westphalia region. The first of the contracts will commence operations in December 2018, with the second one starting in December 2020, with both contracts running through to 2033. In addition, we await the outcome of a further appeal for the award of the Nuremberg S-Bahn where we have been announced as preferred bidder. The successful conclusion of this appeal would add a further €1.4 billion of future revenues over a 12 year period. With at least 20 contracts coming to market in the next three years in German rail, we see a strong pipeline of opportunities and we will continue to be selective in our bidding approach in order to drive the best returns. We have already successfully pre-qualified for a further franchise in 2016 and are currently targeting contracts with revenue of around €3 billion.

c2c is consistently the best performing rail franchise in the UK and this strength in operational performance is helping to drive growth in new rail markets. We submitted a bid to operate the East Anglia franchise in December 2015, with the award of the franchise due in the summer. Should we be successful in our bid, we expect to begin operating services in October 2016, with the contract lasting up to 10 years. Beyond this, our current focus is on securing smaller, lower risk German rail franchises where the risk is acceptable and meets our capital-light investment criteria. We will, of course, also continue to monitor the UK market and consider competitions as they arise and will bid for new franchises where they meet our strict financial criteria. In addition, we will continue to monitor the regulatory environment across Europe and may look to enter other markets as they liberalise.

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 2015 Annual Report and Accounts:

- Concession and contract renewal: 2016 is likely to see some significant bidding activity by the Group to retain and renew its existing portfolio of contracts and concessions, for example in Spain, and North America, which may be underbid by competitors;
- 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;
- 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;
- Contract management: an inherent risk of bidding for contracts is that bid assumptions prove to be incorrect;
- Contract mobilisation: principally mobilisation for new bus and rail contracts in the Middle East and Germany.
- Fuel cost: changes in economic and political climate can drive changes in cost for the Group;
- Insurance and claims: there is a risk that a successful insurance, employment or other claim may result in material charges to profit and cash flow;
- Financial risks: the Group faces risks from deteriorating customer credit and to movements in currencies.
- Cyber security: increasingly the global markets we operate in are subject to Information Systems and Technology failure, loss of confidential data and damage to brand reputation.

Group Income Statement
For the year ended 31 December 2015

	Note	**Total before intangible amortisation 2015 £m**	**Intangible amortisation 2015 £m**	**Total 2015 £m**	Total before intangible amortisation and exceptional items (restated)* 2014 £m	Intangible amortisation and exceptional items (restated)* 2014 £m	Total 2014 £m
Continuing operations							
Revenue	3	**1,919.8**	**–**	**1,919.8**	1,867.4	–	1,867.4
Operating costs before intangible amortisation and exceptional items		**(1,726.3)**	**–**	**(1,726.3)**	(1,699.8)	–	(1,699.8)
Intangible amortisation	3	**–**	**(25.7)**	**(25.7)**	–	(28.6)	(28.6)
Exceptional items	3	**–**	**–**	**–**	–	(24.8)	(24.8)
Total operating costs		**(1,726.3)**	**(25.7)**	**(1,752.0)**	(1,699.8)	(53.4)	(1,753.2)
Group operating profit	3	**193.5**	**(25.7)**	**167.8**	167.6	(53.4)	114.2
Share of results of associates		**1.8**	**–**	**1.8**	0.3	–	0.3
Finance income	4	**5.9**	**–**	**5.9**	6.5	–	6.5
Finance costs	4	**(51.1)**	**–**	**(51.1)**	(54.5)	–	(54.5)
Profit before tax		**150.1**	**(25.7)**	**124.4**	119.9	(53.4)	66.5
Tax charge	5	**(28.5)**	**13.2**	**(15.3)**	(21.8)	15.9	(5.9)
Profit for the year		**121.6**	**(12.5)**	**109.1**	98.1	(37.5)	60.6
Profit attributable to equity shareholders		**119.5**	**(12.5)**	**107.0**	96.6	(37.5)	59.1
Profit attributable to non-controlling interests		**2.1**	**–**	**2.1**	1.5	–	1.5
		121.6	**(12.5)**	**109.1**	98.1	(37.5)	60.6
Earnings per share:							
– basic earnings per share	7			**20.9p**			11.6p
– diluted earnings per share	7			**20.9p**			11.5p
Normalised earnings per share:							
– basic earnings per share	7	**23.4p**			18.9p		
– diluted earnings per share	7	**23.3p**			18.9p		

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

Group Statement of Comprehensive Income
For the year ended 31 December 2015

	2015 £m	2014 £m
Profit for the year	**109.1**	60.6
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on defined benefit pension plans	**(9.4)**	10.1
Deferred tax on actuarial (losses)/gains	**1.4**	(2.3)
	(8.0)	7.8
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on retranslation of foreign operations (net of hedging)	**(31.0)**	(25.0)
Exchange differences on retranslation of non-controlling interests	**(0.6)**	(0.8)
Loss on cash flow hedges	**(52.5)**	(80.3)
Less: reclassification adjustments for gains or losses included in profit	**36.1**	12.3
Tax on exchange differences	**(1.1)**	0.1
Deferred tax on cash flow hedges	**1.2**	13.6
	(47.9)	(80.1)
Total comprehensive income/(expenditure) for the year	**53.2**	(11.7)
Total comprehensive income/(expenditure) attributable to:		
Equity shareholders	**51.7**	(12.4)
Non-controlling interests	**1.5**	0.7
	53.2	(11.7)

Group Balance Sheet
At 31 December 2015

	2015 £m	2014 £m
Non-current assets		
Intangible assets	**1,230.7**	1,177.4
Property, plant and equipment	**801.1**	729.9
Available for sale investments	**6.5**	6.8
Derivative financial instruments	**22.2**	26.5
Deferred tax assets	**31.1**	29.9
Investments accounted for using the equity method	**10.6**	5.4
Trade and other receivables	**4.0**	1.8
Defined benefit pension asset	**49.7**	40.6
	2,155.9	2,018.3
Current assets		
Inventories	**22.5**	21.8
Trade and other receivables	**241.9**	199.6
Derivative financial instruments	**2.4**	1.5
Current tax assets	**1.4**	1.3
Cash and cash equivalents	**60.4**	83.7
	328.6	307.9
Total assets	**2,484.5**	2,326.2
Non-current liabilities		
Borrowings	**(752.3)**	(741.8)
Derivative financial instruments	**(39.6)**	(36.1)
Deferred tax liability	**(53.8)**	(66.0)
Other non-current liabilities	**(16.0)**	(4.1)
Defined benefit pension liability	**(62.3)**	(52.5)
Provisions	**(32.1)**	(23.5)
	(956.1)	(924.0)
Current liabilities		
Trade and other payables	**(499.5)**	(415.7)
Borrowings	**(99.1)**	(55.9)
Derivative financial instruments	**(46.0)**	(35.8)
Current tax liabilities	**(16.1)**	(23.3)
Provisions	**(36.6)**	(35.3)
	(697.3)	(566.0)
Total liabilities	**(1,653.4)**	(1,490.0)
Net assets	**831.1**	836.2
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	**(7.8)**	(1.5)
Other reserves	**(80.1)**	(32.8)
Retained earnings	**345.6**	299.3
Total shareholders' equity	**816.2**	823.5
Non-controlling interests in equity	**14.9**	12.7
Total equity	**831.1**	836.2

Group Statement of Changes in Equity
For the year ended 31 December 2015

	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 2015	**25.6**	**532.7**	**0.2**	**(1.5)**	**(32.8)**	**299.3**	**823.5**	**12.7**	**836.2**
Shares purchased	**–**	**–**	**–**	**(8.5)**	**–**	**–**	**(8.5)**	**–**	**(8.5)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**2.2**	**–**	**(2.2)**	**–**	**–**	**–**
Total comprehensive income and expenditure	**–**	**–**	**–**	**–**	**(47.3)**	**99.0**	**51.7**	**1.5**	**53.2**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**	**–**	**3.2**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**	**–**	**0.7**
Dividends	**–**	**–**	**–**	**–**	**–**	**(54.4)**	**(54.4)**	**–**	**(54.4)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2015	**25.6**	**532.7**	**0.2**	**(7.8)**	**(80.1)**	**345.6**	**816.2**	**14.9**	**831.1**

	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 2014	25.6	532.7	0.2	(0.8)	46.5	282.4	886.6	10.7	897.3
Shares purchased	–	–	–	(3.2)	–	–	(3.2)	–	(3.2)
Own shares released to satisfy employee share schemes	–	–	–	2.5	–	(2.5)	–	–	–
Total comprehensive income and expenditure	–	–	–	–	(79.3)	66.9	(12.4)	0.7	(11.7)
Share-based payments	–	–	–	–	–	3.1	3.1	–	3.1
Tax on share-based payments	–	–	–	–	–	1.0	1.0	–	1.0
Dividends	–	–	–	–	–	(51.6)	(51.6)	–	(51.6)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.2)	(0.2)
Contribution from non-controlling interest	–	–	–	–	–	–	–	1.5	1.5
At 31 December 2014	25.6	532.7	0.2	(1.5)	(32.8)	299.3	823.5	12.7	836.2

Group Statement of Cash Flows
For the year ended 31 December 2015

	Note	**2015 £m**	2014 £m
Cash generated from operations	10	**264.1**	245.2
Tax paid		**(11.2)**	(13.0)
Net cash from operating activities		**252.9**	232.2
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired		**(62.3)**	(5.2)
Deferred consideration for businesses acquired and disposed		**(0.2)**	(0.5)
Purchase of property, plant and equipment		**(107.5)**	(55.7)
Proceeds from disposal of property, plant and equipment		**10.2**	13.9
Payments to acquire intangible assets		**(16.4)**	(7.5)
Payments to acquire associates		**(3.5)**	(0.2)
Interest received		**5.6**	5.9
Net cash used in investing activities		**(174.1)**	(49.3)
Cash flows from financing activities			
Purchase of own shares		**(8.5)**	(3.2)
Interest paid		**(46.7)**	(49.7)
Finance lease principal payments		**(25.8)**	(28.8)
Net loan receipts/(payments)		**44.3**	(9.7)
(Payments)/receipts for the maturity of foreign currency contracts		**(11.1)**	2.4
Dividends paid to non-controlling interests		**(0.1)**	(0.2)
Contribution from non-controlling interest		**0.8**	1.5
Dividends paid to shareholders of the Company		**(54.4)**	(51.6)
Net cash used in financing activities		**(101.5)**	(139.3)
(Decrease)/increase in cash and cash equivalents		**(22.7)**	43.6
Opening cash and cash equivalents		**83.7**	40.9
(Decrease)/increase in cash and cash equivalents		**(22.7)**	43.6
Foreign exchange		**(0.6)**	(0.8)
Closing cash and cash equivalents		**60.4**	83.7

Notes to the Consolidated Accounts
For the year ended 31 December 2015

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 2015 statutory financial statements.

Normalised results are defined as the statutory results before intangible asset amortisation, exceptional items and tax relief thereon.

Restatements

Following recent successful bidding in both Rail franchise contracts and public vehicle contracts in the Middle East, the Directors have decided to classify business development costs as part of the recurring operations of the business and hence part of the normalised performance in 2015. For comparability, the similar costs in 2014 (which were treated as exceptional items) have been reclassified to be consistent with the current year presentation, along with the imputed tax credits. The reclassification has no effect on the IFRS reported results.

A reconciliation of prior period operating profit is as follows:

Operating profit before intangible amortisation and exceptional items	£m
As previously reported	**193.1**
Business development costs in Rail	**(19.8)**
Business development costs in Spain and Morocco	**(0.8)**
Business development costs in Central Functions	**(4.9)**
As restated	**167.6**

A reconciliation of prior period taxation is as follows:

Tax charge on operating profit before intangible amortisation and exceptional items	£m
As previously reported	**27.7**
Tax credits relating to restated business development costs	**(5.9)**
As restated	**21.8**

2 Exchange rates

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

	2015 Closing rate	**2015 Average rate**	2014 Closing rate	2014 Average rate
US dollar	**1.47**	**1.53**	1.56	1.65
Canadian dollar	**2.04**	**1.95**	1.81	1.82
Euro	**1.36**	**1.38**	1.29	1.24

If the results for the year to 31 December 2014 had been retranslated at the average exchange rates for the year to 31 December 2015, North America would have achieved normalised operating profit of £63.0m on revenue of £656.8m, compared to normalised operating profit of £59.5m on revenue of £620.2m as reported, and Spain and Morocco would have achieved a normalised operating profit of £67.6m on revenue of £484.7m, compared to normalised operating profit of £75.0m on revenue of £538.1m as reported.

3 Segmental analysis

The operating businesses are organised and managed separately according to the nature of the public transport services they provide. The geographical markets they operate in match the nature of public transport services provided, with the exception of the Rail segment that comprises operations in both the UK and Germany. The German rail operation forms less than 10% of the Group's total revenues, assets and capital expenditure. Commentary on the segments is included in the Strategic Report.

Revenue is analysed by reportable segment as follows:

	External revenue 2015 £m	**Inter-segment sales 2015 £m**	**Segment revenue 2015 £m**	External revenue 2014 £m	Inter-segment sales 2014 £m	Segment revenue 2014 £m
UK Bus	**285.1**	**1.3**	**286.4**	280.8	0.2	281.0
UK Coach	**280.9**	**0.3**	**281.2**	274.6	0.6	275.2
Rail	**168.4**	**–**	**168.4**	151.6	–	151.6
North America	**683.2**	**–**	**683.2**	620.2	–	620.2
Spain and Morocco	**502.2**	**–**	**502.2**	538.1	–	538.1
German Coach	**–**	**–**	**–**	2.1	–	2.1
Inter-segment sales elimination	**–**	**(1.6)**	**(1.6)**	–	(0.8)	(0.8)
Total revenue	**1,919.8**	**–**	**1,919.8**	1,867.4	–	1,867.4

Inter-segment sales in UK Bus represent the provision of coach services on a small number of routes to UK Coach and internal commission on ticket sales. Inter-segment sales in UK Coach represent rail replacement services provided to Rail. Inter-segment trading is undertaken on standard arm's length commercial terms. Due to the nature of the Group's businesses, the origin and destination of revenue is the same. No single external customer amounts to 10% or more of the total revenue.

3 Segmental analysis continued

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2015 £m	**Intangible amortisation 2015 £m**	**Segment result 2015 £m**	Normalised operating profit (restated)* 2014 £m	Intangible amortisation and exceptional items (restated)* 2014 £m	Segment result 2014 £m
UK Bus	**37.5**	**–**	**37.5**	34.0	(7.0)	27.0
UK Coach	**32.3**	**(0.5)**	**31.8**	28.0	(3.5)	24.5
Rail	**0.6**	**–**	**0.6**	(10.1)	(0.6)	(10.7)
North America	**66.8**	**(15.2)**	**51.6**	59.5	(27.5)	32.0
Spain and Morocco	**71.5**	**(9.9)**	**61.6**	75.0	(6.4)	68.6
German Coach	**–**	**–**	**–**	(1.7)	(2.1)	(3.8)
Central functions	**(15.2)**	**(0.1)**	**(15.3)**	(17.1)	(6.3)	(23.4)
Operating profit from continuing operations	**193.5**	**(25.7)**	**167.8**	167.6	(53.4)	114.2
Share of results of associates			**1.8**			0.3
Net finance costs			**(45.2)**			(48.0)
Profit before tax			**124.4**			66.5
Tax charge			**(15.3)**			(5.9)
Profit for the year			**109.1**			60.6

*restated for the reclassification of business development costs from exceptionals as reconciled below.

	Rail £m	**Spain and Morocco £m**	**Central Functions £m**	**Group operating profit £m**
As previously reported	9.7	75.8	(12.2)	193.1
Business development costs	(19.8)	(0.8)	(4.9)	(25.5)
As restated	**(10.1)**	**75.0**	**(17.1)**	**167.6**

Intangible asset amortisation is analysed by reportable segment as follows:

	2015 £m	2014 £m
UK Coach	**0.5**	0.5
North America	**15.2**	11.3
Spain and Morocco	**9.9**	16.3
German Coach	**–**	0.4
Central functions	**0.1**	0.1
Total	**25.7**	28.6

3 Segmental analysis continued

Exceptional costs/(income) are analysed by reportable segment as follows:

	2015 £m	2014 (restated)* £m
UK Bus	–	7.0
UK Coach	–	3.0
Rail	–	0.6
North America	–	16.2
Spain and Morocco	–	(9.9)
German Coach	–	1.7
Central functions	–	6.2
Total	–	24.8

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

Exceptional costs/(income) are further analysed by type as follows:

	2015 £m	2014 (restated)* £m
Restructuring	–	25.8
Strategic rationalisation	–	18.3
Exceptional fuel credits	–	(19.3)
	–	24.8

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

In 2014 the Group incurred net exceptional costs of £24.8m relating to restructuring, the rationalisation of onerous contracts and exceptional fuel credits.

Further details are disclosed in the Group's 2014 Annual Report and Accounts.

4 Net finance costs

	2015 £m	2014 £m
Bond and bank interest payable	**(45.5)**	(47.5)
Finance lease interest payable	**(3.2)**	(4.2)
Other interest payable	**(0.9)**	(0.5)
Unwind of provision discounting	**(1.4)**	(1.2)
Net interest cost on defined benefit pension obligations	**(0.1)**	(1.1)
Finance costs	**(51.1)**	(54.5)
Other financial income	**5.9**	6.5
Net finance costs	**(45.2)**	(48.0)
Of which, from financial instruments:		
Cash and cash equivalents	**(2.4)**	(2.3)
Financial liabilities measured at amortised cost	**(44.4)**	(46.7)
Derivatives used for hedging	**5.8**	5.8
Loan fee amortisation	**(2.3)**	(2.1)

5 Taxation

Analysis of taxation charge in the year

	2015 £m	2014 (restated)* £m
Current taxation:		
UK corporation tax	**1.7**	(2.6)
Overseas taxation	**13.3**	16.3
Current income tax charge	**15.0**	13.7
Adjustments with respect to prior years – UK and overseas	**(8.5)**	0.9
Total current income tax charge	**6.5**	14.6
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**9.2**	(11.3)
Adjustments with respect to prior years – UK and overseas	**(0.4)**	2.6
Deferred tax charge/(credit)	**8.8**	(8.7)
Total tax charge	**15.3**	5.9

The tax charge is disclosed as follows:		
Tax charge on profit before intangible asset amortisation and exceptional items	**28.5**	21.8
Tax credit on intangible asset amortisation and exceptional items	**(13.2)**	(15.9)
	15.3	5.9

Tax credit on intangible asset amortisation and exceptional items is analysed as follows:		
Tax credit on intangible asset amortisation	**(13.2)**	(10.9)
Tax credit on exceptional items	**–**	(5.0)
	(13.2)	(15.9)

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

6 Dividends paid and proposed

	2015 £m	2014 £m
Declared and paid during the year		
Ordinary final dividend for 2014 paid of 6.95p per share (2013: 6.75p)	**35.5**	34.5
Ordinary interim dividend for 2015 of 3.685p per share (2014: 3.35p)	**18.9**	17.1
	54.4	51.6
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2015 of 7.645p per share (2014: 6.95p per share)	**38.9**	35.5

7 Earnings per share

	2015	2014
Basic earnings per share	**20.9p**	11.6p
Normalised basic earnings per share*	**23.4p**	18.9p
Diluted earnings per share	**20.9p**	11.5p
Normalised diluted earnings per share*	**23.3p**	18.9p

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders of £107.0m (2014: £59.1m) 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.

For diluted earnings per share, 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:

	2015	2014
Basic weighted average shares	**510,954,717**	511,125,312
Adjustment for dilutive potential ordinary shares	**2,399,159**	970,374
Diluted weighted average shares	**513,353,876**	512,095,686

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:

	2015			2014*		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**107.0**	**20.9**	**20.9**	59.1	11.6	11.5
Intangible amortisation	**25.7**	**5.0**	**5.0**	28.6	5.6	5.6
Exceptional items	**–**	**–**	**–**	24.8	4.8	4.8
Tax relief on the above items	**(13.2)**	**(2.5)**	**(2.6)**	(15.9)	(3.1)	(3.0)
Normalised profit from continuing operations and attributable to equity shareholders	**119.5**	**23.4**	**23.3**	96.6	18.9	18.9

* restated for the reclassification of business development costs from exceptionals as disclosed in note 1.

8 Pensions and other post-employment benefits

Summary of pension benefits and assumptions

The UK Bus division and National Express Group PLC (the 'Company') operate defined benefit schemes. The Company defined benefit scheme also includes certain employees of the UK Coach division. In addition, a defined contribution scheme operates for staff in the UK Bus and UK Coach divisions and the Company.

The majority of employees of the Rail companies are members of the appropriate shared-cost section of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The assets of all schemes are held separately from those of the Group.

Contributions to the above schemes are determined by independent professionally qualified actuaries.

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 Spain, which are disclosed in the 'Other' category.

The defined benefit pension schemes typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

The Company plan is now closed to all future accrual. A funding plan aimed at bringing the plan to self-sufficiency over a six-year period was agreed in 2010; The Company contributes £4.2m annually to this scheme. In 2011 UK Bus agreed a £5.5m annual deficit repayment plan with the trustees of the West Midlands Integrated Transport Authority Pension Fund to fund a £71m scheme funding deficit over 12 years. The plan remains open to accrual for existing members only.

The total pension cost charged to operating profit in the year was £11.3m (2014: £9.9m), of which £3.9m (2014: £3.7m) relates to the defined contribution schemes.

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

	2015 £m	2014 £m
UK Bus	**(60.4)**	(50.6)
Rail	**14.8**	10.0
Company	**34.9**	30.6
Other	**(1.9)**	(1.9)
Total	**(12.6)**	(11.9)

9 Net debt

	At 1 January 2015 £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Other movements £m	At 31 December 2015 £m
Cash	**36.3**	**20.1**	**3.4**	**(0.6)**	**–**	**59.2**
Overnight deposits	**6.9**	**(6.2)**	**–**	**–**	**–**	**0.7**
Other short term deposits	**40.5**	**(40.0)**	**–**	**–**	**–**	**0.5**
Cash and cash equivalents	**83.7**	**(26.1)**	**3.4**	**(0.6)**	**–**	**60.4**
Other debt receivables	**0.8**	**–**	**–**	**–**	**–**	**0.8**
Borrowings:						
Bank and other loans	**(5.2)**	**(42.3)**	**–**	**2.8**	**(0.6)**	**(45.3)**
Bonds	**(585.3)**	**–**	**–**	**–**	**1.8**	**(583.5)**
Fair value of hedging derivatives	**18.6**	**–**	**–**	**–**	**(4.3)**	**14.3**
Finance lease obligations	**(110.5)**	**25.8**	**(3.4)**	**(5.2)**	**(34.3)**	**(127.6)**
Other debt payable	**(66.4)**	**(2.0)**	**–**	**3.1**	**0.7**	**(64.6)**
Total borrowings	**(748.8)**	**(18.5)**	**(3.4)**	**0.7**	**(36.7)**	**(806.7)**
Net debt*	**(664.3)**	**(44.6)**	**–**	**0.1**	**(36.7)**	**(745.5)**

* 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 £752.3m (2014: £741.8m).

Other non-cash movements in net debt include finance lease additions of £34.3m (2014: £1.2m) and a £2.0m reduction in loan and bond arrangement fees (2014: £2.3m). A £4.3m 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 movement in bonds and a £0.7m fair value movement in other debt payable.

	At 1 January 2014 £m	Cash flow £m	Exchange differences £m	Other movements £m	At 31 December 2014 £m
Cash	37.7	(0.6)	(0.8)	–	36.3
Overnight deposits	–	6.9	–	–	6.9
Other short term deposits	3.2	37.3	–	–	40.5
Cash and cash equivalents	40.9	43.6	(0.8)	–	83.7
Other debt receivables	1.0	(0.2)	–	–	0.8
Borrowings:					
Bank and other loans	(19.3)	9.6	5.2	(0.7)	(5.2)
Bonds	(579.5)	–	–	(5.8)	(585.3)
Fair value of hedging derivatives	9.2	–	–	9.4	18.6
Finance lease obligations	(132.9)	28.8	(5.2)	(1.2)	(110.5)
Other debt payable	(65.5)	0.1	4.2	(5.2)	(66.4)
Total borrowings	(788.0)	38.5	4.2	(3.5)	(748.8)
Net debt*	(746.1)	81.9	3.4	(3.5)	(664.3)

* Excludes accrued interest on long term borrowings.

10 Cash flow statement

Reconciliation of Group profit before tax to cash generated from operations:

Total operations	2015 £m	2014 £m
Net cash inflow from operating activities		
Profit before tax	**124.4**	66.5
Net finance costs	**45.2**	48.0
Share of post-tax results under the equity method	**(1.8)**	(0.3)
Depreciation of property, plant and equipment	**104.3**	104.9
Intangible asset amortisation	**25.7**	28.6
Amortisation of fixed asset grants	**(0.6)**	(0.8)
Profit on disposal of property, plant and equipment	**(2.3)**	(1.7)
Share-based payments	**3.2**	3.1
Increase in inventories	**(0.7)**	(0.6)
Increase in receivables	**(32.7)**	(26.9)
Increase in payables	**34.8**	26.8
Decrease in provisions	**(35.4)**	(2.4)
Cash generated from operations	**264.1**	245.2

11 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2015 or 2014, but is derived from those financial statements. Statutory financial statements for 2014 have been delivered to the Registrar of Companies and those for 2015 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 24 March 2016 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.