national express

27 February 2020

National Express Group PLC: Full Year Results for the year ended 31 December 2019

Records achieved; new ambitions set

Dean Finch, National Express Group Chief Executive said:

"National Express has again delivered a record set of results. Revenue and profit are up strongly and free cash performance has beaten our expectations. All businesses have delivered organic growth. I am particularly pleased with North America achieving a 10% margin and significantly increasing the number of customers rating their services five-star. The Group is also carrying significantly more passengers.

Major contracts were retained in North America and Spain. We became Morocco's largest urban bus operator, with new contracts in Rabat and Casablanca more than tripling the size of our operations when fully mobilised. UK coach won its first overseas contract and West Midlands bus is adding routes and growing its accessible transport business.

We combined organic growth in every division with continued diversification into complementary markets, such as our major WeDriveU acquisition which has grown revenue by over 30%. Each division has a strong pipeline of new acquisition and contract opportunities to target this year.

As industry leaders we are delighted to make major pledges in the shift to zero emission vehicles. National Express will not buy another diesel bus in the UK and lead the transition to zero emission coaches. Our ambition is for our UK bus business to become zero emission by 2030 with UK coach by 2035. We believe these commitments are not only the right thing to do, but will also help strengthen the position of quality public transport in the communities we serve."

Financial highlights

	2019	2018	Change	In constant currency
Continuing operations				
Group revenue	**£2.74bn**	£2.45bn	+12.0%	+10.2%
Group normalised operating profit	**£295.3m**	£257.7m	+14.6%	+13.1%
Group normalised PBT	**£240.0m**	£220.0m	+9.1%	+7.8%
Normalised basic EPS	**34.5p**	32.9p	+4.9%	

Statutory			
Group operating profit	**£242.3m**	£215.4m	+12.5%
Group PBT	**£187.0m**	£177.7m	+5.2%
Group PAT	**£148.3m**	£138.7m	+6.9%
Basic EPS	**27.6p**	26.6p	+3.8%

Free cash flow	**£178.7m**	£198.6m	(£19.9m)
Net debt	**£1,241.5m**	£951.5m	+£290.0m
Full year proposed dividend	**16.35p**	14.86p	+10.0%

Highlights: organic profit growth in every division and further improving returns

- Another record Group profit, with statutory operating profit of £242.3 million, up 12.5%.
- Free cash flow beat expectations at £178.7 million, despite increased investment.
- Gearing of 2.4x (2018: 2.3x); or down 0.2x on a like-for-like basis:
  - £214 million of the increase in net debt is attributable to IFRS 16.
- ROCE is flat at 12.4%, post-IFRS 16; or up 80 bps on a like-for-like basis.
- Proposed final dividend increased by 10% to 11.19 pence; the fourth 10% increase in 5 years.

Operational excellence: focusing on what customers want to drive shareholder returns

- Every division delivered revenue growth, with ALSA and North America setting records:
  - ALSA: grew by 11.7% in constant currency to €940.6 million;
  - North America: grew by 11.1% in constant currency to $1.57 billion;
  - UK: grew by 3.9% to £599.7 million;

    - German Rail: grew by 33.8% in constant currency to €102.5 million, reflecting the start-up of two new contracts.
- Record normalised operating profits in ALSA and North America again combined with strong UK growth:
    - ALSA: grew 4.9% in constant currency to €124.9 million;
    - North America: grew by 21.4% on a constant currency basis, to $157 million;
    - UK: grew 6.5% to £85.0 million.
- Group passenger numbers up 5.1% year-on-year:
    - Record passenger numbers in both ALSA and UK coach;
    - West Midlands has the fastest growing bus patronage of any major UK city-region.
- A relentless focus on excellence is driving efficiency:
    - Both ALSA's (up 2.9%) and UK coach's (up 2.4%) occupancy rates increased in the period;
    - UK coach (up 4.8%) and UK bus (up 3.2%) both improved commercial revenue per mile;
    - The Master Schedule programme in North America is driving operational efficiency and significant savings, as route length is forensically matched to driver hours.

Technology investment to underpin excellence, efficiency and innovation

- DriveCam now installed on 24,750 vehicles and supported by an industry-leading driver monitoring and coaching regime in each division:
    - This safety leadership is first and foremost saving lives, but also benefiting cost of claims.
- The growth in digital revenue continues strongly, with the proportion of retail sales through these channels up 16.5%, in the period:
    - Significant further growth in ancillary sales, up 9% in UK coach and 13.9% in ALSA;
    - RMS expected to continue to drive organic growth and occupancy rate increases in 2020.

Targeted growth through contract extensions, acquisitions and market diversification

- Significant contract wins in North America and Spain:
    - Our two largest Transit contracts secured multi-year extensions, on improved terms;
    - Our largest urban bus contract in Spain (Bilbao) retained for 10 years;
    - Many other renewals and extensions secured because of operational excellence reputation.
- With our Rabat and Casablanca contracts (together worth around €2 billion in revenue across their life), we are now Morocco's largest urban bus operator:
    - Further opportunities for growth in other Moroccan cities.
- Nine acquisitions made in the year, including WeDriveU (WDU), Silicon Valley's premier employee shuttle business:
    - WDU has met its ambitious targets with revenue increasing by over 30%, grown in every market it is in and expanded into new segments already;
    - We retain a strong pipeline of opportunities across our businesses.

A bold agenda for environmental leadership

- We are today making significant industry-leading commitments to accelerate the shift to zero emission vehicles. We will:
    - Not buy another diesel bus in the UK;
    - Lead the transition to zero emission coaches, with a target for our first electric coaches in service next year;
    - Set ambitions for our UK bus and UK coach businesses to be zero emission by 2030 and 2035, respectively;
    - Include environmental targets as 25% of the long term incentive plan for all senior executives, from this year.

Enquiries

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There will be a presentation and webcast for investors and analysts at 9.00am on 27 February 2020. Details are available from Mads Neumann at Maitland.

To supplement IFRS reporting, we also present our results on a normalised basis which shows the performance of the business before intangible amortisation for acquired businesses. In years when there are discontinued operations, significant disposals or restructuring costs these are typically also removed from normalised results. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of financial statements to understand management's key performance measures. Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures can be found on page 24

Notes

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

Dividend

If approved by shareholders at the AGM on 7 May 2020, the final dividend of 11.19p per ordinary share will be paid on 12 May 2020 to those shareholders registered on 24 April 2020.

Group Chief Executive's Review

Overview

I am pleased to report another record set of results. All of our key financial metrics are strong and our growth prospects positive. I will provide further detail on them in the following sections. I wanted to firstly outline how our strategy has delivered this success and then set out how our ambition is being raised as we seek to meet the challenges of a new era dominated by broader concerns, such as carbon, clean air and inclusive growth. This is an agenda I welcome as both timely and one that I believe National Express is very well placed to prosper in.

Our consistent, sustained, growth over recent years has been delivered through a relentless focus on operational excellence. This requires each business to rigorously identify what existing and potential customers want and relentlessly ensure we meet these demands in the best and most efficient manner. Where we get that right, we have our best opportunity to secure both happy customers and our strongest returns. It is pleasing, therefore that both ALSA and North America have had record years, alongside a strong UK performance.

Significant passenger growth (up 5.1% across the Group year-on-year) and important contract retention (in, for example, Boston, Chicago and Bilbao), coupled with a strong Group operating margin, are testament to the success of this approach. Most importantly, the continued improvement in safety performance – with our best ever Fatalities and Weighted Injuries index score and first responsible fatality free year on record – demonstrate that our investment, enhanced management systems and culture are delivering crucial improvements. These improvements, most importantly, protect lives, but also reduce insurance costs.

We have continued to expand into new complementary markets, helping to drive future growth. Our experience in Morocco has been a stand-out achievement. ALSA is now the country's largest operator of urban buses; indeed, we now operate more buses in Morocco than we do in the UK. The successful mobilisation of two major contracts in Rabat and Casablanca has cemented our reputation as the operator to trust. This is a reputation I hope will secure further growth in Morocco.

Our significant acquisition of WeDriveU – Silicon Valley's premier employee shuttle operator – has integrated very well and is out-performing its ambitious revenue targets, with growth of over 30% in 2019. The team are pursuing growth opportunities beyond its traditional geographical and sectoral focuses, by leveraging the National Express brand and network. As part of our growing North American Transit operations, we are targeting $1 billion of annual revenue, up from today's $550 million annualised figure. The divisional reviews contain more detail on our other acquisitions made during the year and we continue to maintain a strong pipeline of acquisition and new contract opportunities.

Raising our ambition for a new era

National Express has transformed itself in the last 10 years, turning around a business in deep crisis to one that is consistently delivering record-breaking results and strong returns. Building on these firm foundations, the next decade presents a different set of challenges and I firmly believe, opportunities.

Customers, government and investors are demanding – rightly – that companies meet the growing challenges around climate change, clean air, congestion and inclusive growth. This is an agenda we embrace. We believe that high quality mass transit is a solution to these challenges. To meet them, National Express has raised its ambition: to be the world's leading mass transit operator.

To achieve this ambition we will build on the progress we have already made. Our ambition is to build on our safety improvements to become the world's safest operator. Having pioneered new ways of partnership working – for example, the multiple award-winning West Midlands Bus Alliance – we want to be seen as the trusted partner for customers and governments, consistently delivering excellent services.

We are at an inflection point. As the political priorities and policies of cities from Birmingham to Barcelona show, there is a demand for bold leadership. This is why National Express is building on its existing leadership as the first UK transport group to sign up to the United Nations' Sectoral Decarbonisation Approach, to pledge that we will:

- Never buy another diesel bus in the UK;
- Lead the transition to zero emission coaches, with a target for our first electric coaches in service next year;

- Set ambitions for our UK bus and UK coach businesses to be zero emission by 2030 and 2035, respectively; and,
- Include environmental targets as 25% of the long term incentive plan for all senior executives.

These targets will be subject to annual review, including broadening them to include similarly ambitious pledges in our other divisions.

We are determined to grasp this opportunity and be seen as the trusted partner consistently delivering excellent mass transit to build cleaner, greener and more liveable cities. To deliver this will require a continued focus on operational excellence. It will also be enabled by investment in technology – and the associated management systems – that drives excellence, efficiency and innovation. We firmly believe that it will also open up new sources of growth to complement the strong pipeline we have in place and a continued determination to drive organic growth.

This is perhaps the most exciting time to be in mass transit in at least a generation.

Financial performance highlights

National Express had a very strong year across all key financial metrics. Group revenue increased by 10.2% on a constant currency basis (12.0% on a reported basis). Revenue growth has been delivered across each division with performance particularly strong in our overseas businesses –both North America and ALSA enjoyed record growth of 11.1% and 11.7% respectively, on a constant currency basis.

Revenue in constant currency	**2019**	2018
ALSA (€m)	**940.6**	842.3
North America (US$m)	**1,570.6**	1,413.6
German Rail (€m)	**102.5**	76.6

Revenue in £m		
ALSA	**824.7**	745.1
North America	**1,230.1**	1,060.8
UK	**599.7**	577.0
German Rail	**89.9**	67.8
Group	**2,744.4**	2,450.7

Group normalised operating profit increased by 13.1% to a new record of £295.3 million on a constant currency basis, up 14.6% on a reported basis (2018: £257.7m). Both North America and ALSA again set new records, with North America achieving the highest rate of profit growth at 21.4% in constant currency.

These results benefitted from £3 million of currency translation, driven by the weakening of Sterling against the US Dollar. Normalised profit before tax increased by 7.8% on a constant currency basis, and 9.1% on a reported basis, to a new record of £240.0 million (2018: £220.0m). Group statutory profit before tax also increased by 5.2% to another new record of £187.0 million (2018: £177.7m). Group normalised operating margin is up 30 basis points year-on-year to 10.8% (2018: 10.5%). Excluding the impact of IFRS 16, Group margin is flat as North America's increase has been offset by higher Moroccan fuel costs alongside the mobilisation of the Rabat and Casablanca contracts.

We have sustained our consistent record in recent years of strong and growing shareholder returns. Our free cash flow has beaten expectations at £178.7 million (2018: £198.6m), despite increased investment in the year. Normalised earnings per share (EPS) again grew, up 4.9% to 34.5 pence (2018: 32.9p). EPS growth is lower than profit growth as the 40% of WDU that the Group does not own is attributable to the minority owner. This impact will unwind as the Group takes up its options.

This performance again allows us to propose a 10% increase in the full year dividend to 16.35 pence (2018: 14.86p).

Normalised operating profit in constant currency	**2019**	2018
ALSA (€m)	**124.9**	119.1
North America (US$m)	**157.0**	129.3
German Rail (€m)	**5.7**	3.4

Normalised operating profit £m		
ALSA	**109.5**	105.3
North America	**123.0**	96.9
UK	**85.0**	79.9
German Rail	**5.0**	3.0
Central functions	**(27.2)**	(27.4)
Normalised operating profit	**295.3**	257.7
Interest and associates	**(55.3)**	(37.7)
Normalised profit before tax	**240.0**	220.0

ALSA

Year ended 31 December	**2019 m**	2018 m
Revenue	**£824.7**	£745.1
Normalised operating profit	**£109.5**	£105.3
Revenue	**€940.6**	€842.3
Normalised operating profit	**€124.9**	€119.1
Operating margin	**13.3%**	14.1%

Overview

ALSA had another very strong year. It again delivered record revenue (up 11.7%), profit (of €124.9 million) and patronage (up 12.8%) figures. Every business area – Spanish long haul, regional and urban services, plus Morocco and Switzerland – delivered organic growth. Morocco added two major contracts in the year and is growing particularly strongly, with revenue up 31.9% in the year. The impact of higher fuel prices coupled with reduced profitability during the mobilisation phase, lowered the ALSA operating margin by 80 basis points to 13.3% (2018: 14.1%). We expect ALSA to grow strongly in 2020 and surpass €1 billion of revenue in the year.

The long haul concession renewal process has restarted, with two small contracts currently being retendered, albeit subject to legal challenge. In line with previous guidance, we do not expect any impact this year and a modest impact in 2021.

	€m
2018 normalised operating profit	119
Growth in the continuing business	19
2019 acquisitions	2
Driver wages	(11)
Fuel	(5)
IFRS16	1
2019 normalised operating profit	125

Operational excellence: the foundation of sustained growth

ALSA has firmly established itself as the leader in the markets it serves. It is a leadership that is recognised by the awards – such as the leading BCX-IZO customer satisfaction recognition and another, improved, European Foundation for Quality Management (EFQM) five-star excellence score – and apparent in the significant customer growth highlighted above. Further investment and innovation in our Revenue Management System (RMS), including a greater use of machine learning and AI tools, has helped drive both passenger growth and an increase in average occupancy, to 51.9% (2018: 50.5%).

Morocco again enjoyed another record year, with its fastest ever rate of expansion. In 2019 Morocco carried over 190 million passengers, up 20.3% on 2018. Two major contracts in Rabat and Casablanca – for up to 22 and 15 years respectively – were successfully launched towards the end of the year. With the full year

benefit of these contracts and the potential for further expansion, we expect Morocco to double its contribution in 2020 compared to 2019.

Our Geneva hub also continues to grow, with the first cross-border (into France) service starting in December. We believe there are further opportunities to add other contracts to complement our existing range of shuttle, bus, coach and school bus services. Our range of ski transfer services also continued to grow strongly, up 6% in 2019, and on one Saturday in January 2020 broke the previous passenger record by over 10%. We continue to develop common information and booking systems across our different alpine brands to provide customers with a greater choice of services, more sophisticated pricing and also generating operational efficiencies. Geneva remains an interesting growth hub.

During the year ALSA also renewed a number of contracts, demonstrating its continued reputation for excellence. Our largest Spanish urban bus contract, Bilbao, was renewed for 10 years. ALSA's consistent delivery of services that met the required operational and environmental targets in our over 1,000 vehicles Madrid Consortium regional contract, led to an automatic renewal for another five years. This contract alone is worth over €500 million in revenue across its life. We renewed our only long haul concession that has so far completed its retendering process: our Madrid-Guadalajara services were secured until 2028. Two other important contracts also received lengthy extensions: Asturias regional services until 2024; and, Almeria urban services until 2023.

Technology investment to underpin excellence, efficiency and innovation

The roll out of the DriveCam smart safety cameras continued, with nearly 1,400 installed by the year end (up 43% on 2018). Speed monitoring is now on nearly 3,000 vehicles. Allied to a rigorous management oversight and coaching programme, standards and assurance continue to improve, with the lowest rates of speeding on record.

Beyond driving standards, our investment in maintenance is also helping to improve performance and efficiency. A move to a predictive maintenance regime is generating further improvements to already strong performance metrics, such as breakdowns: they have been reduced by a quarter in the year, improving both service standards and cost efficiency. ALSA has been pioneering our World Class Maintenance programme and the lessons are being applied across the Group.

Investment in improving ALSA's digital and web presence continued, with impressive results. The introduction of features such as bus location tracking, new methods of payment and enhanced marketing to customers helped drive digital revenue up to 44.6% of ALSA's total (up 7.2% year-on-year). The increasing proportion of sales through digital channels is also enabling enhanced ancillary sales. The introduction of luggage and seat reservation has helped this segment grow by 13.9% year-on-year.

An autonomous bus pilot in partnership with the Autonomous University of Madrid, launched earlier in February 2020. This fully-electric vehicle operates a 3.8 kilometre route on the university campus. It provides valuable experience and a credential in a growing market.

There are further opportunities to pursue. During this year a particularly interesting project will enhance customer services databases to make marketing even more personalised and sophisticated. Learning from UK coach's innovation in this area, ALSA will tailor pre-trip emails to customers with information about activities at their destination, providing the opportunity for further ancillary sales.

Targeted growth through strategic acquisition and market diversification

Three acquisitions were made in 2019. ALSA bought a majority stake in a company that operates regional concession services in Aragon. This investment allows us to enter a regional market where we do not have any presence and provides the opportunity for growth when other local contracts come up for renewal. It is the same approach we successfully followed with Cal Pita, a 2018 acquisition that provided entry into the Galician market. From this initial entry, we have secured new contracts, are now the third largest operator and see further growth opportunities ahead.

ALSA also acquired a bus company in the Canary Islands. The company operates school bus, coach and discretionary travel services. This provides an entry into a very interesting market where we believe there is a strong opportunity for further growth. ALSA also bought a small chauffeur business. We retain a strong pipeline of acquisition opportunities, which we will continue to pursue in a disciplined manner.

Two contracts were won in Extremadura, strengthening our position in this autonomous region.

Alongside the growth in Morocco, Switzerland and segments such as ancillary income, set out above, our 2019 acquisitions and contract wins help ALSA further diversify its earnings. Since 2015, the proportion of ALSA's total revenue secured from long haul services has declined by a quarter. We expect RMS to continue to drive organic growth and improving occupancy rates. Ancillaries will continue to be a source of strong growth and January 2020 has already seen a 10.8% increase year-on-year in earnings from this segment. Airport services and our mini cab businesses also provide positive sources of organic growth.

It is because of this combination of diversification, growth across all business segments and the strength of our pipeline, that we remain confident we will manage any impact from long haul concession renewal and continue to grow. There still, however, remains no certainty that the renewal process will proceed to plan. In the meantime ALSA will continue to focus on delivering operational excellence, securing organic growth across its existing businesses and diversifying in a targeted manner.

North America

Year ended 31 December	**2019** **m**	2018 m
Revenue	**£1,230.1**	£1,060.8
Normalised operating profit	**£123.0**	£96.9
Revenue	**US$1,570.6**	US$1,413.6*
Normalised operating profit	**US$157.0**	US$129.3*
Operating margin	**10.0%**	9.1%

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

Overview

North America has again delivered a record performance, with revenues up by 11.1% and a profit increase of 21.4% to $157.0 million.

This performance has been secured through a combination of disciplined bidding, a consistent focus on operational excellence and efficiency, strategic acquisitions such as WeDriveU (WDU) and the disciplined disposal of Ecolane. We have also invested in the leadership team and now have, we believe, the most experienced senior managers in the industry. This approach has helped drive margin improvement in year, up 90 basis points to 10.0% (or up 50 bps on an underlying basis, excluding IFRS 16). This is despite the growth in lower margin transit work. With important contract renewals secured in 2019 – the full benefit of which we will see this year – important excellence and efficiency programmes and a strong pipeline of opportunities in place, we are confident of continued progress in 2020.

The North American division continues to diversify away from its traditional school bus focus. In 2010 our North American operations were exclusively School Bus. In 2018 the revenue split between School Bus and Transit was 80%:20%; by 2019 it had moved to 69%:31%. This shift will continue as we deliver on our target of Transit with WDU becoming a $1 billion of annual revenue business.

	$m
2018 normalised operating profit	129
Exchange movement (CAD to USD)	-
Operating profit at constant currency	129
Growth from continuing business	25
2019 acquisitions	25
Driver wages	(20)
Weather	(7)
IFRS 16	5
2019 normalised operating profit	157

Operational excellence: the foundation of sustained growth

Securing and sustaining a reputation for operational excellence is crucial to our ability to continue growing our North American business. We believe we have the best trained drivers, subject to the strictest monitoring system, driving vehicles equipped with the most advanced safety technology in the industry. Customers appear to be recognising this. Particularly pleasingly, our programme to increase the number of school bus customers rating our services at five-star has grown consistently. From a base of 32% when the programme started in 2017, the proportion increased to 48.2% in 2018 and reached 55.4% last year. As well as a crucial

part of the drive to be seen as a trusted partner consistently delivering excellent services, five-star customers are more willing to pay a premium for the quality operations they are receiving. This programme will remain a priority.

The benefit of this focus on excellence and customer service was also seen in the retention and expansion of our two largest transit contracts. In Boston, our second largest transit contract, was renewed for 7.5 years, with total revenue nearly doubling to $420 million. In Chicago, our largest single contract in North America, was renewed for at least 7 years, securing at least $400 million in revenue over its life. The full annual benefit of these new contracts will be felt in 2020, providing positive momentum. Equally, as significant contracts they are important credentials with strong customer recommendations to aid further growth.

Our WDU acquisition has successfully integrated and exceeded its revenue target for the year. Its revenue increased by over 30% in the year with growth in all of its key markets as well as expansion into new segments, such as its first university and non-emergency medical shuttle contracts. We will continue to combine its industry-leading reputation with National Express' breadth of operations to help enter new shuttle segments and markets. While already a business with nearly $550 million in annualised revenue, we expect Transit with WDU to grow to a $1 billion annual income operation.

The School Bus bidding season has not yet concluded, but the early signs are encouraging. We have continued with a disciplined bidding approach, prioritising returns. The current retention rate is 92% and we have won important new contracts, such as our first in Alaska. This is our first 10 year school bus contract and provides a base for further growth in the state. Last year's bid season concluded with an average price increase on bids or renewals of 5.9%, or 3.9% across the whole portfolio. This compares to an average wage increase of 3.4% in 2019.

With the on-going industry-wide challenge to driver recruitment, we are reviewing and revising our driver training and certification processes to find efficiencies while maintaining our industry-leading training standards. By way of example, working with the relevant authorities in Ontario, Canada we have been granted the right to bring the accreditation of driver certification – a key delay in the process – in-house. Rather than waiting on a third-party to provide the accreditation, we are able to grant it through designated internal authorities.

This new approach is already suggesting important efficiencies to come. This process does not threaten the quality of training: we will still have the industry's best trained drivers and the number of training hours remains the same. However, the external accreditation bottleneck often meant it took up to 60 days for a group of 50 drivers to finally receive their licence; this new process can now complete it in 12. We will look for similar efficiencies across North America aiding driver recruitment and making us more agile in responding to organic growth opportunities.

Technology investment to underpin excellence, efficiency and innovation

Our investment in technology to enable ever-improving service excellence, cost control and efficiency is delivering clear results.

A Master Schedule programme – which through enhanced central controls forensically analyses the running time for every route and then assures that the associated driver time allocated is accurate – has delivered both real time savings and service improvement in 2019. This programme started in the second half of the year and has already identified significant of annualised savings. It has also seen 'on time performance' of our school buses improve by 2.6 percentage points year-on-year. This programme remains a key strategic priority, with further efficiencies and improvements to be secured in 2020.

DriveCam is now installed in nearly 21,000 vehicles. Speed monitoring equipment is now so comprehensive that 99.08% of drivers were covered last year. Alongside strict management and driver coach programmes, these investments are delivering clear results. Both the DriveCam 'risk' score and the incidence of speeding declined significantly in the year. While this is the correct thing to do in its own right, the benefit is also seen in a significant reduction in legal and claims risk: by the end of 2019 we had 20% fewer open injury claims in the US. Further, benchmarking data from our US claims handlers shows that our average cost per claim, for those settled in 2019, was almost half that of a pool of 13 other peer organisations in their portfolio of passenger transport clients.

During 2020 we will invest to further enhance our systems and processes to drive operational efficiency and innovation. We have taken a stake in a company, ByteCurve, a pioneering technology that will combine –

amongst other things – our dispatch, operations and scheduling software. Combining the data will help identify new areas for service improvement and cost efficiency, as well as enable greater central management oversight.

Targeted growth through strategic acquisition and market diversification

North America remains a very attractive market for further acquisitions. We made five acquisitions during the year, with the majority again outside of school bus. As well as the major WeDriveU investment, we made four other small acquisitions: two small transit operations; a small charter, shuttle and coach company in the Boston area; and a small school bus business in Baltimore. All of the acquisitions are either 'tuck ins', that can be operated or managed from an existing National Express location; or provide entry into a new strategic segment. For example, a UK coach manager has moved to the US to grow this segment, building on our recent acquisitions and expanding our operations organically.

Similarly, we continue to expand our Charter School operations and now operate over 650 buses in this segment. We are also piloting a new approach to the charter market, with a Charter Contact Centre established in Los Angeles. This centre provides a dedicated resource to grow our presence as well as direct the response to customer requests. It is already seeing a good stream of new work, including operating shuttles for event staff at the recent Super Bowl.

Transit also added 11 contract wins in the year, all in the Connecticut and New York areas, building out from existing hubs. Our Trinity acquisition (made in 2016) is another interesting example, as it makes good progress in ambitious expansion plans in Detroit, to grow in the school bus, coach, shuttle and para-transit segments. This model of multi-modal services operating from a hub location in a major conurbation is one that we continue to pursue and grow.

We take a disciplined approach to acquisitions. We continue to target 15% returns and our acquisitions have proved strong assets to the business. Equally, however, this approach requires us to assess whether stronger returns can be secured through disposal. This is precisely the reason we sold our Ecolane technology business during the year for $42 million in cash, plus a $10 million equity stake in the acquirer's rapidly-growing technology fund. The sale consideration was a significant multiple of the original purchase price, only three years earlier.

With our rapid growth in transit, especially with the WDU acquisition, our expansion in segments such as Charter School and coach, plus a renewed focus on charter work, we continue to diversify our North American business away from what was almost solely a school bus operation less than 10 years ago. We retain a strong pipeline of both acquisition and new contract opportunities, with WDU opening particularly exciting avenues. When combined with our continued focus on operational excellence and efficiency, we look forward to another successful, record, year in 2020.

UK

Year ended 31 December	**2019** **£m**	2018 £m
Revenue	**599.7**	577.0
Normalised operating profit	**85.0**	79.9
Operating margin	**14.2%**	13.8%

Overview

Our UK businesses had a good year. Both the bus and coach businesses delivered revenue, profit and commercial passenger growth. They also combined this with expansion in to new markets. Our coach business again set new records for revenue and passengers and with its success at Dublin Airport, secured its first operational contract outside of the UK. Our bus business continues to buck industry trends, with commercial growth in the West Midlands adding nearly 1 million extra passengers and new routes launched. This is alongside the expansion into the accessible transport market with our acquisition of the 400 vehicle ATG company (now re-branded National Express Accessible Transport (NEAT)).

These successes are reflected in the financial results. Overall, UK revenue increased by 3.9% to £599.7 million (2018: £577.0 m). Normalised operating profit grew 6.5% to £85.0 million (2018: £79.9m). This profit figure includes a similar level of property sale receipts as last year. Operating margin has increased by 40 basis points to 14.2% (2018: 13.8%). This increase is attributable to IFRS 16, with cost inflation off-set by a continued focus on operational excellence and efficiency.

As the recent government announcement of a £5 billion fund to increase support for bus priority schemes and new zero emission vehicles demonstrates, public transport is seen as an increasingly important part of the response to public policy challenges. Indeed, within the West Midlands both the mayor and Birmingham City Council have recently set out very pro-public transport policies. We continue to value our strong partnership working as this is helping to secure passenger growth and significant investment in local services. As our electric vehicle announcement demonstrates, it gives us confidence to make important investment commitments as we believe by working in partnership the West Midlands will continue to lead the industry in service improvement and growth.

	£m
2018 normalised operating profit	80
Growth in the continuing business	6
Driver wages	(3)
IFRS 16	2
2019 normalised operating profit	85

Operational excellence: the foundation of sustained growth

Both of our UK businesses have focused on delivering excellent services to customers in an efficient way, at prices they value. The success of this is evident in the record number of core coach passengers of 21.5 million, including the largest single day ever on Boxing Day. Surveys show that nearly 300,000 more people are considering using National Express coach services than the year before. Our bus services helped the West Midlands have the fastest passenger growth of any major city-region in the country. In its most recent Transport Focus independent customer survey our West Midlands bus business secured its best-ever scores for drivers and value for money. As well as attracting more, happier, customers, we are operating ever-more efficient services, with commercial revenue per mile up 4.8% in core coach and 3.2% in West Midlands bus.

Our focus on excellence also entails, as a priority, safety. Both businesses now have DriveCam and speed monitoring programmes fully installed (with the recent NEAT acquisition to have them in place this year). The year-on-year reductions in speeding and the zero fatalities in the UK (and indeed, across the Group) are testament to the benefits of the investment. Both businesses have secured the British Safety Council's (BSC) highest accolade: the Sword of Honour. For coach this is the fifth consecutive time; for bus it is the fourth. Indeed, UK bus was also judged to be the safest public transport company of all those the BSC audited across the world in 2019.

As further evidence of our commitment: both UK businesses have five-star EFQM ratings, with coach winning the British Quality Foundation's 2019 UK Excellence Award for a large company.

Technology investment to underpin excellence, efficiency and innovation

We continue to invest in the technology and management systems to deliver the excellence and efficiency driving the performance above, as well as innovations that will help power future growth. Both businesses have benefitted from industry-leading pricing technology, whether RMS in coach or the installation of the largest contactless payment network outside of London in West Midlands bus. The benefit for coach is seen with both core passenger (4.0%) and revenue (3.6%) growing, with particularly successful performances at peak periods: a record Christmas and a strong summer. Further evidence is seen in the occupancy rate growing again in 2019, up 2.4% to 60.9%. This figure has grown from 54% in 2016, demonstrating the consistent focus on improvement and efficiency that underpins the business' growth.

Bus now has two thirds of passenger journeys on digital tickets, which is allowing more sophisticated price targeting with products for specific competitive corridors or groups deployed quickly. The technology also generates significant data that is used to track product effectiveness (including the quick withdrawal or revision) and help plan services to better meet changing demand and revise our network.

Coach now has 71% of its revenue secured through digital channels, demonstrating the importance of our continued investment in our web and app presence. During 2019 coach issued 100 upgrades to its website and app, helping the app alone to grow revenue by 16% as the shift to mobile devices continues. The technology investment is also allowing coach to secure a growing number of carefully selected commercial partnerships – now up to 139, including with 24 universities – that helps sell our tickets to individuals or groups we might otherwise find hard to reach. In addition, ancillary sales in the digital booking process continue to prove a good source of growth, with revenue up 9% in 2019.

During the year we further expanded our data analytics and AI capabilities to drive operational improvements and secure efficiency savings. This has been pursued through both internal excellence programmes and our National Express Innovation and Science (NXIS) initiative where we set challenges for – often small, start-up – companies to identify solutions to business problems. In bus, for example, a NXIS challenge has seen the very successful pilot of a company using AI and big data analysis to optimise running times and driver hours. As this pilot is rolled out more widely, we believe there is scope for further significant savings.

We are also determined to lead the switch to zero emission vehicles. This is both the right thing to do – given the climate change and clean air challenge – and increasingly what our key stakeholders want. Indeed, both our coach and bus businesses are at the forefront of the adoption of EuroVI vehicles, with their fleets fully compliant by this year and April 2021, respectively. We will shortly take receipt of 29 electric double decker buses in the West Midlands and ran a pilot of an electric coach on an airport service in January 2020. As our new environmental commitments set out in the overview section demonstrate, we are determined to cement our position as an industry-leader, deliver significant benefits to the communities we serve and align our ambitions with the aspirations of our key stakeholders.

Targeted growth through strategic acquisition and market diversification

We expect both of our UK businesses to sustain their organic growth in the year.

Bus added 19 new routes in 2019, through a combination of local tendered contract wins and starting new services to towns in the shire counties surrounding the West Midlands metropolitan area. Another new route – to Nuneaton – has already been launched in 2020, and in its early weeks is performing ahead of expectations. As we continue to grow our commercial passengers, we will look at further new route opportunities, alongside further growth in corporate sales. Added investment in this team is delivering, with now over 480 corporate clients.

Coach will continue to refine its RMS and digital revenue to secure organic growth through sophisticated pricing and marketing. Nine new routes were launched in 2019 as the business looks to efficiently drive further growth. The new services at Dublin Airport – an up to three year contract, operated in partnership with Ireland's largest domestic operator – will provide the opportunity for growth in this adjacent market. The innovative NEON on-demand product has had some notable successes in the year, as it fills a gap in high-demand festivals and events that the scheduled network is less able to efficiently meet on its own. We are confident this will continue its growth in 2020.

Our UK businesses have also been combining to deliver services in a more efficient manner. At Glastonbury, for example, our bus business ran shuttles to the festival site from Bristol, complementing and integrating with our traditional coach service. This helped drive both a 7% increase in revenue compared to 2017 and secured a higher profit, thereby setting new records for both. Our coach businesses have also recently combined their private hire services under one brand and are already seeing an increase in bookings. We are confident this is a market segment that will continue to grow and offers good opportunities in the future.

Demonstrable successes from our Bus Alliance – like passenger growth on another new bus lane (Harborne) where we have invested in Platinum vehicles – have helped the region secure £30 million for bus prioritisation in the 2019 Spending Round, the only city-region to do so. We are already working closely with the relevant local authorities ahead of the planned Clean Air Zone's introduction in Birmingham later this year, to ensure we are part of the solution, encouraging car drivers to shift to environmentally-friendly buses.

Our NEAT acquisition has drawn on a combination of strong local management and expertise developed in our North American para-transit business to recently enjoy the best operational performance in three years. This has already secured further local contracts and we will look to grow NEAT further, including outside of the West Midlands.

It is because of this success – and the opportunity presented by the ambitions set out in Birmingham's Draft Transport Plan and the increasingly pro-mass transit trend in local transport policy – that we are determined to be seen as a trusted partner. In an era of increased concerns around climate change, clean air, congestion and inclusive growth, being recognised as a quality mass transit operator that local authorities can trust to help solve their policy challenges will help us drive further growth and shareholder returns.

Germany

Reported revenue is up 33.8% to €102.5 million, reflecting the mobilisation of two of the three Rhine-Ruhr Express (RRX) services. Profit increased to €5.7 million (2018: €3.4m).

There are a number of drivers of improved performance in German Rail including higher than expected growth in passenger revenues (including settlements for prior periods); agreements with the local authority on penalty exemptions for particular construction works; and a good start to our new RRX franchise. Indeed, we are pleased that the strong start to our RRX services has been publicly welcomed by local officials.

Outlook

I remain confident in our growth prospects. Across the Group our focus on operational excellence combined with strategic acquisitions will continue to drive growth and shareholder returns.

We maintain a good momentum into 2020. We will benefit from a full year of earnings from our significant contract retentions – on improved terms – in Boston, Chicago and Bilbao, alongside the contribution from major new operations in Rabat and Casablanca. Our 2019 acquisitions, especially WDU, will add further growth and we retain a strong pipeline of further opportunities in all divisions. We will remain focused on securing organic growth across the Group and combine this with close cost control – through examples such as the Master Schedule programme in North America – to drive cash generation and maintain strong margins.

As our refreshed Vision and Values demonstrate, we will continue to adopt a partnership approach. In an era of increased focus on climate change, clean air and congestion, recent announcements of pro-mass transit policies by national and local governments demonstrate the opportunity of being seen as a trusted, high quality operator. We therefore continue to invest in our industry-leading safety and excellence programmes to ensure we are seen as a partner to solve these challenges. Our zero emission commitments are a clear example of this.

From our foundation of consistently strong financial performance we continue to focus on operational excellence, combined with strategic acquisitions, to drive future expansion and secure sustainable and growing shareholder returns.

Dean Finch
Group CEO

27 February 2020

Group Finance Director's review

Presentation of results

To supplement IFRS reporting, we also present our results on a normalised basis which shows the performance of the business before intangible amortisation for acquired businesses. In years when there are discontinued operations, significant disposals or restructuring costs these are also removed from normalised results. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of financial statements to understand management's key performance measures. Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. In addition to performance measures directly observable in the Group financial statements (IFRS measures), alternative financial measures are presented that are used internally by management as key measures to assess performance. Further explanation in relation to these measures, together with cross references to reconciliations to statutory equivalents where relevant, can be found on page 24.

Statutory profit

The Group again delivered a record profit for the year of £148.3 million (2018: £138.7m), an increase of 6.9%, driving basic earnings per share of 27.6 pence (2018: 26.6p). The 3.8% increase in earnings per share is lower than the increase in profit for the year as profit attributable to non-controlling interests increased to £7.2 million (2018: £3.0 million), principally driven by the 40% of WeDriveU not yet acquired by the Group.

Reconciliation of normalised profit before tax to statutory profit for the year

	2019 £m	2018 £m
Normalised profit before tax	**240.0**	220.0
Separately disclosed items	**(53.0)**	(42.3)
Profit before tax	**187.0**	177.7
Tax charge	**(38.7)**	(39.0)
Profit for the year	**148.3**	138.7

The increase in separately disclosed items is driven by the amortisation of intangibles acquired in the current or prior year, primarily in relation to WeDriveU. Also included within separately disclosed items are the gain on the sale of Ecolane which has been presented net of all costs including contingent bonus payments (further detail on page 40) and charges related to the restructuring of our North American division. These latter two items fully offset each other hence having no effect on the year-on-year movement. The statutory tax charge was £38.7 million (2018: £39.0m), an effective tax rate of 20.7% (2018: 21.9%). The reduction in effective tax rate reflects an underlying increase offset by the benefit from the tax-free gain on disposal of Ecolane.

Revenue

Revenue bridge	£m
2018 revenue	2,451
Currency translation	39
2018 revenue at constant currency	2,490
Growth in the continuing business	109
2019 acquisitions	145
2019 revenue	2,744

Group revenue for the period was £2,744.4 million (2018: £2,450.7m), an increase of 10.2% on a constant currency basis (up 12.0% on a reported basis with the benefit of £39 million of foreign currency gains on translation). Revenue growth of £109 million from our existing businesses, representing growth of 4.4%, was boosted by a further £145 million from acquisitions, principally in North America and Spain.

Our business in North America delivered revenue growth of 11.1% on a constant currency basis. A key component of this growth was the acquisition of WeDriveU, our largest acquisition for eight years and one of five completed in North America in 2019. WeDriveU is performing well in its first year of operation within the Group with revenue growth of over 30% and profit growth of around 25%. Performance in the continuing business was robust, with the School Bus business benefiting from the 2019/2020 bidding season in which

we achieved an average price increase of 3.9% across the entire portfolio and 5.9% on those contracts up for bid and renewal. In Transit, we extended our two biggest contracts on improved terms, contributing to a total Transit and Shuttle business now generating an annualised $0.5 billion in revenue.

ALSA delivered a record level of revenue, growing by 11.7% in constant currency, with strong organic growth of 10.8% boosted by three acquisitions made in the year. Record passenger numbers in both Spain and Morocco, up 5.8% and 20.3% (up 3.0% excluding the impact of Rabat and Casablanca) respectively, have driven revenue growth and Switzerland has also delivered strong revenue growth, up 13.7%. Pleasingly, we have seen high levels of growth across each of our long haul, regional and urban services, with our increasingly sophisticated Revenue Management System (RMS) helping to drive a 2.9% increase in occupancy to 51.9%. Underlying growth in Morocco has been boosted by the successful mobilisation of two new large contracts to run urban bus services in Rabat and Casablanca which, whilst having minimal profit impact in 2019, significantly increase the size of the business moving forward.

Our UK business delivered a good performance with revenue growth of 3.9% for the year driven by robust growth in both our coach and bus businesses. In coach, core network revenue rose by 3.6%, benefitting from RMS, helping to drive record revenue and passenger numbers, together with a 2.4% increase in occupancy to 60.9%. Total UK bus revenue grew by 3.7%, with commercial revenue per mile growing by 3.2%. This has been driven by the continued expansion of low fare zones and products together with strong growth in digital sales, with two thirds of passengers now using digital tickets. Growth has been further augmented with the acquisition of ATG (rebranded to National Express Accessible Transport, or NEAT), providing entry into the accessible transport market.

In German Rail, reported revenue is up 33.8% to €102.5 million, reflecting the start-up of two services for Rhine Ruhr Express.

Normalised profit

Group normalised operating profit increased by 13.1% to £295.3 million on a constant currency basis, up 14.6% on a reported basis (2018: £257.7m). £7.6 million of this increase was driven by the adoption of IFRS 16 which is offset by an equal and opposite impact on interest to give a net zero impact on normalised profit before tax (see page 23 for more detail).

Profit bridge	£m
2018 normalised profit before tax (as reported)	220
Currency	3
Normalised profit before tax at constant currency	223
Growth in continuing business	46
2019 acquisitions	19
Drivers wages	(28)
Fuel	(6)
Weather	(6)
Interest	(8)
2019 normalised profit before tax	240

Group normalised profit before tax increased by 7.8% to £240.0 million on a constant currency basis, up 9.1% on a reported basis (2018: £220.0m), after the benefit of £3 million of currency translation driven by the weakening of Sterling against the US Dollar.

The continuing business contributed a strong £46 million of profit, with growth across all divisions. This figure is the flow through of revenue growth and all costs other than those broken out for transparency above (namely the increase in driver wages; the year-on-year impact of weather; and the year-on-year difference in hedged fuel prices). Netting these together represents organic growth in normalised profit before tax of around 3%.

This was augmented by the nine acquisitions made during the year which delivered a £19 million contribution, net of deal fees. This was partially offset by driver wage increases, predominantly in North America and ALSA, and higher hedged fuel prices together with a greater level of disruption from adverse weather conditions year-on-year. The additional interest charge of £8 million, as shown in the table above reflects a higher level of debt over the year together with a higher proportion of debt denominated in Sterling.

Segmental profit performance

Normalised Operating Profit	**2019 Local currency m**	2018 Local currency m	**2019 £m**	2018 £m
ALSA	**124.9**	119.1	**109.5**	105.3
North America	**157.0**	129.3	**123.0**	96.9
UK			**85.0**	79.9
German Rail	**5.7**	3.4	**5.0**	3.0
Central functions			**(27.2)**	(27.4)
Group normalised operating profit			**295.3**	257.7

In our North America business, normalised operating profit increased by 21.4% to $157.0m, driven by a strong contribution from the acquisition of WeDriveU. Solid underlying performance reflected the flow through of the revenue growth noted above where price increases more than covered driver wage increases, albeit at the expense of the loss of some less profitable contracts. This was partially offset by a greater level of weather disruption in the period versus the prior year. The adoption of IFRS 16 had a favourable impact of $5 million. Operating margin improved by 90 basis points to 10.0%, with 50 basis points improvement on an underlying basis (excluding the impact of IFRS 16).

Our UK businesses delivered an increase of 6.5% in operating profit to £85.0 million, reflecting the record revenue in our core coach business, together with cost efficiencies, new routes, and network reviews in both the Bus and Coach businesses, partially offset by higher driver wages. During the year we recorded a gain on the sale of a depot, slightly below the level of gains achieved last year at around 1% of the UK cost base as we continue to execute our multi-year property rationalisation strategy. Underlying operating margin remains strong and is broadly flat year on year. Reported operating margin improved by 40 basis points to 14.2% driven by the adoption of IFRS 16.

ALSA also delivered a record level of profit of €124.9 million, with a normalised operating profit increase of 4.9% on a constant currency basis predominantly driven by strong organic revenue growth in Spain and Morocco. The impact of higher hedged fuel prices in Morocco coupled with lower profitability during the mobilisation phases of the Rabat and Casablanca contracts drove an 80 basis point decline in 2019 profit margin to 13.3%.

Profit in our German rail operations increased to €5.7 million (2018: €3.4m) as we continue to drive improvements to contract lifetime profitability. There are a number of drivers of improved performance in German Rail including higher than expected growth in passenger revenues (including settlements for prior periods) and agreements with the local transport authorities on penalty exemptions for particular construction works. We are very pleased with the smooth mobilisation of our new RRX franchise.

Group normalised operating profit margin grew by 30 basis points at 10.8% (2018: 10.5%).

Summary income statement

	2019 £m	2018 £m
Revenue	**2,744.4**	2,450.7
Operating costs	**(2,449.1)**	(2,193.0)
Normalised operating profit	**295.3**	257.7
Share of results from associates	**0.4**	0.9
Net finance costs	**(55.7)**	(38.6)
Normalised profit before tax	**240.0**	220.0
Tax	**(55.2)**	(49.0)
Normalised profit after tax	**184.8**	171.0

Net finance costs were £17.1 million higher at £55.7 million (2018: £38.6m) with around half of the difference driven by the adoption of IFRS 16 and the remainder the results of a higher level of debt and a greater proportion of borrowings denominated in Sterling.

Normalised profit before tax of £240.0 million represents growth of 7.8% on a constant currency basis, up 9.1% on a reported basis (2018: £220.0m).

The normalised tax charge was £55.2 million (2018: £49.0m), a normalised effective tax rate of 23.0%, (2018: 22.3%) in line with previous guidance. The mix of profits in different tax jurisdictions drives a slight increase in the normalised effective tax rate.

Normalised profit attributable to non-controlling interests increased to £8.6 million (2018: £3.0m) primarily driven by the acquisition of WeDriveU.

Normalised basic earnings per share were 34.5 pence (2018: 32.9p).

Return on capital employed (ROCE)

ROCE is a key performance measure for the Group, guiding how we deploy capital resources and as such is a key component of executive incentives. Like-for-like ROCE (excluding the impact of IFRS 16) is up by 80 basis points, demonstrating our disciplined approach to capital allocation and balance sheet management and the accretive impact of our high return acquisitions. Reported ROCE was flat year-on-year at 12.4%, reflecting the adoption of IFRS 16.

Reconciliation of ROCE	2019 £m
Group statutory operating profit	**242.3**
Separately disclosed items	**53.0**
Return – Normalised Group operating profit	**295.3**
Average net assets*	**1,148.6**
Remove: Average net debt*	**1,203.4**
Remove: Average derivatives, excluding amounts within net debt	**(12.0)**
Foreign exchange adjustment	**35.8**
Average capital employed	**2,375.8**
Return on capital employed	**12.4%**

*Prior year restated for IFRS 16

Capital allocation

The cash generative nature of the Group creates a solid platform for investing for growth and paying dividends. After investing in maintenance capital expenditure and working capital, and paying interest and tax, the Group's priorities for the allocation of the resulting free cash flow are to:

- invest in the business (growth capital and acquisitions) to deliver 15% return;
- manage gearing within the range of 2.0 to 2.5 times; and,
- return to shareholders – at least 2.0x covered.

Cash management

The Group delivered £178.7 million of free cash flow in the period (2018: £198.6m).

Free cash flow	2019 £m	2018 £m
Continuing normalised operating profit	**295.3**	257.7
Depreciation and other non-cash items	**214.8**	144.4
EBITDA	**510.1**	402.1
Net maintenance capital expenditure	**(211.4)**	(123.9)
Working capital movement	**(42.0)**	(17.5)
Pension contributions above normal charge	**(7.6)**	(7.4)
Operating cash flow	**249.1**	253.3
Net interest paid	**(45.4)**	(33.6)
Tax paid	**(25.0)**	(21.1)
Free cash flow	**178.7**	198.6

The Group delivered £510.1 million of EBITDA in the period (2018: £402.1m). This is an increase of £108.0 million, of which £54.7 million was driven by the adoption of IFRS 16 at the start of the period.

Net maintenance capital expenditure payments increased by £87.5 million to £211.4 million, reflecting a return to a normalised level of expenditure of 1.0 times depreciation. Additions of property, plant and equipment were £311.5 million (2018: £210.1m); the increase of £101.4 million reflected a step up in fleet requirements reflecting both the cycle of fleet replacement across the Group and new contracts, particularly in Morocco and North America. Consistent with previous years, the Group's standard payment terms for fleet purchases are up to 12 months and accordingly, it is typical for a large proportion of fleet additions in the year to be outstanding at the year end. At the period end there was £263.3 million (2018: £160.3m) owing to vehicle suppliers driven by the increase in additions noted above.

The working capital outflow of £42.0 million in 2019 reflects significant growth in new contracts, notably in Morocco and German Rail. The Group make use of non-recourse factoring arrangements on receivables and advance payments. The total draw down at the period end was £107.1 million (2018: £88.7m) with the increase on the prior year driven by advanced factoring of subsidies in the two new rail franchises in Germany.

Net interest paid increased by £11.8 million to £45.4 million, of which £7.6 million was attributable to the adoption of IFRS 16 (a proportion of lease payments are now presented in interest) and the balance reflected increased payments as a result of higher net debt and a change in mix of borrowing currency. Tax paid increased by £3.9 million to £25.0 million, driven both by increased profit and an increase in the effective tax rate.

Statutory cash generated from operations for the year was £356.2 million (2018: £306.8 m) as shown in the Group Statement of Cash Flows and expanded further in note 11. Operating cash flow of £249.1 million presented in the table above is different, predominantly due to the inclusion of net maintenance capital expenditure of £211.4 million.

Reconciliation of free cash flow to net cash flow from operating activities	2019 £m
Free cash flow	178.7
Add: Operating cash flows from discontinued operations (note 6)	(1.2)
Add: Exceptional cash expenditure	(7.2)
Remove: Net maintenance capital expenditure	211.4
Remove: Other non cash movements (note 11)	(11.6)
Profit on disposal of fixed assets	(13.9)
Net cash flow from operating activities	356.2

Cash outflow from exceptional items of £7.2 million relates to the restructuring costs in North America.

Net funds flow	**2019 £m**	2018 £m
Free cash flow	**178.7**	198.6
Net growth capital expenditure	**(42.2)**	(5.8)
Net inflow from discontinued operations	**(1.2)**	0.4
Acquisitions (net of cash acquired)	**(166.4)**	(154.5)
Disposal of subsidiaries (net of cash disposed)	**21.7**	0.0
Dividends	**(78.3)**	(70.8)
Other, including foreign exchange	**11.4**	(31.5)
Net funds flow	**(76.3)**	(63.6)
Net debt	**(1,241.5)**	(951.5)

Growth capital expenditure during the period of £42.2 million included vehicles for new contracts in WeDriveU in North America and for the Rabat contract in Morocco, investment in digital and e-commerce initiatives in the UK, and costs associated with the mobilisation of our RRX rail contract in Germany. Continuing our successful compounding growth strategy, we completed nine acquisitions in the year: five in our North American division, three in ALSA and one in the UK. Total consideration for these acquisitions was £162.2 million of which £10.6 million is deferred into future years.

The most significant investment in the year was the purchase of 60% of the share capital of WeDriveU on 11 April 2019. At the same time, the Group and the vendor entered into a put/call agreement whereby the Group and the vendor have the right to sell/buy the remaining 40% shareholding to the other party in three

tranches over the next three years. The call options have no value for accounting purposes. However the put options are required to be valued and booked on the balance sheet. Accordingly a liability of £96.8 million has been recognised at the period end, recorded at the present value of the estimated redemption value, using forecast earnings of WeDriveU.

£14.8 million of deferred consideration relating to acquisitions completed in prior years was settled in 2019, resulting in a total net funds outflow in the period of £166.4 million.

The cash inflow of £21.7 million from disposals reflects the net proceeds from the sale of Ecolane in July 2019.

Other items include £11.4 million relating to the retranslation of foreign currency debt balances and the maturity of some foreign exchange contracts.

Net funds flow for the period was an outflow of £76.3 million (2018: outflow £63.6m), resulting in year-end net debt of £1,241.5 million (2018: £951.5m).

Opening net debt increased from £951.5 million, as previously reported, after applying the transitional adjustment of £213.7 million in respect of the adoption of IFRS 16. Gearing at the end of the period was 2.4 times EBITDA, within the Group's target range of 2-2.5 times. The adoption of IFRS 16 in 2019 impacted gearing by 0.2 times.

Dividend

National Express's dividend policy is to cover the dividend at least two times by normalised earnings. In considering the level of the dividend to declare, the Board has carefully considered three principal factors, in addition to level of cover:

1. available distributable reserves;
2. in-year free cash flow generation; and
3. gearing and indebtedness.

In line with the interim dividend, the Board has proposed a 10% increase in the final dividend to 11.19 pence, to give a full year dividend of 16.35 pence at 2.1 times cover.

Treasury management

The Group maintains a prudent approach to its financing and is committed to an investment grade credit rating. The Board's policy is to target a level of debt that allows for disciplined investment and ample headroom on its covenants, with net debt to EBITDA of 2.0 times to 2.5 times over the medium-term. Moody's credit rating agency re-affirmed its upgraded investment grade rating to Baa2/stable earlier in the year while Fitch credit rating agency upgraded its investment grade credit rating to BBB/stable.

The Group's key accounting debt ratios at 31 December 2019 were as follows:

- Our bank covenant for gearing is not to exceed 3.5 times net debt to EBITDA – in 2019 the gearing ratio was 2.4 times EBITDA (31 Dec 2018: 2.3x);
- Our bank covenant for the interest cover ratio is EBITDA not to be less than 3.5 times interest – in 2019 the interest cover ratio was 9.6 times interest (31 Dec 2018: 10.5x).

The Group's covenants are set on a 'frozen GAAP' basis, removing the impact of IFRS 16, thus providing greater levels of headroom.

The highly successful refinancing of the Group this year creates a solid platform for future growth. Through 2019, the Group has put in place a number of new facilities, further diversifying the sources of funding and providing additional liquidity until 2032, in a low interest rate environment. In October 2019, the Group issued a series of private placements totalling £414 million denominated in US Dollars, Sterling and Euros with maturities ranging from 2027 to 2032 and an average coupon of 1.92%, representing the Group's debut issuance in the US private placement syndicated market. These facilities were taken on a delay-draw basis and will remain undrawn until May 2020 when existing facilities mature. In November 2019, the Group issued a £250 million Sterling bond maturing in 2028 with a coupon of 2.375%.

At 31 December 2019, the Group had £2.7 billion of debt capital and committed facilities, comprising of £875 million of Sterling bonds, a £211 million Floating Rate Note, £175m of bank loans, a £557 million Revolving Credit Facility (RCF), private placements of £480 million, and £407 million of leases. At 31 December 2019,

the Group's RCF was undrawn with £1.0 billion in cash and undrawn committed facilities available, this elevated level of cash driven by the early refinancing, and partial double-carry, of the Sterling bond noted above.

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

At 31 December 2019, the Group had foreign currency debt and swaps held as net investment hedges. These help mitigate volatility in the foreign currency translation of our overseas net assets. The Group also hedges its exposure to interest rate movements to maintain an appropriate balance between fixed and floating interest rates on borrowings. It has therefore entered into a series of swaps that have the effect of converting fixed rate debt to floating rate debt or vice versa. The net effect of these transactions was that, at 31 December 2019, the proportion of Group debt at floating rates was 24% (2018: 37%).

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

Pensions
The Group's principal defined benefit pension schemes are all in the UK. The combined deficit under IAS 19 at 31 December 2019 was £90.0 million (Dec 2018: £116.8m).

The two principal plans are the UK Group scheme, which closed to new accrual in 2011, and the West Midlands Bus plan (WM Bus), which remains open to accrual for existing active members only. The overall level of deficit contributions will be around £8 million in total per annum until 2020.

In October 2018, the Group Pension Scheme, through its trustee company, completed an insurance buy-in transaction with Rothesay Life to cover 100% of future benefits payable to members and the detailed transfer process is ongoing.

The IAS 19 valuations for the principal schemes at 31 December 2019 were as follows:
- WM Bus: £99.1 million deficit (2018: £127.3m deficit)
- UK Group scheme: £14.2 million surplus (2018: £14.9m surplus)

Fuel costs
The Group consumes approximately 255 million litres of fuel per year for which it bears pricing risk (ie. there is no direct fuel escalator in the contract or concession price). Fuel costs represented a total cost to the Group in 2019 of £188 million (approximately 7% of related revenue), at an average fuel component cost (ie. excluding delivery and taxes) of 37.3 pence per litre. The Group pursues a forward fuel buying policy in order to secure a high 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 2020 at an average price of 37.2 pence per litre, 73% fixed for 2021 at an average price of 36.5 pence and 13% fixed for 2022 at 33.9 pence.

Impact of new accounting standards
The new accounting standard, IFRS 16 "Leases", came into effect on 1 January 2019.

The standard primarily affects the accounting for the Group's operating leases and results in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases has been removed. As a result we have recognised right-of-use assets of £201.1 million and lease liabilities of £213.7 million as at 1 January 2019.

The tables on page 23 show the impact of IFRS 16 on a number of key metrics as at the full year. The impact is summarised as follows:

- an increase in EBITDA of £54.7 million reflecting the reduction in operating lease costs which are now recognised on the balance sheet;
- an increase in operating profit of £7.6 million as the operating lease costs are removed and replaced with depreciation (included in operating profit) and interest costs (excluded from operating profit);
- zero impact on profit before tax as the increase in operating profit and finance costs fully offset;
- a decrease in ROCE by 80 basis points, reflecting the increased level of average capital employed following the recognition of right-of-use assets on the balance sheet;
- an increase in net debt of £213.7 million reflecting the recognition of operating leases on the balance sheet; and
- an increase in gearing of around 0.2 times net debt to EBITDA.

Brexit

Given the diversified nature of our business model and the limited exposure to cross-border trade, we do not believe that Brexit poses a material threat to the Group. We no longer run scheduled operations between the UK and the Continent, therefore the main Brexit risk specific to the Group is that inbound and outbound airport travel in our UK coach business may be impacted should air travel be materially reduced due to restrictions or currency fluctuation. We purchase some vehicles from European manufacturers for UK operations although we have good working relationships with both these and alternative UK suppliers to mitigate any long-term impact should further Sterling depreciation materially increase purchase cost. For the purposes of viability testing, we have modelled a hard Brexit in conjunction with other principal risks and remain confident that we have suitable mitigation plans in place however Brexit eventually unfolds.

Summary

The strong financial performance delivered in 2019, coupled with the additional financing facilities and continued prudent balance sheet management, further augment the Group's robust financial position. We remain confident about the prospects for the year ahead.

Chris Davies
Group Finance Director
27 February 2020

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 2019 Annual Report and Accounts:

- Economic conditions: parts of the business may be adversely affected by economic conditions as discretionary travel in some areas of the business is historically correlated to GDP and employment.
- Political, geopolitical 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, and environmental procedures.
- Brexit: an economic downturn in the UK and/or the EU could adversely impact demand for our services; reduced travel to the UK could impact demand for our coach services at UK airports.
- Changing customer expectations: failure to adapt to changing customer expectations especially in the digital environment could affect customer satisfaction and the business's ability to capitalise on valuable customer data and commercial initiatives.
- Alternative fuel vehicles: rapidly increased demand for alternative fuel vehicles (electric, hydrogen etc.) could require a significant change to infrastructure.
- Competition and market dynamics: increased competition from other modes of transport and/or in terms of increased price competition.
- HR risks: poor labour relations leading to operational disruption, reputational damage and increased costs; lack of available management talent/leaderships skills which could inhibit growth; shortages in drivers and other key staff.
- Cyber security, IT failure and General Data Protection Regulations: loss of confidential data causing damage to brand reputation and incurring penalties; major IT failure causing severe or sustained disruption to the business.
- Terrorism: the longer term impact of terrorism attacks potentially softening demand for travel.
- Safety, litigation and claims: a major safety-related incident could impact the Group both financially and reputationally.
- Hazard risk: asset loss due to natural disaster which may also impact Group revenue and profits; widespread events such as extreme weather causing interruptions to operations and loss of revenue.
- Credit/financing risk: Group liquidity could be impacted by a material increase in borrowing costs; and a material tightening of credit markets.

Cautionary statement

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

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

Chris Davies
Group Finance Director
27 February 2020

Impact of IFRS 16

Income Statement	2019 £m Consistent with 2018 presentation and accounting policy	Changes due to adoption of IFRS 16	Consistent with 2019 presentation and accounting policy	2018 £m
EBITDA	455.4	54.7	510.1	402.1
Operating profit	287.7	7.6	295.3	257.7
Net finance costs	(48.1)	(7.6)	(55.7)	(38.6)
Profit Before Tax	240.0	(0.0)	240.0	220.0

ROCE	2019 Consistent with 2018 presentation and accounting policy	Changes due to adoption of IFRS 16**	Consistent with 2019 presentation and accounting policy	2018
Return* £m	287.7	7.6	295.3	257.7
Ave. capital employed £m	2,174.7	201.1	2,375.8	2,084.0
ROCE	13.2%	(0.8%)	12.4%	12.4%

* On a 12 month rolling basis
** Includes non-material changes during the period

Net debt	2019 £m Consistent with 2018 presentation and accounting policy	Changes due to adoption of IFRS 16*	Consistent with 2019 presentation and accounting policy	2018 £m
Net debt	(1,028.1)	(213.4)	(1,241.5)	(951.5)

* Includes (£213.7m) impact on transition to IFRS 16 and non-material changes during the period of £0.3m

Alternative performance measures

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

Measure	Closest IFRS measure	Definition and reconciliation	Purpose
EBITDA	Operating profit[1]	Earnings Before Interest and Tax plus Depreciation and Amortisation. It is calculated by taking normalised operating profit and adding back depreciation, fixed asset grant amortisation, and share-based payments. A reconciliation of normalised operating profit to EBITDA is included on page 17.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group's gearing ratio.
Gearing ratio	No direct equivalent	The ratio of net debt to EBITDA over the last 12 months, including any pre-acquisition EBITDA generated in that 12-month period by businesses acquired by the Group during that period. For the purposes of this calculation, net debt is translated using average exchange rates.	The gearing ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.
Free cash flow	Net cash generated from operating activities	The cash flow equivalent of normalised profit after tax. A reconciliation of normalised operating profit and net cash flow from operating activities to free cash flow is included on page 17 and 18x.	Free cash flow allows us and external parties to evaluate the cash generated by the Group's operations and is also a key performance measure for the Executive Directors' annual bonus structure and management remuneration.
Net maintenance capital expenditure	No direct equivalent	Comprises the purchase of property, plant and equipment and intangible assets, other than growth capital expenditure, less proceeds from their disposal. It excludes capital expenditure arising from discontinued operations.	Net maintenance capital expenditure is a measure by which the Group and interested stakeholders assesses the level of investment in new/existing capital assets to maintain the Group's profit.
Growth capital expenditure	No direct equivalent	Growth capital expenditure represents the cash investment in new or nascent parts of the business, including new contracts and concessions, which drive enhanced profit growth.	Growth capital expenditure is a measure by which the Group and interested stakeholders assesses the level of capital investment in new capital assets to drive profit growth.
Net debt	Borrowings less cash and related hedges	Cash and cash equivalents (cash overnight deposits, other short-term deposits) and other debt receivables, offset by borrowings (loan notes, bank loans and finance lease obligations) and other debt payable (excluding accrued interest). The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 11.	Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.
Normalised earnings	Profit after tax	Is the normalised profit attributable to equity shareholders for the period, and can be found on the face of the Group Income Statement in the first column.	Normalised earnings is a key measure used in the calculation of normalised earnings per share.
Normalised earnings per share	Basic earnings per share	Is normalised earnings divided by the weighted average number of shares in issue, excluding those held in the Employee Benefit Trust which are treated as cancelled. A reconciliation of statutory profit to normalised profit for the purpose of this calculation is provided within note 8 of the financial statements.	Normalised earnings per share is widely used by external stakeholders, particularly in the investment community.

Normalised operating profit	Operating profit[1]	Statutory operating profit excluding separately disclosed items, and can be found on the face of the Group Income Statement in the first column.	Normalised operating profit is a key performance measure for the Executive Directors' annual bonus structure and management remuneration. It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
Organic revenue and profit growth	Revenue and operating profit[1]	Year on year movement in revenue or profit derived from the Group's continuing businesses in existence at the start of the current period.	This measure illustrates the year-on-year growth in revenue and profit, excluding the impact of in-year acquisitions.
Return on capital employed (ROCE)	Operating profit[1] and net assets	Normalised operating profit divided by average capital employed. Capital employed is net assets excluding net debt and derivative financial instruments, and for the purposes of this calculation is translated using average exchange rates. The calculation of ROCE is included on page 17.	ROCE gives an indication of the Group's capital efficiency and is a key performance measure for the Executive Directors' annual bonus structure and management remuneration.

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

Group Income Statement
For the year ended 31 December 2019

	Note	**Normalised result 2019 £m**	**Separately disclosed items 2019 £m**	**Total 2019 £m**	Normalised result 2018 £m	Separately disclosed items 2018 £m	Total 2018 £m
Continuing operations							
Revenue	3	**2,744.4**	**–**	**2,744.4**	2,450.7	–	2,450.7
Operating costs		**(2,449.1)**	**(53.0)**	**(2,502.1)**	(2,193.0)	(42.3)	(2,235.3)
Group operating profit	3	**295.3**	**(53.0)**	**242.3**	257.7	(42.3)	215.4
Share of results from associates and joint ventures		**0.4**	**–**	**0.4**	0.9	–	0.9
Finance income	4	**8.6**	**–**	**8.6**	9.8	–	9.8
Finance costs	4	**(64.3)**	**–**	**(64.3)**	(48.4)	–	(48.4)
Profit before tax		**240.0**	**(53.0)**	**187.0**	220.0	(42.3)	177.7
Tax charge	5	**(55.2)**	**16.5**	**(38.7)**	(49.0)	10.0	(39.0)
Profit after tax for the year from continuing operations		**184.8**	**(36.5)**	**148.3**	171.0	(32.3)	138.7
Profit for the year from discontinued operations	6	**–**	**–**	**–**	–	–	–
Profit for the year		**184.8**	**(36.5)**	**148.3**	171.0	(32.3)	138.7
Profit attributable to equity shareholders		**176.2**	**(35.1)**	**141.1**	168.0	(32.3)	135.7
Profit attributable to non-controlling interests		**8.6**	**(1.4)**	**7.2**	3.0	–	3.0
		184.8	**(36.5)**	**148.3**	171.0	(32.3)	138.7
Earnings per share:	8						
– basic earnings per share				**27.6p**			26.6p
– diluted earnings per share				**27.5p**			26.5p
Normalised earnings per share:							
– basic earnings per share		**34.5p**			32.9p		
– diluted earnings per share		**34.4p**			32.8p		
Earnings per share from continuing operations:							
– basic earnings per share				**27.6p**			26.6p
– diluted earnings per share				**27.5p**			26.5p

Separately disclosed items includes intangible amortisation for acquired businesses, net gain in relation to the disposal of Ecolane subsidiaries, US restructuring costs and, in the prior year, result from discontinued operations. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures. Further details relating to separately disclosed items are provided in note 3.

Group Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Profit for the year		**148.3**	138.7
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension plans		**23.8**	(24.9)
Deferred tax on actuarial gains/(losses)	5	**(4.3)**	4.0
		19.5	(20.9)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on retranslation of foreign operations (net of hedging)		**(71.0)**	30.1
Exchange gains reclassified to Income Statement on disposal of subsidiaries		**(1.0)**	–
Cost of hedging		**1.0**	1.4
Exchange differences on retranslation of non-controlling interests		**(1.9)**	0.4
Gains/(losses) on cash flow hedges		**10.8**	(6.3)
Hedging gains reclassified to Income Statement		**(3.2)**	(11.5)
Tax on exchange differences	5	**(1.7)**	(2.2)
Deferred tax on cash flow hedges	5	**(2.5)**	3.1
		(69.5)	15.0
Comprehensive expenditure for the year		**(50.0)**	(5.9)
Total comprehensive income for the year		**98.3**	132.8
Total comprehensive income attributable to:			
Equity shareholders		**93.0**	129.4
Non-controlling interests		**5.3**	3.4
		98.3	132.8

Group Balance Sheet
At 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets		**1,901.8**	1,797.5
Property, plant and equipment		**1,348.2**	1,054.8
Non-current financial assets		**24.9**	14.9
Investments accounted for using the equity method		**17.9**	12.9
Trade and other receivables		**9.6**	3.0
Finance lease receivable		**3.6**	–
Deferred tax assets		**31.8**	42.7
Defined benefit pension assets	10	**14.2**	14.9
Total non-current assets		**3,352.0**	2,940.7
Current assets			
Inventories		**29.4**	27.4
Trade and other receivables		**496.8**	408.6
Finance lease receivable		**1.4**	–
Derivative financial instruments		**44.5**	7.9
Current tax assets		**1.6**	0.8
Cash and cash equivalents		**478.3**	117.5
Total current assets		**1,052.0**	562.2
Assets classified as held for sale		**4.3**	22.8
Total assets		**4,408.3**	3,525.7
Non-current liabilities			
Borrowings		**(1,104.9)**	(1,029.3)
Derivative financial instruments		**(9.6)**	(12.6)
Deferred tax liability		**(56.4)**	(63.0)
Other non-current liabilities		**(164.3)**	(25.2)
Defined benefit pension liabilities	10	**(104.2)**	(131.7)
Provisions		**(43.1)**	(49.2)
Total non-current liabilities		**(1,482.5)**	(1,311.0)
Current liabilities			
Trade and other payables		**(1,052.9)**	(870.5)
Borrowings		**(652.8)**	(59.3)
Derivative financial instruments		**(37.8)**	(16.9)
Current tax liabilities		**(8.8)**	(8.4)
Provisions		**(61.0)**	(58.7)
Total current liabilities		**(1,813.3)**	(1,013.8)
Liabilities directly classified as held for sale		**–**	(3.7)
Total liabilities		**(3,295.8)**	(2,328.5)
Net assets		**1,112.5**	1,197.2
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		**(6.0)**	(7.0)
Other reserves		**130.5**	196.2
Retained earnings		**391.4**	426.6
Total shareholders' equity		**1,074.4**	1,174.3
Non-controlling interests in equity		**38.1**	22.9
Total equity		**1,112.5**	1,197.2

D Finch
Group Chief Executive
27 February 2020

C Davies
Group Finance Director

Group Statement of Changes in Equity
For the year ended 31 December 2019

	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 2019	**25.6**	**532.7**	**0.2**	**(7.0)**	**196.2**	**426.6**	**1,174.3**	**22.9**	**1,197.2**
Change in accounting policies[1]	**–**	**–**	**–**	**–**	**–**	**(9.5)**	**(9.5)**	**–**	**(9.5)**
At 1 January 2019 (restated)	**25.6**	**532.7**	**0.2**	**(7.0)**	**196.2**	**417.1**	**1,164.8**	**22.9**	**1,187.7**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**141.1**	**141.1**	**7.2**	**148.3**
Comprehensive expense for the year	**–**	**–**	**–**	**–**	**(67.6)**	**19.5**	**(48.1)**	**(1.9)**	**(50.0)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(67.6)**	**160.6**	**93.0**	**5.3**	**98.3**
Shares purchased	**–**	**–**	**–**	**(6.2)**	**–**	**–**	**(6.2)**	**–**	**(6.2)**
Own shares released to satisfy employee share schemes	**–**	**–**	**–**	**7.2**	**–**	**(7.2)**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**5.6**	**5.6**	**–**	**5.6**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**0.5**	**0.5**	**–**	**0.5**
Reclassification in reserves	**–**	**–**	**–**	**–**	**1.9**	**(1.9)**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**(78.3)**	**(78.3)**	**–**	**(78.3)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Recognition of liabilities with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(100.0)**	**(100.0)**	**–**	**(100.0)**
Acquisitions and disposals of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9.6**	**9.6**
Other movements with non-controlling interests						**(5.0)**	**(5.0)**	**1.8**	**(3.2)**
At 31 December 2019	**25.6**	**532.7**	**0.2**	**(6.0)**	**130.5**	**391.4**	**1,074.4**	**38.1**	**1,112.5**

[1] Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 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 2018	25.6	532.7	0.2	(6.0)	181.6	410.9	1,145.0	21.4	1,166.4
Change in accounting policies[1]	–	–	–	–	–	(27.8)	(27.8)	(3.4)	(31.2)
At 1 January 2018 (restated)	25.6	532.7	0.2	(6.0)	181.6	383.1	1,117.2	18.0	1,135.2
Profit for the year	–	–	–	–	–	135.7	135.7	3.0	138.7
Comprehensive income for the year	–	–	–	–	14.6	(20.9)	(6.3)	0.4	(5.9)
Total comprehensive income	–	–	–	–	14.6	114.8	129.4	3.4	132.8
Shares purchased	–	–	–	(9.7)	–	–	(9.7)	–	(9.7)
Own shares released to satisfy employee share schemes	–	–	–	8.7	–	(8.7)	–	–	–
Share-based payments	–	–	–	–	–	7.0	7.0	–	7.0
Tax on share-based payments	–	–	–	–	–	1.2	1.2	–	1.2
Dividends	–	–	–	–	–	(70.8)	(70.8)	–	(70.8)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(0.6)	(0.6)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	2.1	2.1
At 31 December 2018	25.6	532.7	0.2	(7.0)	196.2	426.6	1,174.3	22.9	1,197.2

[1] Opening balances in the prior year were restated for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

Group Statement of Cash Flows
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash generated from operations	11	**438.2**	361.2
Tax paid		**(25.0)**	(21.1)
Interest paid		**(65.7)**	(43.0)
Interest received		**8.7**	9.7
Net cash flow from operating activities		**356.2**	306.8
Cash flows from investing activities			
Payments to acquire businesses, net of cash acquired	9	**(108.3)**	(107.4)
Deferred consideration for businesses acquired	9	**(14.8)**	(38.5)
Proceeds from the disposal of business, net of cash disposed	9	**21.7**	–
Purchase of property, plant and equipment		**(116.5)**	(160.6)
Proceeds from disposal of property, plant and equipment		**9.7**	48.9
Payments to acquire intangible assets		**(28.0)**	(5.8)
Proceeds from disposal of intangible assets		**1.5**	10.0
Settlement of net investment hedge derivative contracts		**(11.0)**	–
(Payments)/receipts relating to associates and investments		**(5.3)**	1.1
Net cash flow from investing activities		**(251.0)**	(252.3)
Cash flows from financing activities			
Lease principal payments		**(91.1)**	(49.9)
Increase in borrowings		**414.1**	–
Repayment of borrowings		**–**	(94.4)
Settlement of foreign exchange forward contracts		**20.8**	(27.6)
Purchase of own shares		**(6.2)**	(9.7)
Contribution from non-controlling interests		**3.1**	–
Acquisition of non-controlling interests		**(1.8)**	–
Dividends paid to non-controlling interests		**(0.7)**	(0.6)
Dividends paid to shareholders of the Company	7	**(78.3)**	(70.8)
Net cash flow from financing activities		**259.9**	(253.0)
Increase/(decrease) in cash and cash equivalents		**365.1**	(198.5)
Opening cash and cash equivalents		**117.7**	314.3
Increase/(decrease) in cash and cash equivalents		**365.1**	(198.5)
Foreign exchange		**(4.5)**	1.9
Closing cash and cash equivalents		**478.3**	117.7
Cash and cash equivalents in continuing operations		**478.3**	117.5
Cash and cash equivalents classified in assets held for sale		**–**	0.2
Closing cash and cash equivalents		**478.3**	117.7

Notes to the Consolidated Accounts
For the year ended 31 December 2019

1 Accounting policies

Basis of preparation

The results are based on the Group Financial Statements, which have been 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 are presented in pounds Sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

Going concern

The Directors have reviewed assumptions about current trading performance, and have taken account of reasonably possible adverse changes to performance impacting availability of resources over the time period assessed. The Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operation for 12 months from the date of the approval of the Annual Report, and accordingly the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for changes arising from new standards and amendments to existing standards that have been adopted in the current year.

IFRS 16 came into effect on 1 January 2019 and has been applied by the Group for the first time. The nature and effect of the changes from adopting this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. IFRS 16 introduces a single, on-balance sheet accounting model for leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17.

The Group has applied IFRS 16 using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to opening retained earnings.

The Group has lease contracts for various items of property, vehicles, plant and other equipment. Before the adoption of IFRS 16, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

i) Nature of the effect of adoption of IFRS 16

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of assets and liabilities at the date of initial application for leases previously classified as finance leases.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied. For practical reasons, in some cases the right-of-use asset value was set equal to the lease liability, adjusted for

any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group applied the available practical expedients wherein it:

- used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- applied the short-term lease exemption to leases with a lease term that ends within 12 months at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The weighted average incremental borrowing rate used to measure lease liabilities at the date of initial application was 3.4%.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	31 December 2018	Re-measurements £m	1 January 2019
Property, plant and equipment	**1,054.8**	**201.1**	**1,255.9**
Trade and other receivables (current)	**408.6**	**(1.6)**	**407.0**
Total assets	**3,525.7**	**199.5**	**3,725.2**
Borrowings	**(1,088.6)**	**(213.7)**	**(1,302.3)**
Trade and other payables (current)	**(870.5)**	**1.8**	**(868.7)**
Deferred tax liability (non-current)	**(63.0)**	**2.9**	**(60.1)**
Total liabilities	**(2,328.5)**	**(209.0)**	**(2,537.5)**
Net assets	**1,197.2**	**(9.5)**	**1,187.7**
Shareholders' equity			
Retained earnings	**426.6**	**(9.5)**	**417.1**
Total equity	**1,197.2**	**(9.5)**	**1,187.7**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments at 31 December 2018	**690.2**
Discounted using incremental borrowing rates	**(35.4)**
Recognition exemption for:	
Short-term leases	**(0.1)**
Leases of low value items	**(14.7)**
Rolling stock leases[1]	**(436.0)**
Other[2]	**9.7**
	213.7
Existing finance lease obligations at 31 December 2018	**142.6**
Lease liabilities recognised at 1 January 2019	**356.3**

1 Exempt from IFRS 16 due to the lessor directing how and for what purpose the assets are used, and in the case of one contract, the lessor has the right to substitute the assets, consistent with the application of IFRIC 12

2 Other includes extension and termination options reasonably certain to be exercised

ii) Summary of new accounting policies

Lease identification

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value assets recognition exemption to leases of assets below £5,000. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2 Exchange rates

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

	2019 Closing rate	**2019 Average rate**	2018 Closing rate	2018 Average rate
US Dollar	**1.33**	**1.28**	1.28	1.34
Canadian Dollar	**1.72**	**1.69**	1.74	1.73
Euro	**1.18**	**1.14**	1.11	1.13

If the results for the year to 31 December 2018 had been retranslated at the average exchange rates for the year to 31 December 2019, North America would have achieved normalised operating profit of £101.3m on revenue of £1,107.2m, compared with normalised operating profit of £96.9m on revenue of £1,060.8m as reported, and ALSA would have achieved a normalised operating profit of £104.4m on revenue of £738.5m, compared with normalised operating profit of £105.3m on revenue of £745.1m as reported.

3 Revenue and segmental analysis

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

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

The principal services from which each reportable segment derives its revenues are as follows:

- UK – bus and coach operations
- German Rail – rail operations
- ALSA (predominantly Spain and Morocco) – bus and coach operations
- North America (USA and Canada) – school bus, transit bus and shuttle operations

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

Revenue

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

	2019					
Analysis by class and reportable segment:	**Contract Revenues £m**	**Passenger Revenues £m**	**Grants and Subsidies £m**	**Private hire £m**	**Other Revenues £m**	**Total £m**
UK	**41.4**	**464.2**	**54.8**	**14.2**	**25.1**	**599.7**
German Rail	**–**	**49.8**	**35.7**	**–**	**4.4**	**89.9**
ALSA	**207.8**	**492.7**	**18.3**	**56.7**	**49.2**	**824.7**
North America	**1,126.9**	**–**	**–**	**83.3**	**19.9**	**1,230.1**
Central functions	**–**	**–**	**–**	**–**	**–**	**–**
Total revenue from continuing operations	**1,376.1**	**1,006.7**	**108.8**	**154.2**	**98.6**	**2,744.4**
Analysis by major service type:						
Passenger transport	**1,376.1**	**1,006.7**	**108.8**	**154.2**	**52.5**	**2,698.3**
Other products and services	**–**	**–**	**–**	**–**	**46.1**	**46.1**
Total revenue from continuing operations	**1,376.1**	**1,006.7**	**108.8**	**154.2**	**98.6**	**2,744.4**

There have been no material amounts of revenue recognised in the year that relate to performance obligations satisfied or partially satisfied in previous years. Revenue received where the performance obligation will be fulfilled in future is classified as deferred income.

	2018					
Analysis by class and reportable segment:	Contract Revenues £m	Passenger revenues[1] £m	Grants and subsidies £m	Private hire[1] £m	Other revenues £m	Total £m
UK	29.2	456.8	56.0	14.6	20.4	577.0
German Rail	–	47.2	16.3	–	4.3	67.8
ALSA	189.3	466.8	10.2	26.3	52.5	745.1
North America	967.9	–	–	78.2	14.7	1,060.8
Central functions	–	–	–	–	–	–
Total revenue from continuing operations	1,186.4	970.8	82.5	119.1	91.9	2,450.7
Analysis by major service type:						
Passenger transport	1,186.4	970.8	82.5	119.1	13.7	2,372.5
Other products and services	–	–	–	–	78.2	78.2
Total revenue from continuing operations	1,186.4	970.8	82.5	119.1	91.9	2,450.7

[1] Prior year balances were re-presented in ALSA, with revenue reclassified between private hire and passenger revenues to better reflect the nature of the services

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

Operating profit

Operating profit is analysed by reportable segment as follows:

	Normalised operating profit 2019 £m	**Separately disclosed items 2019 £m**	**Segment result 2019 £m**	Normalised operating profit 2018 £m	Separately disclosed items 2018 £m	Segment result 2018 £m
UK	**85.0**	**(0.9)**	**84.1**	79.9	(1.0)	78.9
German Rail	**5.0**	**(1.4)**	**3.6**	3.0	(0.9)	2.1
ALSA	**109.5**	**(15.7)**	**93.8**	105.3	(11.1)	94.2
North America	**123.0**	**(35.0)**	**88.0**	96.9	(29.3)	67.6
Central functions	**(27.2)**	**–**	**(27.2)**	(27.4)	–	(27.4)
Operating profit from continuing operations	**295.3**	**(53.0)**	**242.3**	257.7	(42.3)	215.4
Share of results from associates and joint ventures	**0.4**	**–**	**0.4**	0.9	–	0.9
Net finance costs	**(55.7)**	**–**	**(55.7)**	(38.6)	–	(38.6)
Profit before tax	**240.0**	**(53.0)**	**187.0**	220.0	(42.3)	177.7
Tax charge			**(38.7)**			(39.0)
Profit after tax for the year from continuing operations			**148.3**			138.7
Profit for the year from discontinued operations			**–**			–
Profit for the year			**148.3**			138.7

Separately disclosed items

Separately disclosed items includes:

	2019 £m	2018 £m
Intangible amortisation for acquired businesses	**(53.0)**	(42.3)
Net gain on disposal of Ecolane subsidiaries (note 9)	**8.8**	–
Restructuring costs[1]	**(8.8)**	–
	(53.0)	(42.3)

[1] Relates to the costs of restructuring and redundancy incurred in North America following changes in the management of school bus and transit businesses and other operational and corporate projects

The Board believes that treating the above items as separately disclosable gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the Financial Statements to understand management's key performance measures.

Depreciation

Depreciation is analysed by reportable segment as follows:

	2019 £m	2018 £m
UK	**36.6**	19.7
German Rail	**2.0**	0.6
ALSA	**62.3**	44.0
North America	**100.9**	68.8
Central functions	**1.3**	0.7
	203.1	133.8

4 Net finance costs

	2019 £m	2018 £m
Bond and bank interest payable	**(40.9)**	(36.8)
Lease interest payable	**(12.8)**	(4.4)
Other interest payable	**(4.7)**	(3.8)
Unwind of provision discounting	**(1.2)**	(1.2)
Unwind of put liability discounting	**(1.5)**	–
Net interest cost on defined benefit pension obligations	**(3.2)**	(2.2)
Finance costs	**(64.3)**	(48.4)
Lease interest income	**0.2**	–
Other financial income	**8.4**	9.8
Net finance costs	**(55.7)**	(38.6)
Of which, from financial instruments:		
Financial assets measured at amortised cost	**0.8**	0.5
Financial liabilities measured at amortised cost	**(57.1)**	(40.6)
Derivatives	**7.6**	9.3
Loan fee amortisation	**(1.3)**	(1.5)

5 Taxation
(a) Analysis of taxation charge in the year

	2019 £m	2018 £m
Current taxation:		
UK corporation tax	**7.7**	2.9
Overseas taxation	**20.4**	16.0
Current income tax charge	**28.1**	18.9
Adjustments with respect to prior years – UK and overseas	**(7.0)**	(0.1)
Total current income tax charge	**21.1**	18.8
Deferred taxation:		
Origination and reversal of temporary differences – continuing operations	**20.9**	17.7
Adjustments with respect to prior years – UK and overseas	**(3.3)**	0.8
Deferred tax charge	**17.6**	18.5
Total tax charge for the Group	**38.7**	37.3
Amounts relating to discontinued items	**–**	1.7
Total tax charge for the continuing Group	**38.7**	39.0
The tax charge for the continuing Group is disclosed as follows:		
Tax charge on profit before separately disclosed items	**55.2**	49.0
Tax credit on separately disclosed items	**(16.5)**	(10.0)
	38.7	39.0

In the current year, the tax credit on separately disclosed items of £16.5m (2018: £10.0m) relates to tax relief on intangible amortisation, the gain on the disposal of Ecolane and restructuring costs in North America and is determined by reference to the tax rates in the jurisdiction to which the item relates. The disposal of Ecolane is treated as tax-free under UK legislation and a credit of £4.0m arises on the disposal and restructuring costs. The effective tax rate relating to intangible amortisation is significantly higher than the UK tax rate of 19% due to the weighting of intangibles in jurisdictions with higher tax rates than the UK, specifically the US (26%) and Spain (25%).

(b) Tax on items recognised in Other Comprehensive Income or Equity

	2019 £m	2018 £m
Current taxation:		
(Charge)/Credit on exchange movements offset in reserves	**(1.7)**	0.5
	(1.7)	0.5
Deferred taxation:		
Deferred tax (charge)/credit on actuarial (gains)/losses	**(4.3)**	4.0
Deferred tax (charge)/credit on cash flow hedges	**(2.5)**	3.1
Deferred tax credit on foreign exchange differences	**–**	(2.7)
Deferred tax credit on share-based payments	**0.5**	1.2
	(6.3)	5.6

6 Discontinued operations

On 24 June 2018, the Group handed back the Midland Metro tram operations to the West Midlands Combined Authority. This operation was recognised as discontinued in the 2018 Annual Report, along with the disposal of the Thameside 'c2c' franchise which was sold to Trenitalia.

Details of the discontinued operations are as follows:

	2019 £m	2018 £m
Revenue	**–**	5.1
Operating costs	**–**	(6.8)
Net loss from discontinued operations before tax	**–**	(1.7)
Attributable income tax credit	**–**	1.7
Net result from discontinued operations attributable to equity shareholders	**–**	–

The net cash flows incurred by the discontinued operations during the year are as follows. These cash flows are included within the Group Statement of Cash Flows:

	2019 £m	2018 £m
Cash (outflow)/inflow from operating activities	**(1.2)**	0.4
Net cash (outflow)/inflow	**(1.2)**	0.4

7 Dividends paid and proposed

	2019 £m	2018 £m
Declared and paid during the year		
Ordinary final dividend for 2018 paid of 10.17p per share (2017: 9.25p)	**51.9**	47.3
Ordinary interim dividend for 2019 of 5.16p per share (2018: 4.69p)	**26.4**	23.5
	78.3	70.8
Proposed for approval (not recognised as a liability at 31 December)		
Ordinary final dividend for 2019 of 11.19p per share (2018: 10.17p per share)	**57.1**	51.9

8 Earnings per share

	2019	2018
Basic earnings per share	**27.6p**	26.6p
Normalised basic earnings per share	**34.5p**	32.9p
Basic earnings per share from continuing operations	**27.6p**	26.6p
Diluted earnings per share	**27.5p**	26.5p
Normalised diluted earnings per share	**34.4p**	32.8p
Diluted earnings per share from continuing operations	**27.5p**	26.5p

Basic EPS is calculated by dividing the earnings attributable to equity shareholders of £141.1m (2018: £135.7m) by the weighted average number of ordinary shares in issue during the year, excluding those held by the Group's Employee Benefit Trust which are treated as cancelled.

Basic EPS for continuing operations is calculated by dividing the earnings from the continuing Group attributable to equity shareholders of £141.1m (2018: £135.7m). Basic and diluted EPS in the year for discontinued operations was nil (2018: nil) and nil (2018: nil) respectively.

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

The reconciliation of basic and diluted weighted average number of ordinary shares is as follows:

	2019	2018
Basic weighted average shares	**510,435,913**	510,682,902
Adjustment for dilutive potential ordinary shares	**2,433,486**	2,197,926
Diluted weighted average shares	**512,869,399**	512,880,828

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:

	2019			2018		
	£m	**Basic EPS p**	**Diluted EPS p**	£m	Basic EPS p	Diluted EPS p
Profit attributable to equity shareholders	**141.1**	**27.6**	**27.5**	135.7	26.6	26.5
Separately disclosed items	**53.0**	**10.4**	**10.3**	42.3	8.3	8.2
Separately disclosed tax	**(16.5)**	**(3.2)**	**(3.2)**	(10.0)	(2.0)	(1.9)
Separately disclosed non-controlling interests	**(1.4)**	**(0.3)**	**(0.2)**	–	–	–
Profit for the year from discontinued operations	**–**	**–**	**–**	–	–	–
Normalised profit attributable to equity shareholders	**176.2**	**34.5**	**34.4**	168.0	32.9	32.8

9 Business combinations, disposals and assets held for sale

(a) Acquisitions – North America

On 11 April 2019, the Group acquired 60% of the voting shares of WeDriveU Holdings, Inc. ('WeDriveU'), an employee shuttle company operating in the Silicon Valley and San Francisco area. The Group has acquired WeDriveU to drive expansion in the employee, university and hospital shuttle markets.

The fair values of the identifiable assets and liabilities of WeDriveU at the date of acquisition were:

	£m
Intangible assets	**37.6**
Property, plant and equipment	**23.1**
Trade and other receivables	**21.4**
Cash and cash equivalents	**2.1**
Deferred tax asset	**7.8**
Borrowings	**(40.7)**
Trade and other payables	**(27.2)**
Provisions	**(8.0)**
Minority interest	**(6.3)**
Net assets acquired	**9.8**
Goodwill	**58.5**
Total consideration	**68.3**
Represented by:	
Cash consideration	**66.2**
Payments for cash acquired in the business	**2.1**
	68.3

Trade and other receivables had a gross contracted value of £24.2m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £2.8m.

Goodwill of £58.5m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business, the increased scale in our North American operations and the future growth opportunities. None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the arrangements with non-controlling shareholders of WeDriveU, the Group issued put options to the seller to sell the remaining shares and simultaneously the seller issued call options to the Group to purchase the remaining shares. The terms of the put and call options are symmetrical and exercisable in three tranches from 2020 to 2022. The exercise prices are based on a multiple of future earnings. The Group has recognised non-controlling interests for the remaining shares because the interests subject to the put and call options are not deemed to have been acquired upon acquisition. Accordingly, the financial liability arising from the put options has not been included in the consideration transferred and is accounted for separately, with a corresponding entry recorded in equity.

At the acquisition date, the Group recognised a put liability of £100.0m, recorded at the present value of the estimated redemption value, using forecast earnings of WeDriveU, discounted at a rate of 2.1%.

The fair value of the call options is nil.

WeDriveU contributed £114.7m of revenue and £14.8m to the Group's profit for the period between acquisition and the Balance Sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue would have been £2,778.4m and the Group's continuing operating profit would have been £242.9m.

In addition, the North America division acquired 100% control of four further businesses during the period, none of which are material individually:

- Free Enterprises System, LLC – university and employee shuttle business in Chicago, IL
- Total Transit Enterprises, LLC – non-emergency medical transportation and shuttle services in Phoenix and Tuscon, AZ
- Fox Bus Lines Inc. – charter coach services in Boston, MA
- Gary L. Aisquith, Inc – school bus services in Baltimore, MD

In aggregate, the provisional fair values of the assets and liabilities acquired, along with adjustments to the fair values of prior year acquisitions, were as follows:

	£m
Intangible assets	7.0
Property, plant and equipment	7.2
Inventory	0.2
Trade and other receivables	0.7
Deferred tax asset	5.1
Borrowings (including overdraft)	(2.7)
Trade and other payables	(5.1)
Provisions	(10.2)
Net assets acquired	2.2
Goodwill	29.6
Total consideration	31.8
Represented by:	
Cash consideration	27.1
Overdraft acquired in the businesses	(1.4)
Deferred consideration	6.1
	31.8

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

Trade and other receivables had a gross contracted value of £0.9m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £0.2m.

Goodwill of £29.6m arising from the acquisitions consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and the

increased scale in our North American operations, along with synergy benefits expected to be achieved. The amount of goodwill that is expected to be deductible for income tax purposes is £12.0m.

Included in the consideration shown above is contingent consideration of £4.0m relating to two of the acquisitions. For the first agreement the Group is required to pay consideration upon pre-determined EBIT thresholds being met over a period of up to two years. For the second agreement, the Group is required to pay consideration on renewal of a significant contract and the contingent consideration is dependent on the renewed service levels. The payments are dependent on meeting the respective conditions, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £4.0m. Based on projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired businesses contributed £17.7m of revenue and £4.8m to the Group's profit for the periods between acquisition and the Balance Sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisitions been completed on the first day of the financial year, the Group's continuing revenue would have been £2,754.0m and the Group's continuing operating profit would have been £243.2m.

(b) Acquisitions – ALSA

During the year, the ALSA division acquired control of three businesses in Spain, none of which are material individually:

- Semacar (60%) – a chauffeur transport business in Galicia, Spain
- Gumidafe (100%) – tourist charter and other transportation services in the Canary Islands, Spain
- AgredaBus Eocar (70%) – urban bus and other transportation services in Aragon, Spain

In aggregate, the provisional fair values of the assets and liabilities acquired were as follows:

	£m
Goodwill	2.3
Intangible assets	5.2
Property, plant and equipment	9.4
Inventory	0.3
Trade and other receivables	0.6
Cash and cash equivalents	3.6
Borrowings	(1.3)
Trade and other payables	(5.0)
Deferred tax liabilities	(0.4)
Minority interests	(3.3)
Net assets acquired	11.4
Goodwill	9.9
Total consideration	21.3
Represented by:	
Cash consideration	13.2
Payments for cash acquired in the businesses	3.6
Deferred consideration	4.5
	21.3

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

Trade and other receivables had a gross contracted value of £1.5m, and the best estimate at acquisition date of the contractual cash flows not to be collected was £0.9m.

Goodwill of £9.9m arising from the acquisition consists of certain intangibles that cannot be separately identified and measured due to their nature. This includes control over the acquired business and the increased scale in our operations in Spain, along with synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

Included in the consideration shown above is contingent consideration of £2.9m relating to one of the acquisitions. The Group is required to pay contingent consideration on renewal of contracts, with a minimum expected undiscounted payment of £nil and maximum expected undiscounted payment of £2.9m. Based on

projections, the Group expects the maximum amount to be paid. The amount recognised is undiscounted as the effect of discounting is not material.

The acquired business contributed £6.5m of revenue and £1.3m to the Group's profit for the period between acquisition and the Balance Sheet date, before deal costs incurred as detailed in section (d) of this note. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue would have been £2,757.4m and the Group's continuing operating profit would have been £242.6m.

(c) Acquisitions – UK

During the year, the UK division acquired 100% control of Accessible Transport Group.

The fair values of the assets and liabilities acquired were as follows:

	£m
Property, plant and equipment	1.3
Trade and other payables	(0.9)
Net assets acquired	0.4
Goodwill	1.4
Total consideration	1.8
Represented by:	
Cash consideration	1.8
	1.8

Goodwill of £1.4m arising from the acquisition consists of certain intangible benefits that cannot be separately identified and measured due to their nature. This includes control over the acquired business and synergy benefits expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

The acquired business contributed £6.4m of revenue and £0.2m to the Group's profit for the period between the dates of acquisition and the Balance Sheet date. Had the acquisition been completed on the first day of the financial year, the Group's continuing revenue for the year would have been £2,750.4m and the Group's continuing operating profit would have been £242.3m.

(d) Acquisitions – further information

Deferred consideration of £14.8m was paid in the year relating to acquisitions in North America in earlier years. Total cash outflow in the year from acquisitions in the North America division was therefore £108.1m, comprising consideration for current year acquisitions of £94.0m and deferred consideration of £14.8m, less cash acquired in the businesses of £0.7m.

In addition, for North America, during the year there was a reduction in the provisional fair values of businesses acquired in the prior year of £4.8m, with a resultant increase in goodwill.

No deferred consideration was paid in the year relating to acquisitions in the ALSA division in earlier years. Total cash outflow in the year from acquisitions in the ALSA division was therefore £13.2m, comprising consideration of £16.8m, less cash acquired in the businesses of £3.6m.

In addition, for ALSA, during the year there was an increase in the provisional fair values of businesses acquired in the prior year of £0.8m, with a resultant decrease in goodwill.

Total cash outflow in the year from acquisitions in the UK division was £1.8m, comprising consideration of £1.8m.

Total acquisition transaction costs of £5.7m were incurred in the year to 31 December 2019.

(e) Disposals

On 24 July 2019, the Group disposed of its 100% interest in Ecolane Finland OY and Ecolane USA, Inc., providers of transit management software programmes, in exchange for cash and an 8.8% stake in the purchasers holding company, Transit Technologies Holdco. The retained investment is accounted for as a financial asset at fair value through other comprehensive income. A gain of £8.8m was recognised within separately disclosed items and comprises the following:

	2019 £m
Consideration:	
Cash consideration, net of transaction expenses[1]	**17.9**
Fair value of retained investment	**7.8**
Software intangible[2]	**4.6**
	30.3
Carrying value of net assets (including goodwill)	**(22.5)**
Exchange gains recycled from currency translation reserve	**1.0**
Gain on disposal from continuing operations	**8.8**

1 Inclusive of contingent bonus payments
2 Represents discounted software services receivable over the next five years, considered to be part of the consideration received as it constitutes an asset for asset exchange

Gross cash consideration from the disposal was £32.7m, of which £27.1m had been received at the 31 December 2019. This was offset by transaction expenses totalling £14.8m, of which £5.4m had been settled at the 31 December 2019. Total cash inflow in the year from the disposal was therefore £21.7m.

(f) Assets held for sale

Two buildings, in North America, met the held for sale criteria of IFRS 5 at 31 December 2019. The carrying value of the buildings at the 31 December 2019 is £4.3m. In the prior year, Ecolane Finland OY and Ecolane USA, Inc were held for sale. Details of their disposal are included in section (e) of this note.

10 Pensions and other post-employment benefits

(a) Summary of pension benefits and assumptions

The UK division ('UK') and National Express Group PLC (the 'Company') both operate defined benefit pension schemes.

The Group also provides certain additional unfunded post-employment benefits to employees in North America and maintains a small defined benefit scheme for National Express Services Limited. These post-employment benefits have been combined into the 'Other' category.

The UK, the Company and North America also operate or contribute into a number of defined contribution schemes.

On 11 October 2018, the trustees of the Company defined benefit scheme completed a buy-in transaction whereby the assets of the scheme were invested in a bulk annuity policy with the insurer Rothesay Life, under which the benefits payable to defined benefit members became fully insured. The insurance policy was purchased using the existing assets of the plan. As the buy-in transaction has resulted in the defined benefit obligations being fully insured, the Company has no obligation to make any further payments into the scheme.

For the UK defined benefit scheme, in 2017 a three-year annual deficit repayment plan was agreed with the trustees of the West Midlands Integrated Transport Authority Pension Fund, which continues until March 2020 with an average contribution of £7.7m per annum. The plan remains open to accrual for existing members only.

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

The Group expects to contribute £7.8m into its defined benefit pension plans in 2020.

The total pension cost charged to operating profit in the year for the Group was £10.3m (2018: £10.3m), of which £6.4m (2018: £4.9m) relates to the defined contribution schemes.

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

	2019 £m	2018 £m
Company	**14.2**	14.9
Pension assets	**14.2**	14.9
UK	**(99.1)**	(127.3)
Other	**(5.1)**	(4.4)
Pension liabilities	**(104.2)**	(131.7)
Total	**(90.0)**	(116.8)

11 Cash flow statement
(a) Reconciliation of Group profit before tax to cash generated from operations

Total operations	2019 £m	2018 £m
Profit before tax from continuing operations	**187.0**	177.7
Loss before tax from discontinued operations (note 6)	**–**	(1.7)
Total profit before tax	**187.0**	176.0
Net finance costs	**55.7**	38.6
Share of results from associates and joint ventures	**(0.4)**	(0.9)
Depreciation of property, plant and equipment	**203.1**	133.8
Intangible asset amortisation	**59.7**	47.0
Amortisation of fixed asset grants	**(1.3)**	(0.5)
Gain on disposal of property, plant and equipment	**(10.3)**	(8.4)
Gain on disposal of intangible assets	**(3.6)**	(8.3)
Share-based payments	**6.4**	6.4
Increase in inventories	**(2.6)**	(1.4)
Increase in receivables	**(75.0)**	(57.7)
Increase in payables	**46.2**	86.3
Decrease in provisions	**(26.7)**	(49.7)
Cash generated from operations	**438.2**	361.2

(b) Analysis of changes in net debt

	At 1 January 2019 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2019 £m
Components of financing activities:						
Bank and other loans[1]	**(9.0)**	**(169.8)**	**(0.7)**	**(5.1)**	**0.1**	**(184.5)**
Bonds	**(852.4)**	**(244.6)**	**–**	**13.4**	**1.7**	**(1,081.9)**
Fair value of interest rate derivatives	**6.6**	**–**	**–**	**(0.2)**	**(3.1)**	**3.3**
Fair value of foreign exchange forward contracts	**(6.8)**	**(20.8)**	**–**	**7.2**	**–**	**(20.4)**
Cross currency swaps	**(0.2)**	**–**	**–**	**–**	**11.9**	**11.7**
Net lease liabilities[2]	**(356.3)**	**91.1**	**(42.6)**	**12.3**	**(107.0)**	**(402.5)**
Other debt payable	**(73.7)**	**–**	**–**	**4.4**	**1.0**	**(68.3)**
Total components of financing activities	**(1,291.8)**	**(344.1)**	**(43.3)**	**32.0**	**(95.4)**	**(1,742.6)**
Cash	**74.6**	**36.8**	**4.3**	**(4.5)**	**–**	**111.2**
Overnight deposits	**1.9**	**0.2**	**–**	**–**	**–**	**2.1**
Other short-term deposits	**41.2**	**323.8**	**–**	**–**	**–**	**365.0**
Cash and cash equivalents	**117.7**	**360.8**	**4.3**	**(4.5)**	**–**	**478.3**
Other debt receivables	**2.1**	**0.3**	**–**	**–**	**–**	**2.4**
Remove: fair value of foreign exchange forward contracts	**6.8**	**20.8**	**–**	**(7.2)**	**–**	**20.4**
Net debt[3]	**(1,165.2)**	**37.8**	**(39.0)**	**20.3**	**(95.4)**	**(1,241.5)**

[1] Net of arrangement fees totalling £2.7m on bank and other loans

[2] Opening balances have been restated for the adoption of IFRS 16 'Leases' (see note 1). The closing balance is inclusive of finance leases receivables which are reported separately from borrowings on the face of the Group's Balance Sheet

[3] Excludes accrued interest on long-term borrowings

For the purpose of calculating the Group's financial covenants, net debt is retranslated using the average exchanges rates for the year to 31 December 2019, resulting in adjusted net debt of £1,266.0m (2018: £939.8m).

Short-term deposits included are repayable within three months.

Borrowings include non-current interest-bearing borrowings of £1,104.9m (2018: £1,029.3m).

Other non-cash movements represent lease additions and disposals of £107.0m (2018: £5.4m), an £11.9m increase in the fair value of the cross currency swaps (2018: £nil) and a £0.7m net reduction from the amortisation of loan and bond arrangement fees (2018: £0.3m). A £3.1m decrease in the fair value of the hedging derivatives is offset by opposite movements in the fair value of the related hedged borrowings. This comprises a £2.1m fair value increase in bonds and a £1.0m fair value increase in other debt payable.

	At 1 January 2018 £m	Cash flow £m	Acquisitions and disposals £m	Exchange differences £m	Other movements £m	At 31 December 2018 £m
Components of financing activities:						
Bank and other loans[1]	(115.6)	93.0	(1.7)	14.7	0.6	(9.0)
Bonds	(851.9)	–	–	(2.6)	2.1	(852.4)
Fair value of interest rate derivatives	10.3	–	–	–	(3.7)	6.6
Fair value of foreign exchange swaps	1.5	20.0	–	(28.3)	–	(6.8)
Cross currency swaps	1.0	7.6	–	(8.8)	–	(0.2)
Lease liabilities	(173.1)	49.9	(6.7)	(7.3)	(5.4)	(142.6)
Other debt payable	(73.6)	–	–	(0.8)	0.7	(73.7)
Total components of financing activities	(1,201.4)	170.5	(8.4)	(33.1)	(5.7)	(1,078.1)
Cash	100.7	(50.7)	22.7	1.9	–	74.6
Overnight deposits	4.9	(3.0)	–	–	–	1.9
Other short-term deposits	208.7	(167.5)	–	–	–	41.2
Cash and cash equivalents	314.3	(221.2)	22.7	1.9	–	117.7
Other debt receivables	0.7	1.4	–	–	–	2.1
Remove: fair value of foreign exchange swaps	(1.5)	(20.0)	–	28.3	–	6.8
Net debt[2]	(887.9)	(69.3)	14.3	(2.9)	(5.7)	(951.5)

1 Net of arrangement fees totalling £2.6m on bank and other loans
2 Excludes accrued interest on long-term borrowings

(c) Reconciliation of net cash flow to movement in net debt

	2019 £m	2018 £m
Increase/(decrease) in cash and cash equivalents in the year	**365.1**	(198.5)
Cash inflow from movement in other debt receivables	**0.3**	1.4
Cash (outflow)/inflow from movement in debt and leases liabilities	**(366.6)**	142.1
Change in net debt resulting from cash flows	**(1.2)**	(55.0)
Change in net debt resulting from non-cash movements	**(75.1)**	(8.6)
Movement in net debt in the year	**(76.3)**	(63.6)
Opening net debt	**(1,165.2)**	(887.9)
Net debt	**(1,241.5)**	(951.5)

12 Financial information

The financial information set out above does not constitute the Group's statutory financial statements for the years ended 31 December 2019 or 2018, but is derived from those financial statements. Statutory financial statements for 2018 have been delivered to the Registrar of Companies and those for 2019 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 26 March 2020 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.